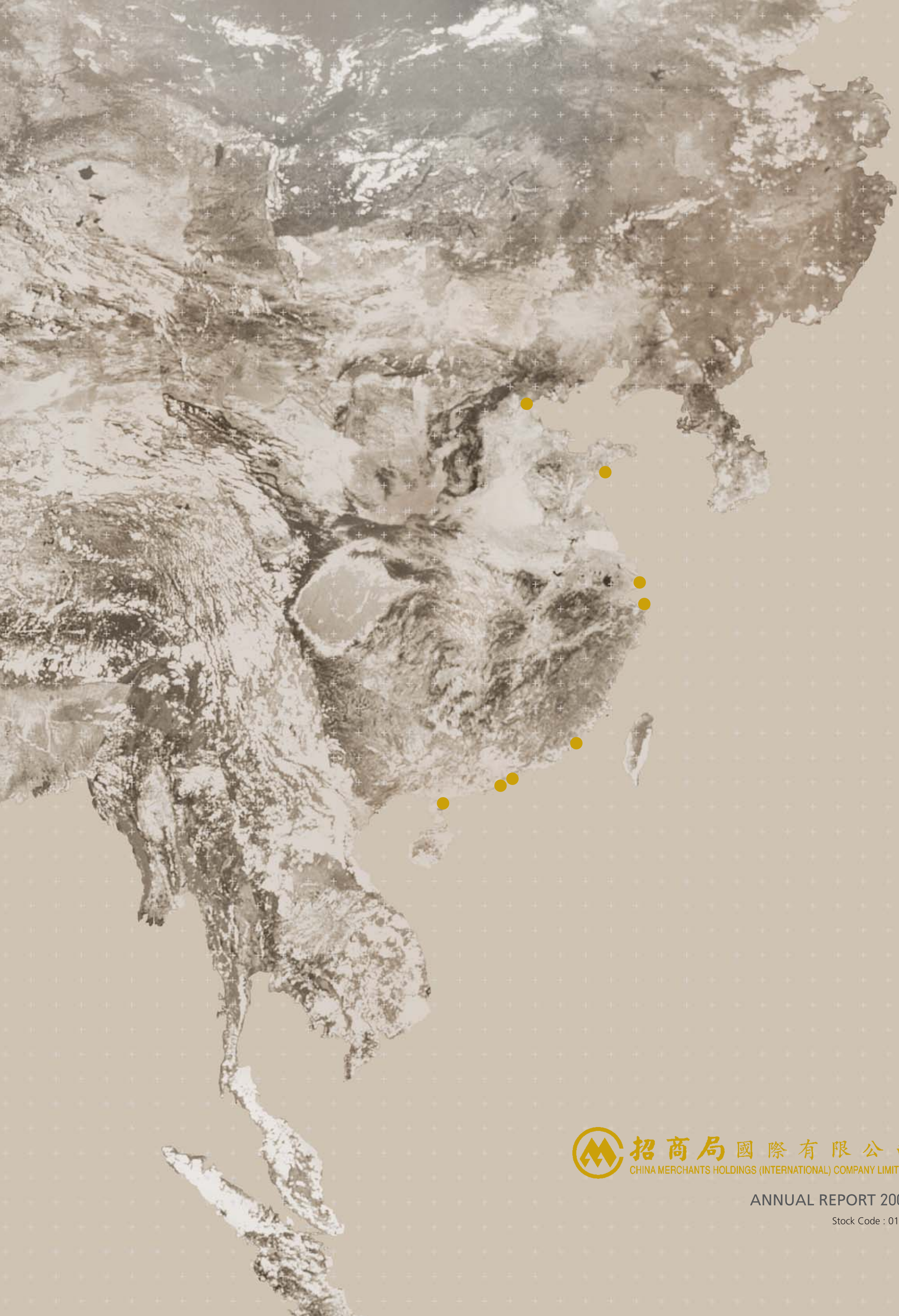


招商局國際有限公司
CHINA MERCHANTS HOLDINGS (INTERNATIONAL) COMPANY LIMITED

ANNUAL REPORT 2007

Stock Code : 0144

2007

Contents

FINANCIAL HIGHLIGHTS

	2007 HK$'million	2006 HK$'million	Changes
Income statement highlights			
Revenue[1]	**24,424**	18,037	35.4%
Profit attributable to shareholders	**3,545**	2,540	39.6%
One off (gains)/losses, net of tax[2]	**(140)**	81	(272.8%)
Recurrent Profit	**3,405**	2,621	29.9%
Earnings per share (HK cents)			
Basic	**149.53**	109.43	36.6%
Diluted	**148.62**	109.07	36.3%
Dividend per share (HK cents)			
Interim dividend	**20.00**	17.00	17.6%
Final dividend	**45.00**	36.00	25.0%
	65.00	53.00	22.6%
Balance sheet highlights			
Total assets	**45,686**	35,086	30.2%
Capital and reserves attributable to the shareholders of the Company	**26,842**	20,921	28.3%
Net interest bearing debts [3]	**8,155**	7,944	26.6%
Cash flow statement highlights			
Net cash inflow from operating activities	**3,056**	1,994	53.3%
Net cash inflow from provision of finance to associates, jointly controlled entities and other financial assets	**286**	321	(10.9%)
Recurrent net cash inflow	**3,342**	2,315	44.3%

	2007 HK$'million	2006 HK$'million	Changes
Revenue[1]			
Ports operations	9,921	7,853	26.3%
Ports-related operations	14,095	9,401	49.9%
Other operations	408	783	(47.9%)
Total	24,424	18,037	35.4%
EBITDA [4]			
Ports operations	5,166	3,573	44.6%
Ports-related operations	1,273	967	31.6%
Other operations	250	494	(49.4%)
EBITDA	6,689	5,034	32.9%
Unallocated expenses [5,6]	(207)	(111)	86.5%
Net interest expenses [5]	(562)	(519)	8.3%
Taxation [5]	(567)	(424)	33.7%
Depreciation and amortisation [5]	(1,458)	(1,087)	34.1%
Profit for the year	3,895	2,893	34.6%
Minority interest	(350)	(353)	(0.8%)
Profit attributable to shareholders	3,545	2,540	39.6%

1 Include revenue of the Company, its subsidiaries and share of revenue of its associates and jointly controlled entities.

2 Include gain on disposal of interest in a subsidary of HK$77 million (2006: Nil), increase in fair value of investment properties, net of tax of HK$121 million (2006: HK$48 million) and additional tax charge of HK$58 million (2006: Nil) for change in tax rate. In 2006, include loss on deemed disposal of partial interest in an associate of HK$152 million, loss on share reform of an associate of HK$39 million, gain on disposal of associates and jointly controlled entities of HK$1 million and gain on disposal of an available for sale financial asset of HK$61 million.

3 Interest bearing debts less cash and cash equivalents.

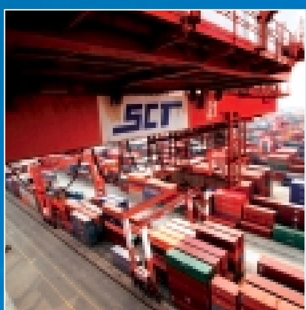
4 Earnings before net interests, tax, depreciation and amortisation, unallocated income less expenses and minority interest, ("Defined Earnings") for the Company and its subsidiaries, and its share of Defined Earnings of associates and jointly controlled entities.

5 Include the respective items of the Company and its subsidiaries, and its share of the respective sums of associates and jointly controlled entities.

6 Exclude unallocated interest income

Key Ports Operations of China Merchants Holdings (International) Company Limited

CORPORATE PROFILE



China Merchants Holdings (International) Company Limited ("CMHI") is the leading port investor and operator in China.

At present, CMHI's investments and operations span across, among others, Hong Kong, Shenzhen, Shanghai, Ningbo, Qingdao, Tianjin, Zhanjiang and Xiamen Bay.

Top Ten Container Ports in China - 2007

	Port	CMHI Presence	*Unit: 'mil TEUs* Throughput
1	Shanghai	●	26.15
2	Hong Kong	●	24.00
3	Shenzhen	●	21.10
4	Qingdao	●	9.46
5	Ningbo	●	9.36
6	Guangzhou	—	9.20
7	Tianjin	●	7.10
8	Xiamen	●	4.63
9	Dalian	—	3.81
10	Lian Yun Gang	—	2.00

CMHI's investment strategy focuses on hub ports located at geographic regions that attract significant foreign investments, with strong economic growth momentum and active import and export trade.

CMHI strives to provide its customers with gateways to China's foreign trade by offering timely and efficient port services and integrated marine logistic support in an enterprising and steady way. CMHI seeks to capitalize on the synergy generated by the existing network of ports to create value for its shareholders.

In addition, CMHI has also invested in ports-related operations in China.

Milestone for 2007

February

The stage 1 completion of the reorganization of SCT I, II, III took place. As a result, the Group held 70% equity interests in MEGA SCT and MTL held the remaining 30% equity interests. Since then, MEGA SCT becomes a subsidiary of the Group and the reorganization has also strengthened the Group's management and control capability and business integration power in the Western Shenzhen Ports Zone as well as enhancing the zone's competitive edge in Shenzhen.

April

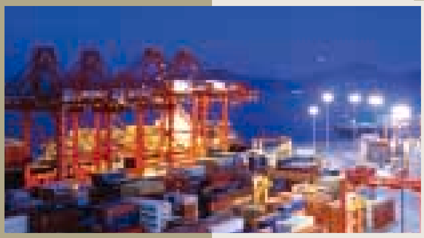
China Merchants Group, parent company of CMHI, and Vietnam National Shipping Lines signed a memorandum of understanding for a comprehensive cooperation, including the joint development of the Ben Dinh-Sao Mai deepwater port. As planned, CMHI will be responsible for developing the Ben Dinh-Sao Mai deepwater port project.

June

CMHI, Shenzhen Dachan Bay Port Investment and Development Co., Ltd. and APM Terminals Dachan Co., Ltd. signed a letter of intent to jointly invest in the development of phase 2 of the container terminals in Dachan Bay, Shenzhen, in which CMHI held 14% interests.

CMHI, Tianjin Ports Company Limited established a joint venture company, in which CMHI held 49% interests and Tianjin Ports held 51% interests, to jointly develop the project of Tianjin Dong Jiang Bonded Logistics and Processing Park with an area of 300,000 sq.m. Total investment of the project is approximately RMB600 million.

The Tonggu Channel phase 1 in Western Shenzhen duly passed the acceptance check.



July

The disposal of the entire interests in CMHP by the Group at a total consideration of HK$2,950 million was duly completed following approval by the shareholders in a general meeting.

September

The Group entered into a shareholders' agreement to invest RMB1,620 million in acquiring a stake of 45% in Zhanjiang Port Group. This investment is the first made by the Group in the southwest region of China and further improved the Group's nationwide port network layout, and allowed the Group to enter the large professional bulk cargo terminal field with stable growth prospect. The transaction was completed by the end of November.

December

The annual number of containers handled by MEGA SCT, a subsidiary of the Group, first exceeded 3,000,000 TEUs.

CHAIRMAN'S STATEMENT

Dr. Fu Yuning

2007

marked another year of encouragement for the Group, during which the Group has achieved sustainable and fast developments that I am very proud of. During the year under review, revolving around defined business strategies and integration goals, the Group has achieved satisfactory operation performance through further consolidating its positioning in strategic assets as well as strengthening internal operation control and business integration. Along with the expansion of the geographic network of the port assets and their respective scale of operation came the turning of the Group's ports business to a new level of corporate advancement.

I am pleased to present the Group's annual report and audited financial statements for the year ended 31 December 2007.

2007 marked another year of encouragement for the Group, during which the Group has achieved sustainable and fast developments that I am very proud of. During the year under review, revolving around defined business strategies and integration goals, the Group has achieved satisfactory operation performance through further consolidating its positioning in strategic assets as well as strengthening internal operation control and business integration. Along with the expansion of the geographic network of the port assets and their respective scale of operation came the turning of the Group's ports business to a new level of corporate advancement.

Operating results

For the year ended 31 December 2007, the Group's consolidated profit attributable to shareholders was HK$3,545 million, representing an increase of 39.6 % over that of the last year. Of this amount recurrent profit totaled HK$3,405 million, which grew 29.9% over the corresponding figure of HK$2,621 million in the previous year. The Group's basic earnings per share for the year under review were 149.53 HK cents, an increase of 36.6% over that of the last year.

In 2007, revenue of the Group amounted to HK$6,429 million and, when the proportionate share of turnover of its associates and jointly controlled entities was included, reached HK$24,424 million, an increase of respectively 47.3% and 35.4% over the corresponding figures for the previous year.

Dividends

To reward shareholders for their unfailing support to the Group, the Board of Directors have resolved to propose at the forthcoming Annual General Meeting the payment of a final dividend of 45 HK cents per share which, together with the interim dividend of 20 HK cents, will give a total dividend of 65 HK cents per share for the whole year (or, a payout ratio of 44.1%). Subject to the approval by shareholders at the forthcoming general meeting, the final dividend will be payable on or around 4 July 2008 to shareholders whose names appear on the register of members of the Company as at 23 May 2008.

Review for the year

In 2007, container throughputs handled by the Group's ports totaled 47.12 million TEUs, an increase of 17% year-on-year. Of this throughputs volume, those handled by the Group's ports in Mainland China and Hong Kong increased 20% and 4%, respectively. In addition, the Group's ports handled 159 million tons of bulk cargo, a year-on-year increase of 7%.

During the year under review, the Group's ports continued to focus their operations on business integration and on-going internal improvement through optimizing operation efficiency of the assets portfolio and, in turn, profitability therefrom derived. The significant consolidation mileage accomplished by the Group in gaining equity and/or operational control at various assets or businesses has firmly anchored the Group's position in the Shenzhen West area:

(i) it completed the equity alignment and secured overall control of Phases I, II and III of Shekou Container Terminal (SCT I, II and III);

(ii) it completed the respective increase in equity stake of and direct control over Shenzhen Haixing Port and Mawan Container Terminal (Berths no. 0, no. 5, no. 6 and no. 7);

(iii) the business operations of major bulk cargo ports at the Western Shenzhen Ports Zone were under the Group's direction combined, thereby producing a unified platform for bulk cargo handling in the area; and

(iv) efforts which called for implementing, on joint and equitable basis among ports operators in the area, market development, environmental improvements and safety assurances have also recorded significant progress.

Not only have all these measures helped to further consolidate the Group's relationship with its customers and elevate its competitiveness, thereby enhancing its edge, they have also brought about a sustainable and fast development for its container business alongside a steadily increasing market share in the region.

In 2007, the Group's South China ports business has grown at rate that is higher than the market's average. In particular, the Group's container handling business at the Western Shenzhen Ports Zone has seen throughput grow faster than that of last year, mainly as a result of the Group's consolidation and integration efforts. During the year, evidently closer collaboration in business and production operations has been pursued among ports operators in the Western Shenzhen Ports Zone alongside the gradual emergence of a harmonious sharing and spreading of international shipping routes among these ports. The "South China Sea Shuttle" network – a network of river barges operating in the Pearl River Delta area, has seen significant route expansion whereas operational devices enabling a vessel to simultaneously carry domestic and international cargoes were successfully implemented in the Western Shenzhen Ports Zone. Operational efficiency and terminal clearance process have continued to improve, aided by the continuous improvements in the ancillary environment and service facilities at the terminal zones. All the above-mentioned improvements have led to the elevation of the critical mass in efficiency of the Western Shenzhen Ports Zone to a higher level and further enhanced the proximity's competitive edge, thereby ensuring space for the Western Shenzhen Ports Zone to grow further. The ports business in Hong Kong has, as before, continued to show sign of growth albeit at a rate much smaller than those of the Group's other ports, alongside slowing in growth momentum. Both container and bulk cargo volumes handled by the Group's Zhangzhou Port recorded significant growth, reflecting remarkable increase specifically in its share of the container market in the proximity.

The Group's business in the Yangtze River Delta has continued to display strong growth momentum, supported and driven by the very vibrant economy in the region. Throughput volume handled by Ningbo Daxie Terminal grew more than one-fold alongside very noticeable improvement in scale, while volume at SIPG continued to maintain its fast track growth together with huge absolute increases. Both container and bulk cargo volumes handled by the Group's Zhangzhou Port recorded significant growth, reflecting remarkable increase specifically in its share of the container market in the proximity. Tianjin Port has also recorded satisfactory growth for the same period under review. During the year, through intensive marketing efforts to secure support from shipping customers the Group's Qingdao Port has gathered sufficient momentum which led the port to break in the existing market. Concrete result is expected to materialize in 2008.

The Group has adopted a proactive approach in coping with the changing economic and competitive environment that prevailed in 2007. Intensified directional guidance supported by thorough macro and micro market research was provided to the Group's ports assets, thereby preparing these ports with better ability to predict business trends and to control their operations. This has enabled the Group's ports operations to maintain their stable and fast track growth. In addition, the Group's ports-related logistics parks have reported satisfactory progress. Following upon the gradual rolling out of the sea-rail linked transportation

mode in Western Shenzhen Ports Zone, the logistics park in the location is expected to constitute a strategic platform through which to further expand the Group's inland reach-out via such rail link and with which to further enhance its bonded capabilities in the future.

Overall, the Group has during 2007 implemented all business schemes planned for alongside a corresponding expansion of its operational capabilities and service mix. The year also marked a turning point for the Group to exhibit quantitatively its transformation from simply investing in ports assets to one that operates ports and from a mere cargo-handling operator to a conglomerate that offers comprehensive and integrated services at ports zones in a number of key economic regions, all in all reflecting the successful accomplishment of its corporate mission laid down at the beginning of this decade.

At the same time as the Group continues to strengthen its positioning in its container and ancillary logistics service business, it has also been closely monitoring the correlation between the throughput volume growth of China's resource-based bulk commodity imports and the country's economic development trends. The investment made in 2007 by the Group in Zhanjiang Port Group (in which the Group now holds 45% equity stake) represented the Group's successful entrance, in a significant scale for the first time, into China's southwestern coastal market. Not only has this investment enabled the Group to immediately share Zhanjiang Port's operation results. It has also facilitated the Group's access to the operation of resource-based bulk commodities in the proximity, thereby enriching the Group's service capabilities whilst providing the Group with another, and very stable, income stream. Moreover, the location has also helped supplement the Group's geographical reach-out of its container handling business network to include the South-western region of China, an area which the Group believes commands medium potential in this business segment.

During the year under review, the Group completely disengaged from its toll roads business by disposing its entire equity holding in China Merchants Holdings (Pacific) Limited. Its equity interest in the paint business of Valspar Hai Hong was also disposed. All these resulted in clearly reflecting the prominence of the Group's ports operation as its core business segment, to which the Group has been focusing, and will continue to focus, its resources for future development.

Future prospects

From the perspective of external macro-economic environment, global economic growth for the year of 2008 and beyond is expected to be negatively impacted by the sub-prime mortgage-led credit crisis originated in the U.S. and the consistently high oil price scenario. Nevertheless, such negative impact is likely to be offset to some extent by the economic forces stemmed from emerging markets in Asia like China, and India. The Group believes that while the economic conditions prevailing in 2008 may not compare as favourably as those in 2007, the continuing fast economic growth in Asia and that trade and economic co-operations among ASEAN member countries are expected to accelerate will inevitably lead to intensified trading activities in the region. In addition, further integration of the EU market brought about by the continuing unification of the EU countries will likely mitigate the growing pressure on trade and economy derived from Euro's currency appreciation, thereby stimulating trades from the Euro Zone to flow within Europe or to Asia which, in turn, further fuel the development of Asia-Europe trades.

In fact, in recent years, trades between China and respectively the EU and ASEAN countries have seen rapid growth. According to statistics published by China General Customs Administration, China's total trade volume with the EU and ASEAN countries rose 27% and 26% respectively in 2007. Collectively the EU and ASEAN countries have emerged as a major trade zone for China, with the total trade volume with these two regions accounted for over 25% of China's overall foreign trade and the EU continuing to be China's largest trade partner. As for this region, in addition, trades within the Far East and within the South East Asia also recorded very robust progresses. Based on the global growth trends of maritime transportation and container trade volumes, the container trade volumes for shipping routes between the East and the West still account for a relatively bigger share, of which trans-Pacific routes and Far East-Europe or South East Asia-Europe routes take up a majority slice. These factors combined will continue to provide a solid base from which to sustain the business of container handling terminals in Asia. With the panning out of the Group's assets at key locations along the coastal areas in China and in Hong Kong – forming a network that actively services trades between China and the rest of the world, the Group will stand to benefit from the continuing and sustainable economic developments in the Asia-Pacific Region and in China in the years to come.

China's economic growth, measured in terms of its GDP, has been growing at annual rates of 10% or above for many years. With a view to preventing its economy from overheating and to reduce inflationary pressures, China is expected to continue to implement conservative financial measures and necessarily stringent monetary policies. The Group maintains the view that the economic fundamentals for China with which to support its economic growth remain on the whole healthy and positive, with foreign trades (import and export) still being a major driving force. The supply chain established between China and respectively all its trade partners over the past two or more decades have induced such inertia, which, combined with the total competitiveness of China manufactured goods – even after taken into account of the possible strengthening of Rmb against the US dollar, will likely continue to support China's international trade expansion albeit at growth rates relatively more moderate than those before. Therefore, the Group remains cautiously optimistic about China's macro-economic and foreign trade environment and hence the prospects of its ports operation in 2008.

The very satisfactory performance achieved in Western Shenzhen Ports Zone has not only demonstrated the consolidation strategies adopted and improvement efforts made by the Group since the beginning of this decade. It has also begun to reflect the gravity this proximity has gained, which will provide the Group a strong foothold in South China that will, for a long time in the future, support its corporate developments and expansion plans.

In 2008, the Group will continue to improve its port handling capacity and operation efficiency through on-going integration and consolidation so as to derive optimal advantages from its resources in ports and related assets. In addition, the Group will continue its integrating efforts to expand its capabilities in logistics parks at port zones in both southern China (Western Shenzhen Ports Zone) and in northern China (both Qiandao and Tianjin), which would supplement the Group's service capability at terminal. The Group will closely follow changes in China's cargoes logistics industry with a view to expanding its geographic reach-out, as and when appropriate, through operational or strategic tie-ups with in-land transportation modes if or so identified.

Furthermore, the Group will continue to intensify its resources in conducting market and industrial researches as well as in following and analyzing target markets overseas with a view to formulating prudent strategies, based on which for the Group to develop market overseas.

All in all, it is the Group's goal to capture the values out from owning and operating a network of ports assets along China's coastal line through increasingly satisfying customer demands by offering a range of comprehensive services, from which to seek steady and recurrent financial returns for its shareholders.

Investor relations

The Group takes very high regard on the confidence and trust its shareholders have exhibited to the Group and its management over the years. It has always placed great emphasis on shareholder and investor relations, and is fully committed to maintaining a high level of transparency and to promptly releasing information on all corporate matters to the investment public. In this regard, regular and timely communications with shareholders are conducted from time to time through various channels such as media, telecommunications network, roadshows, or other appropriate venues.

Credit rating

The Group's credit ratings by Standard & Poor's and Moody's are presently maintained at BBB and Baa2 respectively.

Appreciation

I would like to take this opportunity to express my sincere appreciation to all our shareholders and business partners for their support. In addition, let me send my heartfelt gratitude to my fellow directors and all staff members of the Group for their devotion and hard work.

Dr. Fu Yuning
Chairman

Hong Kong, 15 April 2008

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

According to Global Economic Outlook published by the United Nations, global economic growth in 2007 whilst having somewhat slowed due mainly to the impact of the sub-prime mortgage crisis in the U.S., still displayed a strong performance as a whole when compared with that for 2006. Emerging markets in Asia such as China still dominated as the major driving force for growth. Preliminary statistics released by the National Bureau of Statistics of China revealed that China's Gross Domestic Product in 2007 grew 11.9% year-on-year, the fifth consecutive year that China has achieved a growth rate at or exceeding 10%, reflecting the rapid growth momentum that China is maintaining. Data published by China's General Customs Administration showed that China's total foreign trade (imports and exports) in 2007 grew 23.5%, giving a growth rate largely the same as that of last year, or reflecting a corresponding growth rate of over 20% for six consecutive years since China's accession to the World Trade Organization in 2002. China's steadily growing economy has given rise to a favourable market environment for ports business to develop and flourish. Fueled by a rapidly rising containerization rate, the container transportation industry in China stems from a strong growth momentum. Statistics released by the National Bureau of Statistics of China revealed that China's container throughput approached 112 million TEU in 2007, marking yet another historically record-high milestone for the container transportation business handled by ports in China.

The Group's core segment of ports operations is based in Mainland China, situated at the five hub locations, covering Pearl River Delta, Yangtze River Delta, Bohai Rim, Xiamen Bay Port Zone and South Western Region. Continuing enhancement of capabilities in this ports network and gradual realization of integration efforts have elevated the Group's business scale and operating abilities to a new level. In 2007, while effecting further environmental improvements for the ports, the Group also optimized the advantages already established in existing resources of ports assets, such as quay lines, scale, network, internal control and customer services. By stepping up marketing and business development efforts which target towards integrating business volumes to be generated by these ports assets, the Group has made significant progress in increasing the number of shipping routes calling on its ports. During the year under review, efforts to continue to make internal improvement also achieved meaningful effects. On the basis of technical demonstration and practices, the Group's endeavours to convert fuel oil-operated equipment to using electricity has obtained technical endorsement and practical application started to be introduced and encouraged. This energy conversion project did not only help to control and save the cost of fuel oil, but also effectively alleviated environmental and sound pollution as well as raised the safety standard of running such equipment, thereby providing a benchmark for the establishment of cost-effective and environmentally friendly ports. The Group believes that developing 'green' ports is the trend for the future, which will not only effectively increase operation efficiency, but also continuously enhance the Group's competitiveness to meet future needs.

The promotion and implementation of the aforementioned measures has facilitated the fast growth of the Group's ports operations.

For the year ended 31 December 2007, the Group's consolidated profit attributable to shareholders was HK$ 3,545 million, representing an increase of 39.6% over that of the last year. The Group's recurrent profit, on the other hand, increased 29.9 % when compared to that of last year to HK$ 3,405 million. The Group's core segment of ports operations recorded an EBITDA of HK$ 5,166 million, representing an increase of 44.6% over that of last year. The share of EBITDA from this segment relative to the Group's total increased to 77.2% from 71.0% of last year, due mainly to reorganization and integration efforts carried out during the year.

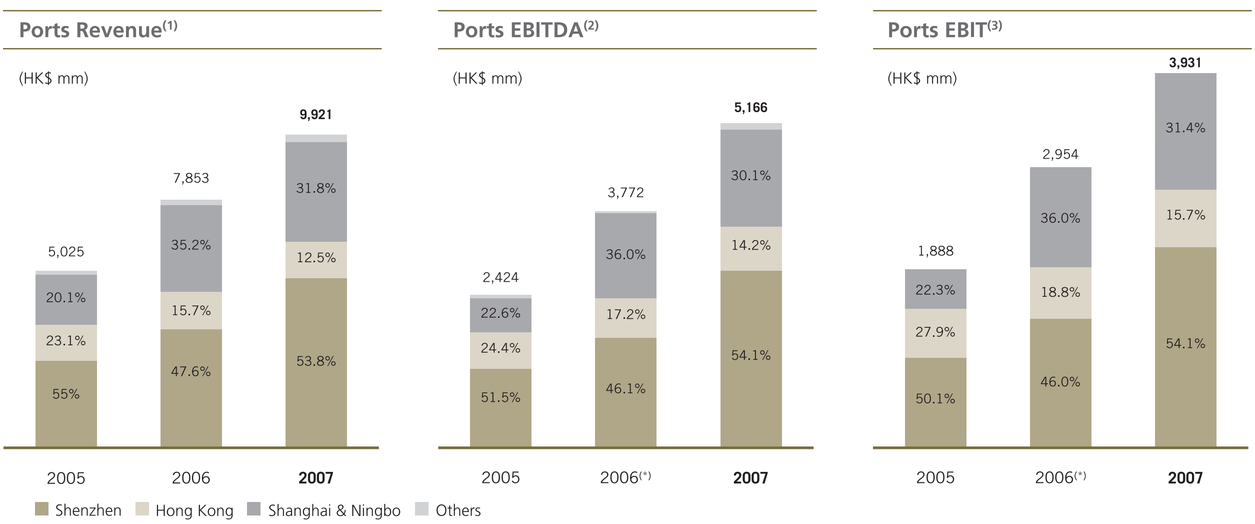
During the year under review, revenue of the Group's business segments amounted to HK$ 6,429 million (an increase of 47.3% year-on-year), of which HK$ 3,318 million was accounted for by the Group's core ports operations (which represented an increase of 72.9% over that of last year).

Ports Operations

During the year under review, EBIT derived from the Group's ports operations amounted to HK$ 3,931 million, representing an increase of 33.1% year-on-year. The share of EBIT from this segment relative to the Group's total also rose to 75.1% from 71.1% of last year.

In 2007, container throughputs handled by the Group's ports totaled 47.12 million TEUs, an increase of 17% over that for last year, of which throughputs handled by the Group's ports in Mainland China reached 40.11 million TEUs, an increase 20% year-on-year. All the ports projects in each area in which the Group invested have recorded satisfactory performance. Of these, Western Shenzhen Ports Zone recorded throughputs of 11.03 million TEUs, an increase of approximately 16%; Shanghai International Ports Group Co., Ltd ("SIPG") recorded

Financial information by locations of the Group's Ports Operations



1. *Include revenue of the Company, its subsidiaries and share of revenue of its associates and jointly controlled entities.*
2. *Earnings before net interests, tax, depreciation and amortisation, unallocated income less expenses and minority interest, ("Defined Earnings") for the Company and its subsidiaries, and its share of Defined Earnings of associates and jointly controlled entities*
3. *Earnings before net interests, tax, unallocated income less expenses, and minority interest ("Adjusted Earnings") for the Company and its subsidiaries, and its share of Adjusted Earnings of associates and jointly controlled entities*

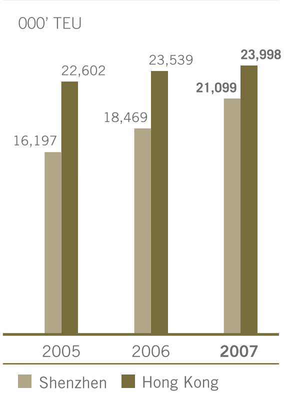
(*) *Excluding one-off losses incurred in SIPG and Chiwan's restructuring in 2006.*

throughputs of 26.15 million TEUs, an increase of 20%; Ningbo Daxie Port recorded throughputs of 0.7 million TEUs, an increase of 133%; Tianjin Wuzhou Port recorded throughputs of 1.98 million TEUs, an increase of 12%; Zhangzhou Port recorded throughputs of 0.24 million TEUs, an increase of 52%; Hong Kong area recorded throughputs of 7 million TEUs, an increase of approximately 4%. The Group's ports handled 159 million tons of bulk cargoes during the year, revealing a year-on-year increase of 7%.

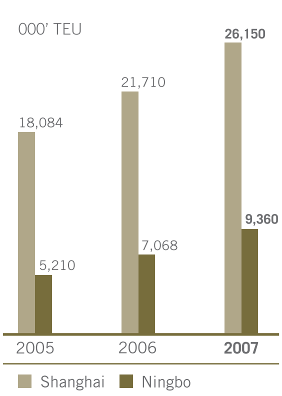
Contributions from Southern China, primarily comprising Western Shenzhen Ports Zone but also including Zhangzhou, have in 2007 become relatively more significant than those generated by other regions, due mainly to the series of consolidation measures and operational improvements made over the past several years.

During the year under review, the Group completed a series of material transactions which have not only further strengthened the Group's control over the Western Shenzhen Ports Zone but also significantly expanded the scale of the Group's business turnover volume. These transactions included (i) the equity realignment of Shekou Container Terminal, in which the Group's equity interest in the entire project became 70% in late February 2007, to increase to ultimately 80% upon completion of berths no. 8 and no. 9; (ii) the respective increase in equity stakes of, and direct control over, Shenzhen Haixing Port (from 33% to 67%, effective in June 2007) and Mawan Project (from 30% to 70% effective in June 2007). The Group has in June 2007 obtained possession of the piece of land previously owned and operated by You Lian Shipyard. Renovation work to convert the site into a feeder terminal that can supplement the existing facilities of Shekou Container Terminal has started in late 2007. The elevated highway which is intended to link up all key ports at the Western Shenzhen Ports Zone has during the year obtained the approval of the Shenzhen Municipal Government and construction work has commenced. The construction programme is estimated to take approximately one year and is be phased in conjunction with directions from the Shenzhen Municipal Government and the customs offices of the respective key ports. Upon completion of this highway the operation efficiency of the Western Shenzhen Ports Zone is expected to be further enhanced.

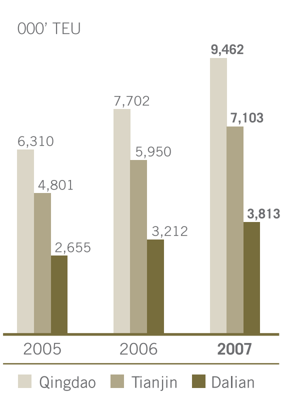
Container throughput in Shenzhen and Hong Kong 2005–2007



Container throughput in Shanghai and Ningbo 2005–2007



Container throughput in Qingdao, Tianjin & Dalian 2005-2007



Progress in the Group's pursuance to expand its service capabilities at terminals to offering integrated logistics services to its customers has been smooth. In regard to the development of port logistics parks, while both logistics parks in Shenzhen and Qingdao have already commenced their operation, the logistics park in Tianjin Dongjiang bonded port zone has also commenced construction and will in due course provide strong support to the Group's terminal developments within the zone. The Group expects that the sea-rail link expected to be gradually launched at Western Shenzhen would enhance the gravity of the Western Shenzhen Port to attract inland cargo sources from the hinterland of South China through the rail system. Moreover, the operation of the South China shuttle barge system at the Western Shenzhen Port Zone has been bringing in remarkable results with the network of scheduled barge services having increased to include 29 terminal destinations from 24 terminal destinations at the end of last year, thus further expanding the geographic reach-out of the Group's terminals at the Western Shenzhen Port Zone to include the entire Pearl River Delta and China's South-western coastal region.

In 2007, the Group invested RMB1,620 million for a 45% equity stake in Zhanjiang Port and is entitled to instantly share the operation results of the Zhanjiang Port. This port, the biggest of its kind located in South-Western China and an important maritime gateway in the proximity, possesses accessible inter-modal rail links with respective provinces such as Guangxi, Yunnan, Guizhou and Chongqing and enjoys suitable deep-water geographical conditions including deep approaching channel, specialised docking and ancillary operating facilities to handle bulk resource-based commodity cargoes. Three types of resource-based commodities, viz iron ore, crude and coal constitute more than 75% of the port's total throughput. Such commodities are essential for China in order to continue to fuel the country's fast economic development. On the basis that import volume of the these commodities continues to be steadily growing, the Group expects Zhanjiang Port to command a good opportunity of development.

Ports-related operations

During the year under review, EBIT from the Group's ports-related operations amounted to HK$ 1,138 million, representing an increase of 30.6% compared to that of the last year.

In 2007, the Group's ports-related operations also performed well. China International Marine Container (Group) Co., Ltd (the "CIMC Group"), of which the Group is a substantial shareholder, has its container box manufacture segment sold a total of 2.11 million TEUs (an increase of 34% over those of last year), driven by the satisfactory macro market environment. Its special-purpose vehicle segment which has emerged as a new driving force for the profit growth of the CIMC Group, has progressed satisfactorily in expanding its markets with vehicle sales totaling 0.11 million units during the year, or an increase of 27% year-on-year. Mainly benefiting from the robust growth in container paint and shipping paints, Hempel-Hai Hong (China) Limited, of which the Group is a controlling shareholder, sold a total of 118 million liters of paint for the whole year, a year-on-year increase of 37%.

Other business

During the year, the Group completed the sale for cash of its highway operations in Mainland China, held through its 71.9% subsidiary, China Merchants Holdings (Pacific) Limited and its equity stake of 40% in the paint business of Valspar Hai-Hong. These corporate streamlining activities, as a result, have resulted in more protruding the gravity of core segment of ports operations and helped the Group to focus its resources in the development of its core ports operations.

Liquidity and treasury policies

As at 31 December 2007, the Group held approximately HK$1,230 million in cash, 26.6% of which was denominated in Hong Kong dollars, 20.3% in US dollars and 53.1% in Renminbi.

The Group's source of funds is mainly derived from its operating activities related to ports and ports-related businesses and investment returns from associates and jointly controlled entities, contributing HK$3,056 million in total. During the year, the Group contributed more than HK$7,942 million in capital expenditure. While the Group has been expanding its investment, the Group continues to adopt a prudent financial policy. The Group is currently financially sound and has abundant cash to meet its daily operating requirements. Besides, as most of the Group's bank loans are medium-to-long-term borrowings while the Group does not anticipate any difficulty in renewing short-term loans, thus the pressure for repaying the short-term loans is limited.

Share Capital and Financial Resources

As at 31 December 2007, the Company had 2,406,111,200 shares in issue. During the year, the Company issued 17,543,000 new shares upon the exercise of share options and received HK$318 million as a result. Other than the above-mentioned newly issued shares and the issue of 4,300,032 shares under the Company's scrip dividend scheme, the Company issued 50,988,000 shares in the amount of approximately HK$1,804 million, representing part of the consideration for the acquisition of Elite Vantage Investments Limited in June 2007.

As at 31 December 2007, the Group had total outstanding interest-bearing debts of HK$9,385 million, of which HK$2,294 million were repayable within one year, whilst the remaining HK$7,091 million were medium to long-term borrowings. Existing bank loans equivalent to HK$2 million were secured by the assets of subsidiaries. The remaining interest-bearing debts were unsecured. Other than the listed 10-year notes payable of US$500 million issued by the Group in March 2005, all other loans were at floating interest rates.

As at 31 December 2007, the Group's gearing ratio (total interest-bearing debts divided by net assets) was about 35.0%.

82.5% of the interest-bearing debts were denominated in HK dollars and US dollars, while the balance were in Renminbi. These debts were for the benefit of the member companies of the Group with repayment sourcing from income generated in local currencies. As such, the Group did not make use of any financial instruments to hedge against currency risks.

The Group held its assets mainly in Hong Kong dollars and Renminbi. The Board is of the view that, as the probability of future depreciation of Renminbi is minimal, it is not necessary to make hedging arrangements for its foreign currency investments.

Assets charge

As at 31 December 2007, the Company did not have any charge over its assets. However, certain bank loans borrowed by the Company's subsidiaries were secured. Bank loans of HK$2 million were secured by the property, plant and equipment with net book value at 31 December 2007 of HK$31 million.

Employees and remuneration

As at 31 December 2007, the Company and its subsidiaries employed 5,448 full time staff, of which 199 were working in Hong Kong, 43 were working overseas and the remaining 5,206 were working in the PRC. The remuneration paid for the full year amounted to HK$641 million, representing 13.0% of the total operating expenses of the Group. The remuneration policy of the Group is reviewed every year and appropriate adjustments are made to staff's remuneration with reference to the conditions of the human resources market and the general economy.

The Group also provides internal training to its staff to enable them to achieve self-improvement and to enhance their job-related skills. Moreover, the Group offers year-end bonus as a reward to its staff for their efforts and contribution. The Group also operates a share option scheme, under which qualified staff may exercise their options at an agreed price. The remuneration of directors has been determined with reference to individual's duties, responsibilities and experience, and to prevailing market conditions.

Prospects and Outlook

A forecast for the global economy by the International Monetary Fund (IMF) reveals that the slow-down in the U.S. economy will drag the pace of the global economic growth. On the other hand, the sustainable strong economic growth denoted in countries and regions including China, India, ASEAN and Russia is expected to offset, to a certain degree, the growth deceleration caused by the U.S.'s economic slow-down. The Group maintains, in addition, that the stable economic developments in the Euro Zone which is conducive to the Euro's strength, has and will continue to intensify the development of Asia-Europe trade and, more so, to facilitate trade between China and Europe. In fact, EU has already replaced the U.S. in being China's biggest international trade partner. The increasing diversity of China's international trade mix has, to some extent, mitigated the impact caused by the volatility seen in a single economy on the country's import and export trade.

Insofar as domestic economy is concerned, China is expected to continue to exert appropriate control measures in managing its macro-economy with a view to preventing the economy from being overheated. The Group is of the belief that, as China's economy still treads on positive momentum, noticeably impacted by supportive imputes brought about by foreign trade, macro control measures so implemented are unlikely to have any significant negative effect on China's economy. On the contrary, such macro control measures are expected to lead to a more stable economy that would assure and benefit the country's development in the long term. With regard to the maritime and terminal business, the international containers market on balance is still maintaining its relative supply and demand equilibrium, as a result of which the possible economic slowdown is unlikely to structurally alter the trade and cargo flows correlation. Although factors like foreign trade surplus and appreciation of Renminbi still pose threats on export volume, products from China and indeed from Asia still offer significant competitive advantages, which will unlikely turn away for a considerable period of time in the future. As a result, the Group remains cautiously optimistic about China's current macro-economic environment as well as about the prospects of the ports operating in such market environment.

The Group's ports operations are based in China, and have currently formed a network spanning to all major coastal areas in China. The Group believes that along with China's continuing development and the further and strategic out-rolling of its ports assets will over time bring out the scale impact of its ports operations. In addition, its proactive approach to strengthen and position its associations with Europe-bound shipping routes will enable the Group to effectively reduce the impact on its business due to the slowing down of trade volume growth depicted in the America-bound shipping routes. The Group's Western Shenzhen ports command a comprehensive layout of shipping routes and, upon further operational improvements and optimization in utilizing ports resources as well as phased addition of capacity, the Group expects to continue to capture business growth at rates higher than that of the average market. The Group's ports operations in the Yangtze River Delta, leveraging on the region's strong growth momentum and huge hinterland market potential, will continue to enjoy significant business growth. With the Group's Qingdao Port having established its commercial arrangements for 2008 thereby beginning to release its operational potential, the Group's capabilities in Bohai Rim are expected to gradually translate into the incremental contribution. Zhanjiang Port, of which the Group recently became a 45% shareholder and which is situated in the rapidly growing energy-related importing region in South-Western China, will not only offer good development prospect but also add to the list of profits contributors with growth potential for the Group's long-term benefit. As regards the Group's strategies in the development of ports and panning out of ports network, it will, on the one hand, continue to identify in Mainland China quality ports project with growth potential and, on the other hand, step up resources to explore overseas markets.

In 2008, the Group will continue to its coordination efforts in ports resources allocation and adjusting corporate structure, and to pursue further integration of ports operations. Through commercial cooperation and operational cooperations, and equity consolidation, the Group seeks to further strengthen business integration with a view to enhancing resources-sharing and overall competitive edge (by fully deploying synergies derived from the ports network), thereby aiming to swing the Group's capabilities from merely scale-and-speed to quality and efficiency.

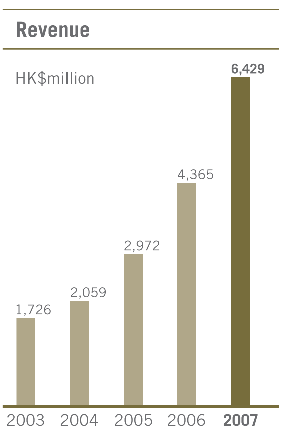
Meanwhile, the Group visualizes that growth in ports operations will more and more hinge on the development of a comprehensive logistics industry. That is, ports and logistics business mutually complement and supplement each other. Prevailing ports development will trend towards the development of logistics establishments integrated with the ports' facilities. As a consequence, the Group intends to, on the one hand, accelerate the construction and development of logistics parks already committed and their respective supportive transportation network with a view to providing tangible support for its ports operation in terms of scale, ancillary functions and service efficiency. On the other hand, it aims to expand the ports' hinterland coverage, leveraging on the network of South China Shuttle already established, the geographical advantage of the Group's Western Shenzhen Ports Zone, and the transshipment characteristics of Pearl River. Through the provision to shippers (cargo owners) of favorable and user-friendly commuter water transportation mode, the Group seeks to actively attract cargo sources from the Pearl River Delta, capitalising on the edge offered by Western Shenzhen Ports Zone. In addition, in pursuance towards the development of a fully-integrated ports logistics industry, the Group has endeavoured to connect the sea-rail transportation link in Western Shenzhen Ports Zone, thereby establishing a channel through which both inbound and outbound inland cargoes can flow. This channel is expected to help explore the domestic China market, thereby enhancing the operating capacity and distribution capability of respectively the ports and the relevant rail system as well as expanding the port's hinterland through the rail system.

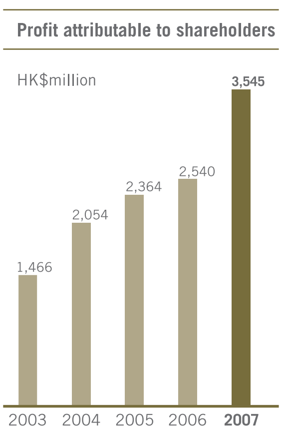
As for new projects development during 2008, the Group will continue to consolidate the business network for its container ports and seek investment opportunities for quality resources-related dedicated bulk cargo terminals — as a means to strengthen the Group's position and operating capabilities as a ports operator with a comprehensive ports network in Mainland China. On the other hand, the Group will seek to progressively explore ports operations overseas. Basing on the resources and capability of its existing ports network, the Group intends to identify an overseas approach which synergies with those offered by the Group's existing ports network in Mainland China. The Group will continue to closely monitor all overseas markets and seeks to formulate a prudent and steady strategy through which to seek suitable overseas development projects and to geographically enlarge the scope of core segment business operating activities, hereby improving the Group's competitive edge in the international ports market. The Group is of the view that these new projects upon implementation will further vitalise the Group's business development.

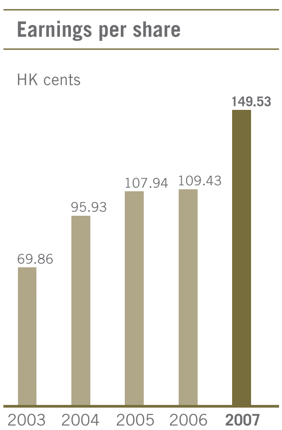
With China's economy continuing its growth at a rapid pace and the increasingly frequent trading activities among countries and regions in the world, the Group firmly believes, the ports industry will continue to enjoy significant room for growth and development for a considerably long period of time in the future. The Group will continue to capitalize on the advantages it possesses, enhance its business operations and assets redeployment, and strengthen its corporate control, to streamline its operational flow with a view to reducing wastage and ensuring the optimal and effective use of resources. The Group will also aim to forge closer working relationships with strategic partners and intensify efforts in the research and analysis of external market environment, thus ensuring the further expansion of the Group's core ports segment as well as sharpening further the Group's competitive edge and abilities to improve its operating and risks control, all in all to enhance its service qualities which will return satisfactory financial gains to its shareholders.

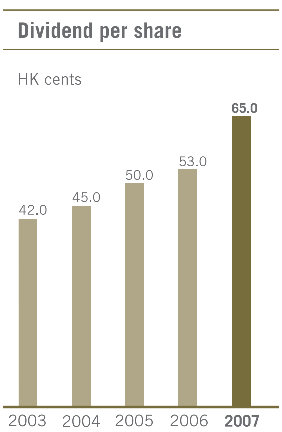
FIVE-YEAR FINANCIAL SUMMARY

	2007 HK$'million	2006 HK$'million	2005 HK$'million	Restated 2004 HK$'million	Restated 2003 HK$'million
RESULTS					
Revenue	**6,429**	4,365	2,972	2,059	1,726
Profit before taxation	**4,037**	2,992	2,587	1,753	1,581
Profit for the year from continuing operations	**3,676**	2,893	2,533	1,707	1,399
Profit for the year from discontinued operation	**219**	—	—	410	145
Minority interest	**350**	353	169	63	78
Profit attributable to shareholders	**3,545**	2,540	2,364	2,054	1,466
ASSETS AND LIABILITIES					
Non-current assets	**41,790**	32,058	24,442	14,223	12,162
Net current (liabilities)/assets	**(5,756)**	(1,970)	1,132	2,467	1,389
Total assets less current liabilities	**36,034**	30,088	25,574	16,690	13,551
Non-current liabilities	**7,559**	6,645	7,947	1,932	293
Minority interest	**1,633**	2,522	1,468	1,230	866
Capital and reserves attributable to the shareholders of the Company	**26,842**	20,921	16,159	13,528	12,392
RETURN TO SHAREHOLDERS					
Earnings per share					
Basic (HK cents)	**149.53**	109.43	107.94	95.93	69.86
Diluted (HK cents)	**148.62**	109.07	107.45	95.58	69.67
Dividend per share (HK cents)	**65.00**	53.00	50.00	45.00	42.00









CORPORATE GOVERNANCE REPORT

The Board of Directors ("Board") is pleased to present this Corporate Governance Report in the Company's Annual Report for the year ended 31 December 2007. In November 2004, The Stock Exchange of Hong Kong Limited ("Stock Exchange") promulgated the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") which sets out the corporate governance principles ("Principles") and the code provisions ("Code Provisions") with which listed issuers are expected to follow and comply.

The Board is committed to upholding a high standard of corporate governance practices and business ethics with the firm belief that they are essential for maintaining and promoting investors' confidence and maximising shareholders' returns. The Board reviews its corporate governance practices from time to time in order to meet the rising expectations of stakeholders and comply with increasingly stringent regulatory requirements, and to fulfill its commitment to excellence in corporate governance.

Corporate Governance

In the opinion of the Directors, save as disclosed below, the Company has complied with the Code Provisions set out in the CG Code contained in Appendix 14 to the Listing Rules throughout the year ended 31 December 2007.

Code Provision A.2.1

Due to the resignation of Mr. Li Yi as an Executive Director and the Managing Director of the Company with effect from 31 May 2005, Dr. Fu Yuning, the Chairman of the Company, has also been acting as the Managing Director of the Company with effect from 31 May 2005. Having performed the roles of the Chairman and the Managing Director of the Company for over two years, the Board considers that as Dr. Fu has been leading the Company and is most aware of the Company's strategic policies and development, it is in the best interests of the Company for the roles of Chairman and Managing Director to be combined and performed by Dr. Fu to faciliate the efficient formulation and implementation of the Company's strategies thereby enabling the Company to seize business opportunities promptly and efficiently.

The current practices will be reviewed and updated regularly to reflect as much as possible the latest best practices in corporate governance.

Board of Directors

The Board of the Company comprises:

Executive Directors
Fu Yuning
Li Yinquan
Hu Zheng
Meng Xi
Su Xingang (appointed on 25 May 2007)
Hu Jianhua (appointed on 25 May 2007)
Wang Hong
Yu Liming
To Wing Sing
Zhao Huxiang (resigned on 25 May 2007)

Independent Non-executive Directors
Tsang Kam Lan
Kut Ying Hay
Lee Yip Wah Peter
Li Kwok Heem John
Li Ka Fai David (appointed on 1 June 2007)

The five Independent Non-executive Directors are persons of high calibre, with academic and professional qualifications in the fields of accounting, law, banking and business management. With their experience gained from senior positions held in other companies, they provide strong support towards the effective discharge of the duties and responsibilities of the Board. Each Independent Non-executive Director has given an annual confirmation of his independence to the Company, and the Company considers these Directors to be independent under Rule 3.13 of the Listing Rules.

During the year, five full board meetings were held and the attendance of each Director is set out as follows:

Name of Director	Number of board meetings attended during the Director's term of office in 2007	Attendance rate
Fu Yuning	5/5	100%
Li Yinquan	5/5	100%
Hu Zheng	3/5	60%
Meng Xi	4/5	80%
Su Xingang *	2/3	67%
Hu Jianhua *	2/3	67%
Wang Hong	5/5	100%
Yu Liming	1/5	20%
To Wing Sing	5/5	100%
Tsang Kam Lan	5/5	100%
Kut Ying Hay	1/5	20%
Lee Yip Wah Peter	4/5	80%
Li Kwok Heem John	4/5	80%
Li Ka Fai David #	3/3	100%

* Mr. Su Xingang and Mr. Hu Jianhua were appointed as Executive Directors of the Company with effect from 25 May 2007.

\# Mr. Li Ka Fai David was appointed as an Independent Non-executive Director of the Company with effect from 1 June 2007.

There was no material financial, business, family or other relevant relationship among members of the Board.

The Board formulates overall strategy of the Group, monitors its financial performance and maintains effective supervision over the management. The Board members are fully committed to their roles and have acted in good faith to maximise the shareholders' value in the long run, and have aligned the Group's goals and directions with the prevailing economic and market conditions. Daily operations and administration are delegated to the management.

At least 14 days' notice of all board meetings is given to all Directors and they can include matters for discussion in the agenda if the need arises. The Company Secretary or his assistant assists the Chairman in preparing the agenda for meetings and ensures that all relevant rules and regulations are followed. The agenda and the accompanying board papers are sent to all Directors at least 3 days before the date of every board meeting so that the Directors have the time to review the documents. Minutes of every board meeting are circulated to all Directors for their perusal prior to confirmation of the minutes at the following board meeting.

Every board member is entitled to have access to board papers and related materials and has unrestricted access to the advice and services of the Company Secretary or his assistant, and has the liberty to seek external professional advice if so required. The Company Secretary or his assistant continuously updates all Directors on the latest development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practice.

Directors' securities transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, each Director confirmed that he has complied with the required standard set out in the Model Code during the year.

Chairman and Managing Director

The Chairman of the Board is responsible for the leadership and effective running of the Board and the Managing Director is delegated with the authorities to manage the business of the Group in all aspects effectively. The Chairman and the Managing Director of the Company is Dr. Fu Yuning and therefore the roles of the Chairman and the Managing Director are not segregated. The Board of the Company is aware that Dr. Fu's acting as the Chairman and the Managing Director is not consistent with paragraph A.2.1 of the CG Code. However, the Board considers that as Dr. Fu has been leading the Company for a long time, he is most aware of the Company's strategic policies and development. It is therefore in the best interests of the Company for Dr. Fu to act as the Managing Director to ensure continuity.

Appointment and Re-election of Directors

According to Article 97 of the Articles of Association of the Company, the Board has the power to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. At the Board meeting held on 25 May 2007, Mr. Su Xingang and Mr. Hu Jianhua were appointed as Executive Directors with effect from 25 May 2007. At the Board meeting held on 31 May 2007, Mr. Li Ka Fai David was appointed as an Independent Non-executive Director with effect from 1 June 2007. In considering the appointment of these Directors, the Board has taken into account their professional qualifications, extensive experience in relevant industries, management expertise and the potential contribution of these Directors to advance the overseas expansion plan of the Company.

According to Article 91 of the Articles of Association of the Company, at each annual general meeting one-third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.

The Company has fixed the term of appointment for Independent Non-executive Directors to a specific term of three years. They are also subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with Article 91 of the Articles of Association of the Company.

Remuneration Committee

The Remuneration Committee of the Company comprises one Executive Director and five Independent Non-executive Directors.

The Remuneration Committee was formed in January 2005. One meeting was held in 2007. The attendance of each member is set out as follows:

Name of member	Number of meetings attended in 2007	Attendance rate
Fu Yuning (Chairman of the Remuneration Committee)	0*/1	0%
Tsang Kam Lan	1/1	100%
Kut Ying Hay	0/1	0%
Lee Yip Wah Peter	1/1	100%
Li Kwok Heem John	1/1	100%
Li Ka Fai David #	1/1	100%

* meeting attended by Mr. Wang Hong on behalf of Dr. Fu.

Mr. Li Ka Fai David was appointed as an Independent Non-executive Director as well as a member of the Remuneration Committee of the Company with effect from 1 June 2007.

During the year, the Remuneration Committee has reviewed the remuneration of the Directors and senior management with reference to the nature of their work, complexity of the responsibilities and performance. No Director took part in any discussion about his own remuneration.

The Company has adopted a share option scheme on 20 December 2001, which serves as an incentive to attract, retain and motivate talented eligible staff, including the Directors. Details of the share option scheme are set out on pages 42 to 46 of the Report of the Directors. The emolument payable to Directors will depend on their respective contractual terms under employment contracts, if any, and as recommended by the Remuneration Committee. Details of the Directors' remuneration are set out in note 10 to the financial statements.

The major roles and functions of the Company's Remuneration Committee are as follows:

1. to make recommendations to the Board on the Company's policy and structure for the remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing the policy on such remuneration;
2. to have the delegated responsibilities to determine the specific remuneration packages of all Executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment. Factors which will be taken into consideration include but are not limited to salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration;

3. to review and approve performance-based remuneration by reference to corporate goals and objectives set by the Board from time to time;
4. to review and approve the compensation payable to Executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;
5. to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;
6. to make recommendations to the Board on the remuneration for Independent Non-executive Directors;
7. to ensure that no Director or any of his associates is involved in deciding his own remuneration;
8. to consult the Chairman and/or the Managing Director about their proposals relating to the remuneration of Executive Directors. Members of the Remuneration Committee shall have access to professional advice if considered necessary; and
9. to consider other issues as determined by the Board.

Accountability and Audit

The Directors are responsible for overseeing the preparation of accounts of each financial period, which should give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the financial statements for the year ended 31 December 2007, the Directors have selected suitable accounting policies and have applied them consistently, adopted appropriate Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable, and have prepared the financial statements on the going concern basis.

The statement of the auditor of the Company about the reporting responsibilities on the financial statements is set out in the Report of the Auditor on page 55.

Audit Committee

The Audit Committee of the Company comprises all of the five Independent Non-executive Directors of the Company.

The Audit Committee meets at least twice a year. Four meetings were held during the year. The minutes of the Audit Committee meetings were tabled at Board meetings for Directors to take note and for action by the Board where appropriate. The attendance of each member of the Audit Committee at meetings held during the year is set out as follows:

Name of member	Number of meetings attended in 2007	Attendance rate
Tsang Kam Lan (Chairman of the Audit Committee)	4/4	100%
Kut Ying Hay	1/4	25%
Lee Yip Wah Peter	4/4	100%
Li Kwok Heem John	2/4	50%
Li Ka Fai David #	3/3	100%

Mr. Li Ka Fai David was appointed as an Independent Non-executive Director as well as a member of the Audit Committee of the Company with effect from 1 June 2007.

During the meetings held in 2007, the Audit Committee had performed the following work:

(i) reviewed the financial reports for the year ended 31 December 2006 and for the six months ended 30 June 2007;

(ii) reviewed the effectiveness of internal control system;

(iii) reviewed the external auditors' statutory audit plan and engagement letter;

(iv) reviewed the management letter from the external auditors in relation to the audit of the Group for the year ended 31 December 2006;

(v) reviewed and recommended for approval by the Board the 2007 audit scope and fees; and

(vi) reviewed the connected transactions entered into by the Group during the year.

The major roles and functions of the Audit Committee are as follows:

1. to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;

2. to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences and ensure co-ordination where more than one audit firm is involved;

3. to develop and implement policy on the engagement of an external auditor to supply non-audit services. For this purpose, external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;

4. to monitor the integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In this regard, in reviewing the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports before submission to the Board, the committee should focus particularly on:

   (i) any changes in accounting policies and practices;

   (ii) major judgmental areas;

   (iii) significant adjustments resulting from audit;

   (iv) the going concern assumptions and qualifications;

   (v) compliance with accounting standards; and

   (vi) compliance with the Listing Rules and other legal requirements in relation to financial reporting;

5. In regard to (4) above:

   (i) members of the committee must liaise with the Board, senior management and the person appointed as the Company's qualified accountant and the committee must meet, at least once a year, with the Company's auditors; and

   (ii) the committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's qualified accountant, compliance officer or auditors;

6. to review the Company's financial controls, internal controls and risk management systems;

7. to discuss the system of internal control and ensure that management has discharged its duty to have an effective internal control system;

8. to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;

9. to discuss problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss (in the absence of management where necessary);

10. to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of controls and management's response;

11. to review the Company's statement on internal control systems (where one is included in the annual report) prior to endorsement by the Board;

12. where an internal audit function exists to review the internal audit programme, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function;

13. to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

14. to report to the Board on the matters set out in provision of terms of reference of the committee;

15. to review the Group's financial and accounting policies and practices; and

16. to consider other issues, as determined by the Board.

Auditors' Remuneration

During the year under review, the remuneration paid to the Company's auditors, Messrs. PricewaterhouseCoopers, is set out as follows:

Services rendered	Fees paid/payable HK$ million
Audit services	10
Non-audit services	
(Tax advisory and compliance services)	1
Total	**11**

Internal Control

It is the responsibility of the Board to ensure that the Group maintains sound and effective internal controls to safeguard the shareholders' investment and the Group's assets.

The internal control system of the Group comprises a well-established organisational structure and comprehensive policies and standards. Areas of responsibilities of each business and operational unit are clearly defined to ensure effective checks and balances.

The key procedures that the Board established to provide effective internal controls are as follows:

- A distinct organisation structure exists with defined lines of authority and control responsibilities;

- A comprehensive management accounting system is in place to prepare financial and operational performance indicators to the management and the relevant financial information for reporting and disclosure purpose; for maintaining proper accounting records; and for ensuring the reliability of financial information used within the business or for publication;
- A centralised management system in respect of external investment and equity transfer is in place. Investment Assessment Committee together with the Investment Management Department are responsible for the Group's investment exposure analysis, and for monitoring the level of investment exposures faced by the Group;
- Systems and procedures are also in place to identify, measure, manage and control risks including reputation, legal, strategic, credit, guarantee, market and operational risks. Exposure to these risks is monitored by Risk Management Committee, together with Corporate Finance Department, Asset and Liability Management Committee and Operational and Other Risks Management Committee. In addition, procedures are designed to ensure compliance with applicable laws, rules and regulations;
- Policies and procedures are designed for safeguarding assets against unauthorised use or disposition. The procedures provide reasonable but not absolute assurance against material errors, losses or fraud;
- A Policy on Handling and Dissemination of Price-Sensitive Information is established, setting out the guiding principles, procedures and internal controls for the handling and dissemination of price-sensitive information in a timely manner in such a way that it does not place any person in a privileged dealing position and allows time for the market to price the shares of the Company to reflect the latest available information; and
- Audit Committee reviews reports (including management letter) submitted by external auditors to the Group's management in connection with the annual audit and internal audit reports submitted by the person in-charge of the Group's Internal Audit Department.

The Board, through the Audit Committee, assesses the effectiveness of the Group's internal control system which covers all material controls, including financial, operational and compliance controls as well as risk management functions, on an annual basis. The Group's Internal Audit Department conducts independent reviews of risks associated with and controls over various operations and activities. Significant findings on internal controls are reported regularly to the Audit Committee twice each year.

Communications with Shareholders and Investors

The Board recognises the importance of good communications with all shareholders. The Company's annual general meeting is a valuable forum for the Board to communicate directly with the shareholders. The Chairman of the Board as well as Chairmen of the Audit and Remuneration Committees (or their duly appointed delegates) together with the external auditor are present to answer shareholders' questions. An annual general meeting circular is distributed to all shareholders at least 21 days before the annual general meeting. It sets out the procedures for demanding and conducting a poll and other relevant information of the proposed resolutions. For the 2007 annual general meeting of the Company held on 25 May 2007, the Chairman demanded that all resolutions proposed at the meeting to be passed by poll and explained the procedures for demanding and conducting a poll at the beginning of the meeting. The results of the poll were published in the newspapers and on the websites of the Company and the Stock Exchange.

A key element of effective communication with shareholders and investors is the prompt and timely dissemination of information in relation to the Group. The Company has announced its annual and interim results in a timely manner, which were well before the time limits as laid down in the Listing Rules.

The management personnel responsible for investor relations held regular meetings with equity research analysts, fund managers and institutional shareholders and investors.

The 2008 annual general meeting of the Company will be held at the Atrium Room, Level 39, Island Shangri-La Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong at 9:30 a.m. on Friday, 23 May 2008.

DIRECTORS AND SENIOR MANAGEMENT

Directors

Dr. Fu Yuning

aged 51, is the Chairman and the Managing Director of the Company and a Director and the President of China Merchants Group. He graduated from Dalian Institute of Technology in the PRC with a Bachelor Degree in Port and Waterway Engineering. He also obtained a Doctorate Degree in Offshore Engineering from Brunel University, United Kingdom and worked as a Post-Doctorate research fellow thereafter. He is also the Chairman of China Merchants China Direct Investment Ltd. and an Independent Non-executive Director of Integrated Distribution Services Group Limited and Sino Land Company Limited, all are listed on The Stock Exchange of Hong Kong Limited. Besides, he is the Chairman of China Merchants Energy Shipping Company Limited, its shares are listed on the Shanghai Stock Exchange and Non-executive Director of China Merchants Bank Co., Ltd, its shares are listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange. He was appointed to the Board of Directors on 8 January 1999, and was appointed as the Chairman and the Managing Director of the Company on 1 February 2000 and 31 May 2005 respectively.

Li Yinquan

aged 53, is the Vice President and the Chief Financial Officer of China Merchants Group. He graduated from the Shaanxi Institute of Finance and Economics with a Bachelor of Economics, and holds a Master in Economics from The People's Bank of China Graduate School in Beijing. He also holds a Master in Banking and Finance from the Finafrica Institute in Milan, Italy. Prior to joining the China Merchants Group in 2000, he worked in the Agricultural Bank of China from 1985 to 1999 where his last position was Deputy General Manager of the Hong Kong branch. He is the Director of China Merchants Energy Shipping Company Limited, its shares are listed on the Shanghai Stock Exchange and Non-executive Director of China Merchants Bank Co., Ltd, its shares are listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange. He was appointed to the Board of Directors on 20 June 2001.

Hu Zheng

aged 52, is the Vice President and the general legal counsel of China Merchants Group, concurrently serving as Chairman of China Merchants Logistics, Vice Chairman of China Merchants Shekou Industrial Zone Co., Ltd. and Vice Chairman of China Merchants Zhangzhou Development Zone Co., Ltd. He obtained a master degree in Business Administration from Murdoch University, Australia and holds a professional title of "Senior Economist". Mr. Hu successively served as the Secretary of the General Office of the Ministry of Communications, Secretary of the board of directors of China Merchants Group, General Manager of the Executive Department of China Merchants Group, Assistant President of China Merchants Group and No. 1 Deputy General Manager of China Merchants Shekou Industrial Zone. He was appointed to the Board of Directors on 29 June 2004.

Meng Xi

aged 52, is the Vice President of the China Merchants Group. He graduated from the Beijing Construction Engineering College and was awarded "Senior Engineer" in the PRC. He joined the China Merchants Group in 1983 and was formerly the Deputy General Manager of China Merchants Shekou Industrial Zone Company Limited, Deputy General Manager of Enterprises and Projects Division and General Manager of Management Information Division, General Manager of Strategic Planning Department of the China Merchants Group. He has extensive experience in the field of management of enterprises, strategic investment, MIS and strategic planning. He was appointed to the Board of Directors on 20 June 2001.

Su Xingang

aged 49, is the Chief Economist of China Merchants Group. He graduated from Ship Navigation and Harbour Superintendency Administration Specialty of Navigation Department of Dalian Maritime University. He holds the professional title of senior engineer. He is the Director of China Merchants Energy Shipping Company Limited, its shares are listed on the Shanghai Stock Exchange, and also Chairman of China LNG Shipping (Holdings) Limited. Before joining the China Merchants Group, he served as Deputy Division Chief of Department of Transportation Administration, Assistant Director General of Department of Water Transportation of Ministry of Communications, Vice President of China Changjiang National Shipping (Group) Corp., Deputy Director General, Director General of Department of Water Transportation of Ministry of Communications. He was appointed to the Board of Directors on 25 May 2007.

Hu Jianhua

aged 46, is the Deputy Managing Director of the Company. He joined the Company on 29 April 2007. He graduated from the Dalian University of Technology in the PRC with a Bachelor Degree in Port and Waterway Engineering. He then obtained his Master Degree in Construction Management at the University of Birmingham of the United Kingdom and his Doctor Degree in Business Administration at the University of South Australia. Before joining the Company, he was the General Manager of Overseas Business Department of China Harbour Engineering Company Group, Managing Director of Hong Kong Zhen Hua Engineering Co., Ltd, Deputy Chief Economist cum General Manager of Overseas Division of China Harbour Engineering Company Group, Managing Director of China Harbour Engineering Company Limited. Having vast experience in ports, roads and bridges engineering and construction and corporate management both in China and overseas, Mr. Hu is also a fellow member of the Hong Kong Institution of Engineers (FHKIE), fellow member of Institution of Civil Engineering Surveyors of the United Kingdom (FInstCES) and member of American Society of Civil Engineers (ASCE) respectively. He was appointed to the Board of Directors on 25 May 2007.

Wang Hong

aged 45, is the Deputy Managing Director, Chief Operational Officer of the Company and a Director of China Merchants Holdings (Hong Kong) Company Limited. He is also the Chairman of China Merchants Holdings (Pacific) Limited and the Vice-Chairman of Shanghai International Port (Group) Company Limited. He graduated from Dalian Maritime University in PRC in Marine Engineering in 1982, as a holder of Master of Business Administration of Graduate School of Beijing University of Science and Technology, and a holder of PHD of Management of Graduate School of China Academy of Social Science. Mr. Wang successively served as Engineer in COSCO Guangzhou, General Manager of Shipping Department, General Manager of Finance and Accounting Department, and Vice President of China Communications Import & Export Corp., Managing Director of Hoi Tung Marine Machinery Suppliers Ltd., General Manager of Performance Evaluation Department and Human Resources Department of China Merchants Group Limited. He has extensive experience in shipping industry, international trading, financing & accounting, human resource management. He was appointed to the Board of Directors on 11 May 2005.

Yu Liming

aged 45, is the General Manager of Business Development Department of China Merchants Group. He graduated from the South China University of Science and Technology in 1982. He holds a Ph.D Degree at the Business School of Fudan University, the PRC. He studied in The International Institute of Infrastructural Hydraulic and Environmental Engineering (IHE), Delft University of Holland and Port of Rotterdam from 1987 to 1988. He joined the China Merchants Group in 1984 and has extensive experience in the field of strategic planning, mergers and acquisitions, port management and construction business. He was appointed to the Board of Directors on 8 January 1999.

To Wing Sing

aged 58, is the Deputy Managing Director of the Company. Being a qualified marine engineer in the United Kingdom, he joined the China Merchants Group in 1971. During his 37 years with the China Merchants Group, he has been actively involved in the transportation business. He was appointed to the Board of Directors on 7 July 1994.

Tsang Kam Lan

aged 76, was formerly the Managing Director of Bank of China Group Insurance Company Limited, BOC Group Life Assurance Company Limited and Sun Chung Estate Co., Ltd. and the Deputy Managing Director of Kiu Kwong Investment Corporation Ltd., the Chairman of Bank of China Group Investment Ltd., Bank of China Group Securities Limited and Hopewell Power (China) Limited, the General Manager of The China & South Sea Bank Limited, Hong Kong Branch, the Deputy General Manager of The Kwangtung Provincial Bank Hong Kong Branch, and the Deputy Chief Executive of Bank of China Hong Kong & Macau Regional Office. He was appointed to the Board of Directors on 6 June 1992.

Kut Ying Hay

aged 53, is a practising solicitor and a notary public in Hong Kong and the sole proprietor of Messrs. Kut & Co. He is also a solicitor of the Supreme Court of England and Wales, the Supreme Court of Victoria, Australia, and the Supreme Court of Singapore, and is an associate member of the Institute of Chartered Arbitrators and the Institute of Arbitrators, Australia. He was appointed by the Hong Kong Government as a member of the Board of Review for the period from 1995 to 1998. He has also been appointed by the Ministry of Justice of the PRC as a China Appointed Attesting Officer. Since 1995, Mr. Kut is currently the Vice Chairman of the Association of Hong Kong Professionals Limited, a non-profit making body dedicated to provide a cross-profession platform for professionals of diverse disciplines to socialize, share knowledge and to create opportunities. He was appointed to the Board of Directors on 6 June 1992.

Lee Yip Wah Peter

aged 65, is a practising solicitor, a consultant of Messrs. Woo, Kwan, Lee & Lo, Solicitors & Notaries and a China appointed attesting officer. He is also a Non-executive Director of Shenzhen Investment Limited and Yu Ming Investments Limited, an Independent Non-Executive Director of Sinotrans Shipping Limited, all the said companies are listed on the Hong Kong Stock Exchange. He was appointed to the Board of Directors on 20 June 2001.

Li Kwok Heem John

aged 52, was a partner at PricewaterhouseCoopers, Certified Public Accountants. He graduated from the Imperial College of the University of London with a Bachelor of Science degree and is a Fellow of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants. He also obtained a Master of Business Administration degree from the Wharton School of Business of the University of Pennsylvania. Mr. Li is the Chairman of the United Christian Medical Service and United Christian Hospital and a member of the Board of Trustees of Chung Chi College, the Chinese University of Hong Kong. He was appointed to the Board of Directors on 8 October 2004.

Li Ka Fai David

aged 53, is currently the deputy managing partner of Li, Tang, Chen & Co., a part-time instructor of School of Continuing and Professional Studies, The Chinese University of Hong Kong and appointed member of Advisory Board on Accountancy Lingnan University. He is also a fellow of the Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants, UK as well as The Institute of Chartered Secretaries & Administrators, UK and an associate member of The Institute of Chartered Accountants in England & Wales. He is an Independent Director and Chairman of audit committee of China Vanke Company Limited, a company listed on the Shenzhen Stock Exchange, an Independent Non-executive Director and Chairman of audit committee of China-Hongkong Photo Products Holdings Limited and Cosmopolitan International Holdings Limited, both are listed on the Hong Kong Stock Exchange. Mr. Li is an Independent Non-executive Director and member of audit committee of CATIC International Holdings Ltd. He was also an Independent Non-executive Director and Chairman of audit committee of Wanji Pharmaceutical Holdings Limited (now known as Nubrands Group Holdings Ltd, a company listed on the Hong Kong Stock Exchange) in 2002-2005. He was awarded the Medal of Honour (MH) from The Government of the Hong Kong Special Administrative Region in July 2004 for valuable contribution to the development of the accounting profession. He was appointed to the Board of Directors on 1 June 2007.

Senior Management

Jiang Yanfei

aged 48, joined the Company in 2001 as a Deputy General Manager, He is also a Director and the Chief Executive Officer of China Merchants Holdings (Pacific) Limited, the shares of which are listed on the Singapore Exchange Securities Trading Limited. Prior to joining the Company, he was the Deputy General Manager of China Merchants Shekou Holdings Co. Ltd. Mr. Jiang is a telecommunication engineer and a senior economist. He has extensive experience in the development of toll roads and transportation systems including investment management, technology and communications in the PRC and was a senior manager of the Shandong Provincial Transport Development and Investment Company. He is a standing member of the Operation and Management Sub-society of the China Highway Society. He holds an MBA from Murdoch University, Australia, and graduated from Chongqing Communication College in the PRC.

Wong Sin Yue Cynthia

aged 56, is a Deputy General Manager of the Company, responsible for finance. She also holds the office of Non-Executive Director, China Merchants Holdings (Pacific) Limited and Independent Non-executive Director, China Gas Holdings Limited. Prior to joining the Company in 2004, she took various senior positions at reputable international investment banks including Societe Generale, Deutsche Morgan Grenfell, Samuel Montague and Bear Stearns Asia for over 15 years, during which period she had advised more than 50 companies in Greater China and Asia in their equity, equity finance or equity-related activities. She holds a Master of Business Administration Degree from the University of East Asia in Macau.

Liu Yun Shu

aged 43, joined the Company in 2004 and is presently the Deputy General Manager of the Company. He obtained his Master of Business Administration at Roosevelt University of America. Mr. Liu has vast experience in ports and logistics industries. Before joining the Company, he was a Director and the Deputy General Manager of Shenzhen Shekou China Merchants Port Services Co., Ltd., the Vice Chairman and General Manager of Shenzhen Shekou Anda Industry Co. Ltd., a Director and the Chief Operating Officer of China Merchants Logistics Group Co., Ltd. Mr. Liu is currently a committee member of Member Association (Logistics enterprises) of China Communication and Transportation Association and the Chairman of Shenzhen Ports Association.

Ni Lulun

aged 47, joined the Company in 2005 as the Deputy General Manager cum General Manager of the Business Development Department of the Company where he is in charge of business development and investment research. He graduated from the Department of Port Mechanics of Shanghai Maritime Institute with a Bachelor of Engineering degree in 1982, and he then pursued his Master Degree at the Department of Water Transportation Management. Mr. Ni obtained a Ph.D Degree at the Department of Maritime Studies, University of Wales Institute of Science and Technology and obtained a post-doctoral research fellowship at the School of Management of Shanghai Jiaotong University. Between 1989 and 1991, he was a lecturer and an associate professor of the School of Management, Shanghai Fudan University. Mr. Ni joined China Nanshan Development (Group) Inc. in 1992 where he served several senior management positions. Before joining the Company, he was the Deputy General Manager of the Business Development Department of China Merchants Group Limited.

Luo Hui Lai

aged 45, joined the company in December 2000 and is the Deputy General Manager of the Company. He is also the Managing Director of CMH International (China) Investment Co., Ltd. He is in charge of construction engineering and production safety issues of the Company. He graduated from the East China Petroleum Institute with a Bachelor of Engineering, majoring in petroleum storage and transportation in 1982. He obtained his EMBA from the College of Business Administration at Zhejiang University. He has vast experience in port management and port operation. He was the General Manager and Senior Engineer of Qinhuangdao Port Affairs (No. 1) Company, Deputy General Manager and then Managing Director of China Merchants Container Services Limited, and Chairman cum CEO of China Merchants International Container Terminal Co., Ltd, Ningbo Daxie.

Zhang Ri Zhong

aged 40, joined the Company in 2005 and is the Deputy Financial Controller of the Company, responsible for finance. He holds a MBA from The University of Westminster of UK, and graduated from The Central Finance and Economics University in PRC. He is also a Member of Association of Chartered Certified Accountants. With over 16 years in Finance and Accounting area, he has extensive experience in finance management. Before joining the Company, he was Deputy General Manager of Financial Department of China Merchants Group, Financial Controller of China Merchants Holdings (UK) Co. Ltd, and a director of several companies.

Robert A. Beilin

aged 57, joined the Company on 1 August 2007. He is currently the Chief Business Development Officer of the Company and he is responsible for marketing, sales, business improvement and business intelligence initiatives of CMHI's investee port companies and logistics centers relating to overseas markets and customers. He graduated with a Bachelor Degree of Science in Management and Marketing from St. Peter's College, New Jersey in 1971. Over a 36 years' span, as an industry executive, he has gained significant experience in increasing and building market presence, improving operational efficiency and enhancing enterprise value in highly competitive international markets. Before joining the Company, Mr. Beilin has held positions as Senior Vice President Operations U.S. Lines and President of USL Agencies Inc. He also held various management positions at Sea-Land Service Inc., and was Senior Vice President at Australia New Zealand Direct Lines where his leadership helped the company earn industry recognition and numerous industry and customer awards for service excellence. He was also Managing Director of his own transportation management consulting firm, Group Maritime Limited.

REPORT OF THE DIRECTORS

The Board is pleased to present the Company's annual report together with the audited financial statements for the year ended 31 December 2007.

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 42 to 44 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 56.

The Board had declared an interim dividend of 20 HK cents per share, totalling HK$480 million, which was paid on 28 November 2007.

The Directors have resolved to recommend the payment of a final scrip dividend of 45 HK cents per share, totalling HK$1,083 million for the year ended 31 December 2007 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 (2006: scrip dividend of 36 HK cents per share by way of issue of new shares equivalent with cash alternative), payable on or around 4 July 2008 to the shareholders whose names appear on the Register of Members of the Company as at the date of the 2008 Annual General Meeting (the "Scrip Dividend Scheme").

Subject to the approval by shareholders in the 2008 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 5 June 2008. 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 4 July 2008.

Reserves

Details of the movements in reserves of the Group and the Company during the year are set out in note 32 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 31 to the financial statements.

Distributable reserves

Distributable reserves of the Company at 31 December 2007, calculated under section 79B of the Hong Kong Companies Ordinance, amounted to HK$3,137 million (2006: HK$1,540 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 23.

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 2007 were:

Executive Directors:
Dr. Fu Yuning *(Chairman & Managing Director)*
Mr. Li Yinquan
Mr. Hu Zheng
Mr. Meng Xi
Mr. Su Xingang *(appointed on 25 May 2007)*
Mr. Hu Jianhua *(appointed on 25 May 2007)*
Mr. Wang Hong
Mr. Yu Liming
Mr. To Wing Sing
Mr. Zhao Huxiang *(Vice Chairman) (resigned on 25 May 2007)*
Independent Non-executive Directors:
Mr. Tsang Kam Lan
Mr. Kut Ying Hay
Mr. Lee Yip Wah Peter
Mr. Li Kwok Heem John
Mr. Li Ka Fai David (appointed on 1 June 2007)

In accordance with Article 91 and Article 97 of the Company's Articles of Association, Mr. Li Yinquan, Mr. Hu Jianhua, Mr. Wang Hong, Mr. Tsang Kam Lan, Mr. Lee Yip Wah Peter, Mr. Li Kwok Heem John and Mr. Li Ka Fai David will retire from the Board at the forthcoming annual general meeting but, being eligible, will offer themselves for re-election.

Four of the Independent Non-executive Directors have been appointed for a term of three years commencing on 22 March 2008 and an Independent Non-executive Director has been appointed for a term of three years commencing on 1 June 2007. 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 of 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 2007, 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	Percentage of aggregate long position in shares to the issued share capital as at 31 December 2007
Dr. Fu Yuning	Beneficial owner	Personal interest	539,029	400,000	0.0390%
Mr. Li Yinquan	Beneficial owner	Personal interest	—	450,000	0.0187%
Mr. Hu Zheng	Beneficial owner	Personal interest	—	700,000	0.0291%
Mr. Meng Xi	Beneficial owner	Personal interest	—	200,000	0.0083%
Mr. Su Xingang	Beneficial owner	Personal interest	—	350,000	0.0145%
Mr. Wang Hong	Beneficial owner	Personal interest	500,000	150,000	0.0270%
Mr. Yu Liming	Beneficial owner	Personal interest	—	850,000	0.0353%
Mr. To Wing Sing	Beneficial owner	Personal interest	150,000	100,000	0.0104%
Mr. Lee Yip Wah Peter	Beneficial owner	Personal interest	139,175	—	0.0058%
Mr. Li Kwok Heem John	Interest of spouse	Family interest	1,393,923	—	0.0579%
			2,722,127	3,200,000	0.2460%

Save as disclosed above and based on the register maintained by the Company under Section 352 of the SFO, as at 31 December 2007, 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 debentures of the Company or any of its associated corporations (within the meaning of Part XV 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 of Hong Kong Limited (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 scheme

At an Extraordinary General Meeting of the Company held on 20 December 2001 (the "Adoption Date"), the shareholders of the Company adopted the share option scheme (the "Share Option Scheme") and a previous share option scheme was terminated on the same date. Under the Share Option Scheme 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 ("CMHK"), 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 interests of the Company to extend the Share Option 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 Share Option Scheme to effect such extension of Eligible Persons.

Details of the Share Option Scheme are as follows:

(i) Purpose

The purpose of the Share Option 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 Share Option Scheme and any options granted under the share option scheme of the Company adopted on 26 June 1992 and terminated on 20 December 2001 ("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 Share Option 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 Share Option 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 Share Option 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 Share Option 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 Share Option 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 Share Option 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 Share Option Scheme

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

(viii) Shares available for issue under the Share Option Scheme

As at 15 April 2008, the total number of shares which may be issued pursuant to the exercise of options granted under the Share Option Scheme was 32,898,000 shares.

As at 15 April 2008, the total number of shares available for issue under the Share Option Scheme was 133,322,238 shares, which represented approximately 5.54% of the total issued share capital of the Company as at the same date.

Details of the share options outstanding at 31 December 2007 which have been granted under the Share Option Scheme are as follows:

Name	Date of grant	Exercise price HK$	Options held as at 1 January 2007	Options granted during the year	Options exercised during the year	Options lapsed/ cancelled during the year	Other changes during the year	Options held as at 31 December 2007
Directors								
Dr. Fu Yuning	25 May 2006	23.03	800,000	—	(400,000)	—	—	400,000
Mr. Zhao	27 October 2004	11.08	360,000	—	(360,000)	—	—	—
Huxiang[1]	25 May 2006	23.03	400,000	—	(150,000)	—	(250,000)	—
Mr. Li Yinquan	27 October 2004	11.08	450,000	—	(400,000)	—	—	50,000
	25 May 2006	23.03	400,000	—	—	—	—	400,000
Mr. Hu Zheng	27 October 2004	11.08	300,000	—	—	—	—	300,000
	25 May 2006	23.03	400,000	—	—	—	—	400,000
Mr. Meng Xi	27 October 2004	11.08	500,000	—	(500,000)	—	—	—
	25 May 2006	23.03	400,000	—	(200,000)	—	—	200,000
Mr. Su Xingang[2]	25 May 2006	23.03	—	—	—	—	350,000	350,000
Mr. Wang Hong	27 October 2004	11.08	250,000	—	(250,000)	—	—	—
	25 May 2006	23.03	650,000	—	(500,000)	—	—	150,000
Mr. Yu Liming	11 October 2002	4.985	350,000	—	(350,000)	—	—	—
	27 October 2004	11.08	500,000	—	(150,000)	—	—	350,000
	25 May 2006	23.03	500,000	—	—	—	—	500,000
Mr. To Wing Sing	25 May 2006	23.03	500,000	—	(400,000)	—	—	100,000
			6,760,000	—	(3,660,000)	—	100,000	3,200,000

Notes: 1. Mr Zhao Huxiang resigned on 25 May 2007 and he is also an employee of the CMHK Group.

2. Mr. Su Xingang was appointed as an Executive Director of the Company with effect from 25 May 2007 and he is also an employee of the CMHK Group.

Name		Date of grant	Exercise price HK$	Options held as at 1 January 2007	Options granted during the year	Options exercised during the year	Options lapsed/ cancelled during the year	Other changes during the year	Options held as at 31 December 2007
Continuous contract employees									
(I)	The Group	11 October 2002	4.985	450,000	—	(400,000)	—	—	50,000
		27 October 2004	11.08	3,903,000	—	(2,173,000)	—	—	1,730,000
		25 May 2006	23.03	20,070,000	—	(5,356,000)	—	—	14,714,000
		21 June 2006	20.91	150,000	—	—	—	—	150,000
(II)	The CMHK Group	11 October 2002	4.985	200,000	—	(100,000)	—	—	100,000
		27 October 2004	11.08	3,090,000	—	(1,990,000)	—	—	1,100,000
		4 May 2005	15.31	200,000	—	(200,000)	—	—	—
		25 May 2006	23.03	15,920,000	—	(3,664,000)	—	(100,000)	12,156,000
				43,983,000	—	(13,883,000)	—	(100,000)	30,000,000
				50,743,000	—	(17,543,000)	—	—	33,200,000

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 weighted average closing market price per share immediately before the date on which the share options were exercised was HK$42.59.
2. No share options were granted during the year.

Substantial shareholders

As at 31 December 2007, 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	Nature of interest	Ordinary Shares held	Percentage of total issued Shares
China Merchants Group Limited	Interest of Controlled Corporation	1,341,768,949[(1)]	55.77%
China Merchants Steam Navigation Company Limited	Interest of Controlled Corporation	1,194,928,479[(2)]	49.66%
China Merchants Holdings (Hong Kong) Company Limited	Interest of Controlled Corporation	1,194,928,479[(2)]	49.66%
China Merchants Union (BVI) Limited	Beneficial Owner	1,164,476, 497	48.40%
Top Chief Company Limited	Interest of Controlled Corporation	146,840,470[(3)]	6.10%
China Merchants Shekou Industrial Zone Company Limited	Interest of Controlled Corporation	146,840,470[(3)]	6.10%
Orienture Holdings Company	Beneficial Owner	20,406,034	
Limited	Interest of Controlled Corporation	124,314,569[(3)]	6.01%
Super Talent Group Limited	Beneficial Owner	124,314,569[(3)]	5.17%

Notes:

1. Each of China Merchants Steam Navigation Company Limited and China Merchants Shekou Industrial Zone Company Limited is wholly owned by China Merchants Group Limited. China Merchants Group Limited ("CMG") is deemed to be interested in 1,341,768,949 shares, which represents the aggregate of 1,194,928,479 shares deemed to be held by China Merchants Steam Navigation Company Limited and 146,840,470 shares deemed to be held by China Merchants Shekou Industrial Zone Company Limited.

2. China Merchants Holdings (Hong Kong) Company Limited is wholly owned by China Merchants Steam Navigation Company Limited. Each of China Merchants Union (BVI) Limited, Cm Development Limited and China Merchants International Finance Company Limited is in turn wholly owned by China Merchants Holdings (Hong Kong) Company Limited. China Merchants Steam Navigation Company Limited is deemed to be interested in 1,194,928,479 shares which are deemed to be held by China Merchants Holdings (Hong Kong) Company Limited. Such shares represent the aggregate of 1,164,476,497 shares beneficially held

by China Merchants Union (BVI) Limited, 13,593,283 shares beneficially held by Cm Development Limited and 16,858,699 shares beneficially held by Best Winner Investment Limited. As Best Winner Investment Limited is wholly owned by China Merchants International Finance Company Limited, China Merchants International Finance Company Limited is deemed to be interested in the 16,858,699 shares beneficially held by Best Winner Investment Limited.

3. Top Chief Company Limited is wholly owned by China Merchants Shekou Industrial Zone Company Limited. Each of Orienture International Financing Limited and Orienture Holdings Company Limited is in turn wholly owned by Top Chief Company Limited. China Merchants Shekou Industrial Zone Company Limited is deemed to be interested in 146,840,470 shares which are deemed to be held by Top Chief Company Limited. Such shares represent the aggregate of 2,119,867 shares beneficially held by Orienture International Financing Limited, 20,406,034 shares beneficially held by Orienture Holdings Company Limited and 124,314,569 shares beneficially held by Super Talent Group Limited. As Super Talent Group Limited is wholly owned by Orienture Holdings Company Limited, Orienture Holdings Company Limited is also deemed to be interested in the 124,314,569 shares beneficially held by Super Talent Group 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 2007, 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 14 December 2006, the Company entered into a sale and purchase agreement with Swire Pacific Limited, P&O Dover (Holdings) Limited, MTL Shekou Holdings Limited and Modern Terminals Limited ("MTL"), pursuant to which the Company acquired 40% interest in Shekou Container Terminals Company Limited ("SCT1") and 39.2% in Shekou Containers Terminals (Phase II) Company Limited ("SCT2") at a total consideration of HK$3,168 million. On the same date, the Company entered into a rationalisation agreement with MTL (the "Rationalisation Agreement"), pursuant to which the Company and MTL will form a joint venture to hold their entire 100% interests in SCT1, SCT2, Shekou Containers Terminals (Phase III) Company Limited and An Yun Jie Port and Warehouse Services (Shenzhen) Company Limited. MTL is a substantial shareholder of MTL Chiwan Holdings Limited, a subsidiary of the Company, and hence is a connected person of the Company. The completion of the restructuring of the Group ("Stage 1 Completion") pursuant to the Rationalisation Agreement was completed on 22 February 2007.

(b) On 23 May 2007, the Company entered into a share purchase agreement with Win Good Investments Limited ("Win Good") and CMHK, pursuant to which the Company sold the entire issued share capital of Easton Overseas Limited ("Easton") and assign to Win Good the shareholder's loan due by Easton to Company for a total consideration of HK$2,950 million. Win Good is a wholly owned subsidiary of CMHK, which in turn is a wholly owned subsidiary of CMG, the ultimate holding company of the Company. Therefore, Win Good is a connected person of the Company. Easton is the beneficial owner of ordinary shares and redeemable convertible preference shares in China Merchants Holdings (Pacific) Limited, a company listed on the Singapore Exchange Securities Trading Limited and engaged in toll road and property development businesses. The disposal of the interest in Easton allows the Company to focus the resources of the Group on port and port-related business.

(c) On 23 August 2007, CMH International (China) Investment Co., Ltd ("CMCIL"), an indirect wholly owned subsidiary of the Company, entered into a joint venture contract in respect of its joint venture company, China Merchants Maritime & Logistics Shenzhen Ltd. ("CMML") with Shenzhen Chiwan Wharf Holdings Ltd. ("Shenzhen Chiwan") in relation to the increase in registered capital of CMML. CMML is an indirect 60%-owned subsidiary of the Company. Pursuant to the joint venture contract, the total investment and registered capital of CMML was increased from RMB200 million to RMB500 million and RMB300 million, respectively. The additional registered capital in the amount of RMB100 million was contributed as to RMB60 million by CMCIL and as to RMB40 million by Shenzhen Chiwan in cash. CMML continues to be owned as to 60% by CMCIL and 40% by Shenzhen Chiwan after the increase in registered capital. Shenzhen Chiwan is a connected person of the Company as it is a substantial shareholder of several subsidiaries of the Group, including CMML.

(d) On 20 December 2007, CMML entered into an agreement with China Merchants Shekou Industrial Zone Company Limited ("CMSIZ") for the transfer of the land use right of seven parcels of land located in Shenzhen Qianhaiwan Logistics Park to CMML for a total consideration of RMB508,967,344. CMSIZ is a wholly owned subsidiary of CMG, the ultimate holding company of the Company, and is therefore a connected person of the Company. The Shenzhen Qianhaiwan Logistics Park has been an important strategic area for the provision of logistics services and operations of the Group. The acquisition of the land use right is therefore important for strengthening the Group's position in Shenzhen.

(e) Details of the continuing connected transactions of the Group for the year ended 31 December 2007 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)	(100,780)
	Sales of paint products by the Group	(i), (iii)	183,877
	Sourcing services charged to the Group	(i), (iv)	—
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 Company Limited ("CMPD")	Rental of properties and plant and equipment charged to the Group	(vi)	(10,842)
CMSIZ	Rental of properties in Shekou charged to the Group	(vii)	(31,142)
Euroasia Dockyard Enterprise and Development Limited ("Euroasia")	Rental of properties at Tsing Yi Terminal charged to the Group	(viii)	(20,285)
Hoi Tung Marine Machinery Suppliers Limited ("Hoi Tung")	Rental of warehouse charged to the Group and cargo management service fee charged to the Group	(ix)	(2,448)
Yiu Lian Dockyards Limited ("Yiu Lian")	Rental of properties at Tsing Yi Terminal charged to the Group	(x)	(466)
	Ship berthing service fee charged to the Group	(xi)	(5,110)
CMHK	Rental of properties charged by the Group	(xii)	17,714
Hong Kong Ming Wah Shipping Company Limited ("Ming Wah")	Rental of properties charged by the Group	(xii)	8,061
Shenzhen Chiwan Logistics Limited ("SCL")	Port-zone container horizontal transportation and related services charged to the Group	(xiii)	(20,767)
SCT1	Lease of properties charged to the Group	(xiv)	(3,787)

Notes:

(i) Hempel A/S (also known as I.C.H. Industrial and Commercial Holdings ApS, which is registered as a secondary name) is a substantial shareholder of Hempel-Hai Hong (China) Limited ("Hempel-Hai Hong"), a non wholly-owned subsidiary of the Group, and hence Hempel A/S is a connected person of the Company.

(ii) Royalties were paid by Hempel-Hai Hong 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. Hai Hong Industry (Shenzhen) Co. Ltd. is a wholly-owned subsidiary of the Group and Hempel Hai-Hong 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 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 sold to Hempel A/S and its subsidiaries finished marine paint products. Sales of paints were determined by Hempel-Hai Hong 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 than the prices Hempel-Hai Hong would obtain from independent third parties on similar terms. The parties have further agreed to extend the transactions contemplated under the master purchase agreement for another 2 years (commencing from 1 January 2007) by entering into a supplemental agreement on 27 November 2006.

(iv) Hempel-Hai Hong 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 to source unfinished paint products from third party suppliers. Such sourcing services were charged at a rate of 4% of the purchase price payable by Hempel-Hai Hong for the unfinished paint products. The parties have further agreed to extend the transactions contemplated under the master purchase agreement for another 2 years (commencing from 1 January 2007) by entering into a supplemental agreement on 27 November 2006.

(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 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 ("SCMPS"), a wholly-owned subsidiary of the Group, entered into an agreement with CMPD on 8 December 2005 in relation to the lease by SCMPS from CMPD of certain properties and plants and equipment for the operation of the port of Shekou, Shenzhen. The agreement was 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 is a connected person of the Company. The rental paid by SCMPS was based on the market value of the properties and depreciation charges of the plants and equipment. The rental agreement was extended for a term of 1 year commencing from 1 January 2007 at annual rental of approximately RMB10,620,000 in accordance with a renewal agreement executed on 15 January 2007.

(vii) SCMPS entered into a lease agreement with CMSIZ on 14 December 2005 pursuant to which SCMPS agreed to lease from CMSIZ certain properties in Shekou for a term of 2 years commencing from 1 January 2006 at annual rental of RMB31,550,000.

(viii) 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. The rental agreement was extended for a term of 1 year commencing from 1 November 2006 and was further extended for a term of 1 year commencing on 1 November 2007 pursuant to a further supplemental agreement dated 9 November 2007.

(ix) Hempel-Hai Hong 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 service by Hoi Tung. The agreement was initially for a term of one year commencing on 1 November 2005 and was extended for a term of one year commencing on 1 November 2006 pursuant to a supplemental agreement. The agreement was further extended for a term of 14 months commencing on 1 November 2007 pursuant to a further supplemental agreement dated 9 November 2007. The rental and the cargo management 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.

(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 was extended for a term of two years commencing on 1 November 2004 at a rental charge of HK$5,589,000 per annum. The rental agreement was further extended for a period for 6 months commencing from 1 November 2006 at a rental charge of HK$2,800,000 pursuant to a further supplemental agreement executed on 27 November 2006.

(xi) CMCS entered into a ship berthing services agreement with Yiu Lian on 1 November 2005 for a term of 1 year commencing from 1 November 2005 pursuant to which Yiu Lian provided barges to bring ships into a port. The arrangement was extended for a term of one year commencing from 1 November 2006 pursuant to a supplemental agreement executed on 27 November 2006. Pursuant to a further supplemental agreement dated 9 November 2007, the agreement was further extended for a period of 14 months commencing on 1 November 2007. The ship berthing services charged were by reference to market rates.

(xii) Universal Sheen Investment Limited ("Universal Sheen"), a wholly-owned subsidiary of the Group, entered into 3 tenancy agreements with CMHK, Ming Wah and Hoi Tung on 2 April 2004, respectively, for the rental of 3 properties for a term of 2 years (commencing on 1 February 2004 for the leases to CMHK and Ming Wah and on 1 March 2004 for the lease of Hoi Tung) at rentals of HK$1,338,168, HK$465,030 and HK$229,536 per month, respectively. The tenancy agreements were further extended for a term of 2 years (subject to early termination by mutual agreement) at rentals of HK$1,338,168, HK$671,710 and HK$331,552 per month, respectively. The lease to Hoi Tung was terminated by mutual agreement on 15 October 2006 and a new tenancy agreement for the rental of part of such property for a term of 1 year commencing from 1 February 2007 was entered into between Universal Sheen and CMHK on 14 February 2007 at a rental of HK$150,566 per month. Each of CMHK and Ming Wah is a wholly owned subsidiary of CMG and hence are connected persons of the Company.

(xiii) Shenzhen Mawan Port Services Co. Ltd. and Shenzen Mawan Terminals Co. Ltd. (together, the "Mawan Companies"), each of them is an indirect subsidiary of the Company, entered into a services agreement with SCL pursuant to which the Mawan Companies appointed SCL as a contractor in relation to the Mawan Companies' port-zone container horizontal transportation and other related services for a term commencing from 1 July 2006 to 31 December 2007 at RMB30,000,000 per annum. SCL is a subsidiary of Chiwan Container Terminal Co., Ltd., which is a substantial shareholder of a subsidiary of the Company and hence is a connected person of the Company.

(xiv) On 20 May 1989, SCT1 entered into an agreement ("SCT1 Lease Agreement") with China Merchants Shekou Industrial Zone Property Company Limited ("CMSIZ1") for a term of 30 years to lease a piece of land in Shekou. As at 20 April 2007, the annual rental payable was HK$3,787,570. Upon the Stage 1 Completion pursuant to the Rationalisation Agreement, SCT1 became a non wholly owned subsidiary of the Company. CMSIZ1 is an indirect wholly owned subsidiary of CMG and is therefore a connected person of the Company. Consequently, the SCT1 Lease Agreement constitutes a continuing connected transaction upon Stage 1 Completion on 22 February 2007.

(f) The Independent Non-executive Directors have reviewed the continuing connected transactions set out in paragraph (e) 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 Hai-Hong which is referred to in note (ii) to paragraph (e) of this section, the aggregate royalty fee charged to the Group has exceeded HK$83,000,000, the annual cap for the year ended 31 December 2007 by approximately HK$17,800,000 because Hempel Hai-Hong has taken up a substantial volume of consignment sales in December 2007;

(ii) in respect of the sale of paint products to Hempel A/S, which is referred to in note (iii) to paragraph (e) of this section, the aggregate amount of sales has not exceeded HK$230,000,000, the annual cap for the year ended 31 December 2007;

(iii) in respect of the sourcing services provided by Hempel A/S, which is referred to in note (iv) of paragraph (e) of this section, the aggregate amount of services fees has not exceeded HK$6,600,000, the annual cap for the year ended 31 December 2007;

(iv) in respect of the leasing of the nine vessels by CMGW to CMCS, which details are set out in note (v) to paragraph (e) of this section, the aggregate rental has not exceeded HK$3,024,000, the cap for the year ended 31 December 2007;

(v) in respect of the lease by SCMPS from CMPD of certain properties and plant and equipment for the operation of the port of Shekou, Shenzhen, which details are set out in note (vi) to paragraph (e) of this section, the aggregate rental has not exceeded HK$12,000,000, the annual cap for the year ended 31 December 2007;

(vi) in respect of the lease by SCMPS from CMSIZ of certain properties in Shekou, which details of which are set out in note (vii) to paragraph (e) of this section, the aggregate rental has not exceeded RMB31,550,000, the annual cap for the year ended 31 December 2007;

(vii) 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 (e) of this section, the aggregate rental has not exceeded HK$20,285,000, the annual cap for the year ended 31 December 2007;

(viii) in respect of the rentals of warehouse and the cargo management services provided by Hoi Tung, which details are set out in note (ix) to paragraph (e) of this section, the aggregate amount of rentals and services fees has not exceeded HK$2,901,000, the annual cap for the year ended 31 December 2007;

(ix) 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 (e) of this section, the aggregate rental has not exceeded HK$1,867,000, the cap for the 4 months ended 30 April 2007;

(x) in respect of the ship berthing services provided by Yiu Lian, which details are set out in note (xi) to paragraph (e) of this section, the aggregate amount of service fees has not exceeded HK$6,069,000, the annual cap for the year ended 31 December 2007;

(xi) in respect of the leases provided by Universal Sheen, which details are set out in note (xii) to paragraph (e) of this section, the aggregate rentals paid under the tenancy renewal agreements and the new tenancy agreement has not exceeded HK$25,775,000, the relevant cap for the year ended 31 December 2007;

(xii) in respect of the use of port-zone container horizontal transport and other related services, which details are set out in note (xiii) to paragraph (e) of this section, the aggregate amount of service fees has not exceeded RMB30,000,000, the annual cap for the year ended 31 December 2007; and

(xiii) in respect of the lease provided by SCT1 to the Group, which details are set out in note (xiv) to paragraph (e) of this section, the aggregate rental has not exceeded HK$3,787,570, the annual cap for the year ended 31 December 2007.

The Board of Directors has received a letter from the auditor of the Company stating that the continuing connected transactions set out in paragraph (e) 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, and except for the aggregate royalty fee charged to the Group by Hempel A/S, 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 2007, respectively.

At no time during the year had the Directors, their associates or any shareholder (whom 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.

Subsequent event

Details of subsequent event of the Company are set out in note 41 to the financial statements.

Auditor

The financial statements have been audited by PricewaterhouseCoopers who would retire 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, 15 April 2008

Independent Auditor's Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
CHINA MERCHANTS HOLDINGS (INTERNATIONAL) COMPANY LIMITED
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of China Merchants Holdings (International) Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 56 to 145, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of recognised income and expense and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 15 April 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Note	2007 HK$'million	2006 HK$'million
Continuing operations			
Revenue	5	**6,258**	3,961
Cost of sales	8	**(3,867)**	(2,698)
Gross profit		**2,391**	1,263
Other gains, net	7	**188**	175
Other income	7	**27**	18
Loss on deemed disposal of partial interest in an associate	22(d)	**—**	(152)
Distribution costs	8	**(325)**	(248)
Administrative expenses	8	**(555)**	(385)
Operating profit		**1,726**	671
Finance income	11	**32**	21
Finance costs	11	**(577)**	(382)
Finance costs - net	11	**(545)**	(361)
Share of profits less losses of			
Associates	22	**2,645**	2,184
Jointly controlled entities		**60**	249
Profit before taxation		**3,886**	2,743
Taxation	12	**(210)**	(79)
Profit for the year from continuing operations		**3,676**	2,664
Discontinued operations			
Profit for the year from discontinued operations	13	**219**	229
Profit for the year		**3,895**	2,893
Attributable to:			
Shareholders of the Company			
- continuing operations		**3,366**	2,371
- discontinued operations		**179**	169
		3,545	2,540

	Note	2007 HK$'million	2006 HK$'million
Minority interest			
- continuing operations		310	293
- discontinued operations		40	60
		350	353
Profit for the year		3,895	2,893
Dividends	15	1,563	1,235
Earnings per share for profit attributable to the shareholders of the Company	16		
From continuing operations			
- basic (HK cents)		141.98	102.15
- diluted (HK cents)		141.12	101.81
From discontinued operations			
- basic (HK cents)		7.55	7.28
- diluted (HK cents)		7.50	7.26

Consolidated Balance Sheet

As at 31 December 2007

	Note	2007 HK$'million	2006 HK$'million
ASSETS			
Non-current assets			
Goodwill	17	**3,750**	281
Property, plant and equipment	18	**11,201**	7,999
Investment properties	19	**692**	603
Leasehold land and land use rights	20	**6,605**	3,104
Interests in associates	22	**16,204**	12,645
Interests in jointly controlled entities	23	**2,368**	4,421
Other financial assets	24	**500**	917
Prepayment	25	**434**	2,066
Deferred tax assets	34	**36**	22
		41,790	32,058
Current assets			
Inventories	26	**324**	239
Development properties for sale	27	**—**	387
Debtors, deposits and prepayments	28	**1,895**	1,523
Tax recoverable		**1**	4
Cash and cash equivalents	29	**1,230**	781
		3,450	2,934
Non-current assets held for sale	30	**446**	94
		3,896	3,028
Total assets		**45,686**	35,086

	Note	2007 HK$'million	2006 HK$'million
EQUITY			
Capital and reserves attributable to the shareholders of the Company			
Share capital	31	**241**	233
Reserves	32	**26,601**	20,688
		26,842	20,921
Minority interest		**1,633**	2,522
Total equity		**28,475**	23,443
LIABILITIES			
Non-current liabilities			
Other financial liabilities	33	**7,091**	6,082
Non-current payable	35	**—**	320
Deferred tax liabilities	34	**468**	243
		7,559	6,645
Current liabilities			
Creditors and accruals	35	**3,409**	2,272
Taxation payable		**37**	21
Other financial liabilities	33	**6,206**	2,705
		9,652	4,998
Total liabilities		**17,211**	11,643
Total equity and liabilities		**45,686**	35,086
Net current liabilities		**(5,756)**	(1,970)
Total assets less current liabilities		**36,034**	30,088

Dr. Fu Yuning
Director

Mr. Hu Jianhua
Director

Balance Sheet

As at 31 December 2007

	Note	2007 HK$'million	2006 HK$'million
ASSETS			
Non-current assets			
Property, plant and equipment	18	1	1
Interests in subsidiaries	21	29,960	23,989
Interest in an associate	22	325	227
Interest in a jointly controlled entity	23	3	3
		30,289	24,220
Current assets			
Debtors, deposits and prepayments	28	53	16
Advances to subsidiaries	21	2,461	44
Cash and cash equivalents	29	143	51
		2,657	111
Non-current assets held for sale	30	199	—
		2,856	111
Total assets		33,145	24,331
EQUITY			
Capital and reserves attributable to the shareholders of the Company			
Share capital	31	241	233
Reserves	32(c)	19,488	15,536
Total equity		19,729	15,769
LIABILITIES			
Non-current liabilities			
Advances from subsidiaries	21	5,041	7,426
Non-current payable	35	—	320
		5,041	7,746
Current liabilities			
Creditors and accruals	35	346	337
Advances from subsidiaries	21	3,169	—
Other financial liabilities	33	4,860	479
		8,375	816
Total liabilities		13,416	8,562
Total equity and liabilities		33,145	24,331
Net current liabilities		(5,519)	(705)
Total assets less current liabilities		24,770	23,515

Dr. Fu Yuning
Director

Mr. Hu Jianhua
Director

Consolidated Statement of Recognised Income and Expense

For the year ended 31 December 2007

	Note	2007 HK$'million	2006 HK$'million
Share of investment revaluation reserves of associates	22(a)	**1,137**	243
Realisation of reserves upon disposal of a subsidiary	36(d)	**(9)**	—
Realisation of reserves upon deemed disposal of partial interest of an associate		**—**	(2)
Realisation of reserves upon disposal of an available-for-sale financial asset		**—**	(56)
Share of net actuarial gains on defined benefit plan of associates	22(a)	**16**	65
Exchange differences from translation of financial statements of subsidiaries, associates and jointly controlled entities		**1,418**	536
Increase in fair value of available-for-sale financial assets	24(b)	**273**	180
Effect of change in tax rate on assets revaluation reserve		**(17)**	—
Assets revaluation arising from existing equity interests in jointly controlled entities before the business combination	38(a)	**83**	—
Net income recognised directly in equity		**2,901**	966
Profit for the year		**3,895**	2,893
Total recognised income for the year		**6,796**	3,859
Attributable to:			
– Shareholders of the Company		**6,276**	3,415
– Minority interest		**520**	444
		6,796	3,859

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Note	2007 HK$'million	2006 HK$'million
Operating activities			
Net cash inflow from operations	36(a)	1,946	840
Hong Kong profits tax paid		(4)	(4)
PRC enterprise income tax paid		(104)	(85)
Overseas income tax paid		(8)	(17)
Dividends received from associates and jointly controlled entities		1,226	1,260
Net cash inflow from operating activities		3,056	1,994
Investing activities			
Interest income received		37	30
Proceeds from disposal of property, plant and equipment and land use rights		57	2
Proceeds from disposal of other financial assets		—	130
Proceeds from disposal of an associate		3	—
Proceeds from disposal of jointly controlled entities		101	167
Proceeds from disposal of a subsidiary, net of cash disposed	36(d)	2,414	—
Loans repaid by an associate, jointly controlled entities and an investee		276	303
Income received from held-to-maturity investments		10	18
Purchase of property, plant and equipment and land use rights		(2,137)	(2,180)
Purchase of subsidiaries, net of cash acquired	36(b)	616	64
Purchase of additional interest in subsidiaries and land use rights, net of cash acquired	36(c)	(510)	—
Acquisitions of interests in associates, jointly controlled entities and investments in other financial assets		(2,028)	(173)
Net cash outflow from investing activities		(1,161)	(1,639)
Net cash inflow before financing activities		1,895	355
Financing activities			
Net proceeds from exercise of share options		318	175
Proceeds from new financial liabilities		137	145
Capital contributions from minority shareholders of subsidiaries		43	175
Dividends paid		(1,154)	(365)
Dividends paid to minority shareholders of subsidiaries		(151)	(210)
Interest paid		(411)	(409)
Repayment of other financial liabilities		(263)	—
Net cash outflow from financing activities		(1,481)	(489)
Increase/(decrease) in cash and cash equivalents		414	(134)
Cash and cash equivalents at 1 January		781	940
Effect of foreign exchange rate changes		35	(25)
Cash and cash equivalents at 31 December		1,230	781

Notes to the Financial Statements

1 General information

China Merchants Holdings (International) Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred as to the "Group") are principally engaged in ports and ports-related operations.

The Company is a limited liability company incorporated in Hong Kong and has its listing on The Stock Exchange of Hong Kong Limited. As at 31 December 2007, China Merchants Group Limited ("CMG"), directly or indirectly, held 55.77% issued share capital of the Company. The Directors regard CMG, a company registered in the People's Republic of China ("PRC"), as being the ultimate holding company. The address of its registered office is 38/F East, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

These consolidated financial statements are presented in millions of Hong Kong dollars, unless otherwise stated. These consolidated financial statements have been approved for issue by the Directors on 15 April 2008.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4 to the financial statements.

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

(i) Standards, amendments to Standards and interpretations effective in 2007

In 2007, the Group adopted the following Standards, amendments to Standards and interpretations of HKFRS issued by the Hong Kong Institute of Certified Public Accountants, which became effective for accounting periods beginning on or after 1 January 2007.

- HKFRS 7 'Financial instruments: Disclosures', and the complementary amendment to HKAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and capital management. The adoptions of the new Standard and amendment to Standard do not have any significant impact on the classification and valuation of the Group's financial instruments.

- HK(IFRIC)-Int 8 'Scope of HKFRS 2', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of HKFRS 2. The adoption of this interpretation does not have any significant impact on the Group's financial statements.

- HK(IFRIC)-Int 10 'Interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. The adoption of this interpretation does not have any significant impact on the Group's financial statements.

(ii) Standards, amendments to Standards and interpretations effective in 2007 but not relevant to the Group's operations

The following interpretations to published Standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations.

- HK(IFRIC)-Int 7 'Applying the restatement approach under HKAS 29, Financial reporting in hyper-inflationary economies'; and

- HK(IFRIC)-Int 9 'Re-assessment of embedded derivatives'.

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

(iii) Standards, amendments to Standards and interpretations to existing Standards that have been issued but are not yet effective in 2007 and have not been early adopted by the Group

The following Standards, amendments to Standards and interpretations to existing Standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods, but the Group has not early adopted them.

- HKAS 1 (Revised) 'Presentation of Financial Statements' requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs. The Group will apply HKAS 1 (Revised) from 1 January 2009.

- HKAS 23 (Revised) 'Borrowing Costs' requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Revised) from 1 January 2009. Management believes that the Standard should not have a significant impact to the Group as the Group has already capitalised the borrowing costs consistent with HKAS 23 (Revised).

- HKAS 27 (Revised) 'Consolidated and Separate Financial Statements' requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Group will apply HKAS 27 (Revised) from 1 January 2010 and is in the process of assessment of the impact of the Standard to the Group.

- HKFRS 2 Amendment 'Share-based Payment Vesting Conditions and Cancellations' clarifies the definition of "vesting conditions" and specifies the accounting treatment of "cancellations" by the counterparty to a share-based payment arrangement. Vesting conditions are service conditions (which require a counterparty to complete a specified period of service) and performance conditions (which require a specified period of service and specified performance targets to be met) only. All "non-vesting conditions" and vesting conditions that are market conditions shall be taken into account when estimating the fair value of the equity instruments granted. All cancellations are accounted for as an acceleration of vesting and the amount that would otherwise have been recognised over the remainder of the vesting period is recognised immediately. The Group will apply HKFRS 2 Amendment from 1 January 2009, but it is not expected to have any impact on the Group's financial statements.

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

(iii) Standards, amendments to Standards and interpretations to existing Standards that have been issued but are not yet effective in 2007 and have not been early adopted by the Group (Continued)

- HKFRS 3 (Revised) 'Business Combination' may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the Standard and the definition of a business has been amended slightly. It now states that the elements are 'capable of being conducted' rather than 'are conducted and managed'. It requires considerations (including contingent consideration), each identifiable asset and liability to be measured at its acquisition-date fair value, except leases and insurance contracts, reacquired right, indemnification assets as well as some assets and liabilities required to be measured in accordance with other HKFRSs. They are income taxes, employee benefits, share-based payment and non current assets held for sale and discontinued operations. Any non-controlling interest in an acquiree is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. The Group will apply HKFRS 3 (Revised) from 1 January 2010 and is in the process of assessment of the impact of the Standard to the Group.

- HKFRS 8 'Operating Segments' replaces HKAS 14 and aligns segment reporting with the requirements of the US Standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new Standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by management but it anticipates that the number of reporting segments, as well as the manner in which the segments are reported, will change to bring in line with the internal reporting provided to the chief operating decision-maker.

- HK(IFRIC)-Int 11 'HKFRS 2 – Group and treasury share transaction' provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share based payment transactions in the stand-alone accounts of the parent and group companies. The Group will apply HK(IFRIC)-Int 11 from 1 January 2008 and is in the process of assessment of the impact of the interpretation to the Group.

- HK(IFRIC)-Int 12 'Service concession arrangements' applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. The Group will apply HK(IFRIC)-Int 12 from 1 January 2008 but it is not expected to have any significant impact on the Group's financial statements.

- HK(IFRIC)-Int 13 'Customer loyalty programmes' clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. HK(IFRIC) - Int 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

(iii) Standards, amendments to Standards and interpretations to existing Standards that have been issued but are not yet effective in 2007 and have not been early adopted by the Group (Continued)

- HK(IFRIC) - Int 14 'HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group will apply HK(IFRIC) - Int 14 from 1 January 2008, but it is not expected to have any significant impact on the Group's financial statements.

(b) Consolidation

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

(i) Subsidiaries

Subsidiaries are those entities over which the Group has power to govern the financial and operating policies generally accompanying a shareholder of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (Note 2(g)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between the group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2(h)). The results of subsidiaries are accounted by the Company on the basis of dividend received or receivable.

2 Summary of significant accounting policies (Continued)

(b) Consolidation (Continued)

(ii) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interest, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on disposals to minority interests are also recorded in equity. For disposals to minority interests, differences between any proceeds received and the relevant share of minority interests are also recorded in equity.

(iii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. The Group's interests in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's interests in associates include goodwill (net of any accumulated impairment loss) identified on acquisition (note 2(g)).

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in associates are recognised in the consolidated income statement.

In the Company's balance sheet the interest in an associate is stated at cost less provision for impairment losses (Note 2(h)). The results of the associate are accounted for by the Company on the basis of dividend received or receivable.

(iv) Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Joint venture arrangements which involve the establishment of a separate entity in which each venture partner has an interest and joint control with the venturers over the economic activities of the entities are referred to as jointly controlled entities.

Interests in jointly controlled entities are accounted for by the equity method of accounting and are initially recognised at cost. The Group's interests in jointly controlled entities include goodwill (net of any accumulated impairment loss) identified on acquisition (note 2(g)).

2 Summary of significant accounting policies (Continued)

(b) Consolidation (Continued)

(iv) Joint ventures (Continued)

The Group's share of its jointly controlled entities post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

Unrealised gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interests in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the interest in a jointly controlled entity is stated at cost less provision for impairment losses (Note 2(h)). The results of the jointly controlled entity are accounted for by the Company on the basis of dividend received or receivable.

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the entities of the Group are measured using the currency of the primary economic environment in which the entity operates ('the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the functional and presentation currency of the Company.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in income statement, and other changes in carrying amount are recognised in translation reserve.

2 Summary of significant accounting policies (Continued)

(d) Foreign currency translation (Continued)

(ii) Transactions and balances (Continued)

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the investment revaluation reserve in equity.

(iii) Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to translation reserve. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in translation reserve are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2 Summary of significant accounting policies (Continued)

(e) Property, plant and equipment

Property, plant and equipment comprise mainly freehold land and buildings, harbour works, buildings and dockyard, plant, machinery, furniture and equipment, vessels and ship, motor vehicles and leasehold improvements. Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Buildings	Over the shorter of the lease term or 50 years
Harbour works, buildings and dockyard	8 to 50 years
Plant and machinery	3 to 20 years
Furniture and equipment	3 to 20 years
Vessels and ships	15 to 25 years
Motor vehicles	2.5 to 20 years
Leasehold improvements	5 to 20 years

No depreciation is provided on freehold land and assets under construction. All direct costs relating to the construction of property, plant and equipment including interest and financial costs and foreign exchange differences on interest of the related borrowed funds during the construction period are capitalised as the cost of the property, plant and equipment.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2(h)).

Gains and losses on disposed assets are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

(f) Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met.

Investment property is measured initially at its cost, including related transaction costs.

2 Summary of significant accounting policies (Continued)

(f) Investment properties (Continued)

After initial recognition, investment property is carried at fair value, representing open market value determined by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices in less active markets or discounted cash flow projections. These valuations are reviewed annually by valuers.

Changes in fair values are recognised in the income statement as part of other gains, net.

(g) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate/jointly controlled entity at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates and jointly controlled entities is included in interests in associates and jointly controlled entities and is tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Group allocates goodwill to each business segment in each country in which it operates.

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

Assets that have an indefinite useful life or have not yet been available for use are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2 Summary of significant accounting policies (Continued)

(i) Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its investments at initial recognition.

(i) Financial assets at fair value through profit and loss

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

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as debtors, deposits and prepayments and advances to associates in the balance sheet.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date; these are classified as current assets.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'other (losses)/gains, net', in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

2 Summary of significant accounting policies (Continued)

(i) Financial assets (Continued)

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in translation reserve. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in investment revaluation reserve.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in investment revaluation reserve are included in the income statement as gains and losses on disposal of available-for-sale financial assets. Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from investment revaluation reserve and recognised in the income statement.

Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of debtors, deposits and prepayments is described in note 2(k) to the financial statements.

(j) Inventories/development properties for sale

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) and it excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Properties under development are investments in freehold land and buildings on which construction work and development have not been completed. Properties under development comprise freehold land and a component in respect of building that is stated at cost less accumulated impairment losses. Cost comprises construction costs and amounts capitalised in respect of borrowing costs incurred in the acquisition of qualifying assets during the construction period and up to the date of completion of construction. On completion, the properties are reclassified to completed properties held for sale at the then carrying amount.

2 Summary of significant accounting policies (Continued)

(k) Debtors, deposits and prepayments

Debtors, deposits and prepayments are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of debtors, deposits and prepayments is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the income statement.

(l) Non-current asset (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

(m) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(n) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(o) Creditors

Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(p) Other financial liabilities

Other financial liabilities are recognised initially at fair value, net of transaction costs and are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the other financial liabilities using the effective interest method.

Other financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2 Summary of significant accounting policies (Continued)

(q) Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company and its subsidiaries, associates and jointly controlled entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(r) Employee benefits

(i) Entities of the Group operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has defined contribution plans. A defined contribution plan is a pension plan under which the Group pays contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Past-service costs are recognised immediately as expense, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

The Group contributes to defined contribution provident funds, including the scheme set up under the Hong Kong Mandatory Provident Fund Ordinance ("MPF Scheme"), which are available to all employees. In accordance with the terms of the provident funds, contributions to the schemes by the Group and the employees are calculated as a percentage of the employees' basic salaries. For the MPF Scheme, both the employees and the employer are required to contribute 5% of the employees' monthly salaries up to a maximum of HK$1,000 ("mandatory contribution") and employees can choose to make additional contributions. The employees are entitled to 100% of the employer's mandatory contributions upon their retirement age of 65 years old, death or total incapacity. For the schemes other than the MPF Scheme, the unvested benefits of employees forfeited upon termination of employment can be utilised by the Group to reduce future levels of contributions.

2 Summary of significant accounting policies (Continued)

(r) Employee benefits (Continued)

(i) (Continued)

The Group also participates in the employee retirement benefits plan of the respective municipal government in various places in the Mainland China where the Group operates. The Group is required to make monthly contributions calculated as a percentage of the monthly payroll costs and the respective municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group.

The Group's contributions to the schemes are expensed as incurred.

(ii) The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(iii) Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(s) Provision

Provision is recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provision is measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2 Summary of significant accounting policies (Continued)

(t) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Sales of services

Revenue from ports service and transportation income, container service and container yard management income are recognised when the relevant services are rendered.

(ii) Sales of goods

Revenue from sale of paints and related goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title is passed.

(iii) Sales of development properties

Profit from sale of development properties is only brought into account when the construction of the properties are completed and when the properties are sold.

(iv) Rental income

Operating lease rental income is recognised on a straight-line basis.

(v) Dividend income

Dividend income is recognised when the right to receive payment is established.

(vi) Interest income

Interest income is recognised on a time-proportion basis using effective interest method.

(u) Borrowing costs

Borrowing costs incurred for the construction of any qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for intended use. Other borrowing costs are expensed.

2 Summary of significant accounting policies (Continued)

(v) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (including up-front payment of the leasehold land and land use rights) net of any incentives received from the lessor are expensed in the income statement on a straight-line basis over the period of the lease.

(w) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3 Financial risk management

(a) Financial risk factors

The Group's principal activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise any potential adverse effects on the Group's financial performance. Risk management is carried out by senior management of the Group under policies approved by the Directors of the Company.

(i) Market risk

Foreign exchange risk

Majority of the subsidiaries of the Company operates in the Mainland China with most of the transactions denominated in either Renminbi, Hong Kong dollar or United States dollar. The Group is exposed to foreign exchange risk primarily through sales and purchases transactions that are denominated in a currency other than the functional currency of the subsidiaries. The Group considers its foreign currency exposure is mainly arising from the exposure of Renminbi against Hong Kong dollar and/or United States dollar. As Hong Kong dollar is pegged to United States dollar, the Group believes the exposure of transactions denominated in United States dollar which are entered by group companies with a functional currency of Hong Kong dollar to be insignificant.

The Group manages its exposures to foreign currency transactions by monitoring the level of foreign currency receipts and payments. The Group ensures that the net exposure to foreign exchange risk is kept to an acceptable level from time to time. The Group is presently not using forward exchange contracts to hedge foreign exchange risk arising from sales and purchase transactions as the management considers that the present exposure to foreign exchange risk is insignificant. The Group also regularly reviews the portfolio of local and international customers and the currencies in which the transactions are denominated so as to minimise the Group's exposure to foreign exchange risk.

3 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(i) Market risk (Continued)

Foreign exchange risk (Continued)

Majority of the Group's borrowings (approximately 82% as at 31 December 2007 (2006: 81%) are denominated in Hong Kong dollars and United States dollars while the remaining are denominated in Renminbi. The Group presently draw borrowings in Hong Kong dollars, Unitied States dollars or Renminbi to finance investments in China after considering, inter alia, future fluctuation in United States dollars and Renminbi against Hong Kong dollars and currency mix of income sources and costs/expenses of the Group. At present, the management does not expect that there will be any significant foreign exchange risk associated with the Group's borrowings and the Group did not use any financial instruments to hedge its foreign exchange risk arising from the Group's borrowings during the year.

The Company's financial liability of HK$3,850 million arising from the put option on the shares of a subsidiary (note 33(d)) is denominated in Hong Kong dollars which is the same as the Company's functional currency. Management does not expect there is any currency risk exposure to the Company and to the Group.

At 31 December 2007, if Renminbi had strengthened/weakened by 10% (2006: 10%) against Hong Kong Dollars or United States dollars with all other variables held constant, profit for the year would have been approximately HK$30 million lower/higher (2006: HK$7 million) mainly as a result of foreign exchange gains/losses on translation of cash and cash equivalents, debtors, deposits and prepayments, creditors and accruals and other financial liabilities denominated in non-functional currency of the relevant group companies.

Fair value interest rate risk and cash flow interest rate risk

The Group's interest rate risk mainly arises from interest-bearing borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk whilst borrowings issued at fixed rates expose the Group to fair value interest rate risk. Other than the 10-year listed notes payable of US$500 million (approximately HK$3,880 million) issued by the Group in March 2005 which bears an effective interest rate of 5.47%, all other borrowings were at floating interest rates.

The Group adopts a policy of maintaining an appropriate mix of fixed and floating rate borrowings which is achieved primarily through the contractual terms of borrowings. The position is regularly monitored and evaluated by reference of anticipated changes in market interest rate. The Group did not use any interest rate swap to hedge its interest rate risk during the year.

The bank deposits as at 31 December 2007 were approximately HK$1,230 million (2006: HK$781 million), of which HK$302 million (2006: HK$334 million) were short term time deposits and were interest bearing at an weighted average rate of approximately 3.50%. Held-to-maturity investments as at 31 December 2007 of approximately HK$7 million (2006: HK$50 million) were interest bearing at weighted average rates of approximately 10%. Other than the bank deposits and held-to-maturity investments, the Group has no significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate significant impact resulted from the changes in interest rates on interest-bearing assets.

3 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(i) Market risk (Continued)

Fair value interest rate risk and cash flow interest rate risk (Continued)

At 31 December 2007, if interest rates on borrowings had been 10 basis points (2006:10 basis points) higher/lower with all other variables held constant, post-tax profit for the year would have been HK$5 million (2006: HK$5 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(ii) Credit risk

The credit risk of the Group mainly arises from debtors, deposits and prepayments and deposits with banks and financial institutions.

Credit risk on trade debtors is managed by the management of the individual business units and monitored by the Group's management on a Group basis. The Group's trade debtors are mainly contributed by port operations and port related operations where their customers are mainly sizable and renowned international liners or market leaders in their industries with low credit risk. For other smaller customers, management assesses their credit quality by considering its financial position, past experience and other relevant factors. The utilisation of credit limits is regularly monitored. Debtors with overdue balances will be requested to settle its outstanding balance.

As at 31 December 2007, 31% (2006: 28%) of the Group's total trade debtors comprises an amount due from an associate, China International Marine Containers (Group) Company Limited ("CIMC"). Given the close relationship of CIMC and the Group and the financial position of CIMC, management considers that the credit risk associated with the balances due by CIMC is low. Other than the amounts due from CIMC, the Group does not have any concentration of credit risk as no single customer accounted for more than 5% of the Group's trade debtors as at year end.

The Group has policies that limit the amount of credit exposure to any financial institutions. The Group's bank deposits are all deposited in renowned and established banks or financial institutions in Hong Kong and PRC. Management considers that the credit risk associated with deposits with banks and financial institutes is low.

(iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of credit facilities and the ability to close out market positions. The Group finances its working capital requirements through a combination of funds generated from operations and bank borrowings.

Management monitors rolling forecasts of the Group's liquidity reserve which comprise undrawn borrowing facilities (note 29) and cash and cash equivalents (note 33(e)) on the basis of expected cash flow. The Group aims to maintain flexibility in funding while minimising its overall costs by keeping a mix of committed and uncommitted credit lines available.

3 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(iii) Liquidity risk (Continued)

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group	Within 1 year		Between 1 and 2 years		Between 2 and 5 years		Over 5 years		Total	
	2007 HK$'million	2006 HK$'million	2007 HK$'million	2006 HK$'million	2007 HK$'million	2006 HK$'million	2007 HK$'million	2006 HK$'million	2007 HK$'million	2006 HK$'million
Borrowings	2,582	2,806	1,313	670	2,559	2,631	5,085	4,886	11,539	10,993
Trade payables	615	510	—	—	—	—	—	—	615	510
Amount due to the ultimate holding company	939	—	—	—	—	—	—	—	939	—
Amount due to an intermediate holding company	3	3	—	—	—	—	—	—	3	3
Amounts due to fellow subsidiaries	380	338	—	320	—	—	—	—	380	658
Amounts due to associates	2	7	—	—	—	—	—	—	2	7
Other payables and accruals	1,470	1,414	—	—	—	—	—	—	1,470	1,414
	5,991	5,078	1,313	990	2,559	2,631	5,085	4,886	14,948	13,585

Company	Within 1 year		Between 1 and 2 years		Between 2 and 5 years		Over 5 yeras		Total	
	2007 HK$'million	2006 HK$'million	2007 HK$'million	2006 HK$'million	2007 HK$'million	2006 HK$'million	2007 HK$'million	2006 HK$'million	2007 HK$'million	2006 HK$'million
Borrowings	1,016	481	—	—	—	—	—	—	1,016	481
Amounts due to fellow subsidiaries	320	319	—	320	—	—	—	—	320	639
Other payables and accruals	26	18	—	—	—	—	—	—	26	18
	1,362	818	—	320	—	—	—	—	1,362	1,138

3 Financial risk management (Continued)

(b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors a five-year rolling forecast of its capital requirement in anticipation of funding requirement of new capital investments, capital expenditures of existing projects and repayment of borrowings. In order to maintain or adjust the capital structure, the Group may raise additional short-term or long-term borrowings, issue new shares or sell assets of non-core operations to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as interest bearing debts divided by net assets.

During the year, the Group's strategy, which was unchanged from 2006, was to maintain a desired level of gearing ratio due to which the Group's credit ratings had, inter alia, been reaffirmed at Baa2 by Moody's Asia Pacific Limited and BBB by Standard and Poor's. The gearing ratios at 31 December 2007 and 2006 were as follows:

	2007 **HK$'million**	2006 HK$'million
Total interest bearing debts (note 33)	**9,385**	8,725
Net assets	**26,842**	20,921
Gearing ratio	**35.0%**	41.7%

(c) Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, investments in financial instruments, debtors, deposits and prepayments and financial liabilities including creditors and accruals, short-term bank loans, approximate their fair values due to their short maturities. The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of their fair values. The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments. The fair values of non-current financial liabilities are disclosed in note 33 to the financial statements.

In assessing the fair value of non-traded financial instruments, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at the balance sheet date. Quoted market prices or dealer quotes for the specific or similar instruments are used for non-current financial liabilities. Other techniques, such as estimated discounted value of future cash flows, are used to determine fair value for the remaining financial instruments.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(g). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. Goodwill is not impaired where the discount rate and growth rate used differ by 10% from management estimates.

5 Revenue

The principal activities of the Group comprise ports operations and ports-related operations. Revenue recognised during the year is as follows:

	2007 HK$'million	2006 HK$'million
Continuing operations		
Ports service and transportation income, container service and container yard management income	**3,318**	1,919
Sale of paints and related goods	**2,913**	2,013
Gross rental income from investment properties	**27**	29
	6,258	3,961
Discontinued operations		
Sale of development properties	**171**	404
Total	**6,429**	4,365

6 Segment information

Primary reporting format – business segments:

The Group is organised into the following main business segments:

(1) Ports operations include container terminal operation, bulk and general cargo terminal operation, ports transportation and airport cargo handling operation by the Group and the Group's associates and jointly controlled entities.

(2) Ports-related operations includes paint manufacturing by the Group and container manufacturing by the Group's associate.

(3) Other operations include:

(a) toll road operation by the Group's jointly controlled entities, and

(b) property development and investment by the Group.

There are no material sales or other transactions between business segments.

Secondary reporting format – geographical segments:

The Group's three business operations are managed in its headquarters in Hong Kong and other offices in Mainland China and New Zealand. Details of the Group's businesses operated in Hong Kong, Mainland China and New Zealand are as follows:

Hong Kong	ports operations, ports-related operations and property investment
Mainland China	ports operations, ports-related operations and toll road operation
New Zealand	property development

There are no material sales between the geographical segments.

During the year, the Group disposed of its interests in toll road operation in Mainland China and property development operation in New Zealand which have been classified as discontinued operations (note 13).

6 Segment information (Continued)

(a) Primary reporting format – business segments

The amounts labelled as "Company and subsidiaries" below represent the Group's revenue. The amounts labelled as "Share of associates" and "Share of jointly controlled entities" below represent the Group's share of revenue of associates and jointly controlled entities respectively. An analysis of the Group's revenue by business segments is as follows:

	Company and subsidiaries		Share of associates		Share of jointly controlled entities		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'million	HK$'million	**HK$'million**	HK$'million	**HK$'million**	HK$'million	**HK$'million**	HK$'million
Continuing operations								
Ports operations	**3,318**	1,919	**6,354**	5,435	**249**	499	**9,921**	7,853
Ports-related operations	**2,913**	2,013	**11,182**	7,388	**—**	—	**14,095**	9,401
Other operations								
Property investment	**27**	29	**—**	—	**—**	—	**27**	29
	6,258	3,961	**17,536**	12,823	**249**	499	**24,043**	17,283
Discontinued operations								
Toll road	**—**	—	**—**	—	**210**	350	**210**	350
Property development	**171**	404	**—**	—	**—**	—	**171**	404
	171	404	**—**	—	**210**	350	**381**	754
Total	**6,429**	4,365	**17,536**	12,823	**459**	849	**24,424**	18,037

6 Segment information (Continued)

(a) Primary reporting format – business segments (Continued)

An analysis of the Group's results, share of profits of associates and jointly controlled entities by business segments is as follows:

	Company and subsidiaries		Share of profits associates		Share of profits of jointly controlled entities		Total	
	2007 HK$'million	2006 HK$'million	2007 HK$'million	2006 HK$'million	2007 HK$'million	2006 HK$'million	2007 HK$'million	2006 HK$'million
Continuing operations								
Ports operations	1,436	539	1,902	1,551	60	249	3,398	2,339
Ports-related operations	286	180	743	633	—	—	1,029	813
Other operations								
Property investment	149	62	—	—	—	—	149	62
Others	—	8	—	—	—	—	—	8
	149	70	—	—	—	—	149	70
	1,871	789	2,645	2,184	60	249	4,576	3,222
Unallocated income less expenses							(145)	(118)
Finance income							32	21
Finance costs							(577)	(382)
Taxation							(210)	(79)
Profit for the year from continuing operations							3,676	2,664
Discontinued operations								
Toll road	17	8	—	—	119	187	136	195
Property development	13	52	—	—	—	—	13	52
	30	60	—	—	119	187	149	247
	1,901	849	2,645	2,184	179	436		
Gain on disposal of discontinued operations							77	—
Finance income							7	12
Finance costs							(5)	(10)
Taxation							(9)	(20)
Profit for the year from discontinued operations							219	229
Profit for the year							3,895	2,893

6 Segment information (Continued)

(a) Primary reporting format – business segments (Continued)

An analysis of the Group's segment assets and liabilities by business segment is as follows:

	Segment assets		Interests in associates		Interests in jointly controlled entities		Segment liabilities		Total	
	2007 HK$'million	2006 HK$'million	2007 HK$'million	2006 HK$'million	2007 HK$'million	2006 HK$'million	2007 HK$'million	2006 HK$'million	2007 HK$'million	2006 HK$'million
Ports operations	23,561	14,424	12,174	9,804	2,368	1,919	(8,945)	(3,969)	29,158	22,178
Ports-related operations	1,742	1,220	4,030	2,841	—	—	(929)	(615)	4,843	3,446
Other operations										
Toll road (note 30)	446	992	—	—	—	2,502	—	—	446	3,494
Property development	—	718	—	—	—	—	—	(4)	—	714
Property investment	700	387	—	—	—	—	(5)	(130)	695	257
Others	19	16	—	—	—	—	—	—	19	16
	1,165	2,113	—	—	—	2,502	(5)	(134)	1,160	4,481
	26,468	17,757	16,204	12,645	2,368	4,421	(9,879)	(4,718)	35,161	30,105
Unallocated assets									609	237
Unallocated liabilities									(6,827)	(6,661)
Tax recoverable									1	4
Taxation payable									(37)	(21)
Deferred tax assets									36	22
Deferred tax liabilities									(468)	(243)
									28,475	23,443

6 Segment information (Continued)

(a) Primary reporting format – business segments (Continued)

An analysis of the Group's capital expenditure and depreciation and amortisation by business segment is as follows:

	Capital expenditure		Depreciation and amortisation	
	2007	2006	**2007**	2006
	HK$'million	HK$'million	**HK$'million**	HK$'million
Ports operations	**7,895**	2,319	**618**	358
Ports-related operations	**40**	18	**13**	12
Property investment	**7**	2	**7**	6
Others	**—**	—	**1**	1
Unallocated	**—**	—	**—**	1
	7,942	2,339	**639**	378

(b) Secondary reporting format – geographical segments

An analysis of the Group's revenue and contribution to operating profit by geographical segment is as follows:

	Revenue		Segment results	
	2007	2006	**2007**	2006
	HK$'million	HK$'million	**HK$'million**	HK$'million
Continuing operations				
Hong Kong	**407**	392	**188**	177
Mainland China	**5,531**	3,348	**1,652**	591
Others	**320**	221	**31**	21
	6,258	3,961	**1,871**	789
Unallocated income less expenses			**(145)**	(118)
Operating profit from continuing operations			**1,726**	671
Discontinued operations				
Mainland China	**—**	—	**17**	8
New Zealand	**171**	404	**13**	52
Revenue/operating profit from discontinued operations	**171**	404	**30**	60
Revenue/operating profit	**6,429**	4,365	**1,756**	731

6 Segment information (Continued)

(b) Secondary reporting format – geographical segments (Continued)

An analysis of the assets and capital expenditure by geographical segment is as follows:

	Segment assets		Capital expenditure	
	2007	2006	**2007**	2006
	HK$'million	HK$'million	**HK$'million**	HK$'million
Hong Kong	**1,013**	1,308	**14**	10
Mainland China	**25,455**	15,959	**7,928**	2,327
New Zealand	**—**	461	**—**	2
Others	**—**	29	**—**	—
	26,468	17,757	**7,942**	2,339

7 Other gains, net and other income

	Continuing operations		Discontinued operations		Total	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'million	HK$'million	**HK$'million**	HK$'million	**HK$'million**	HK$'million
Other gains, net						
Increase in fair value of investment properties (note 19)	**132**	55	**—**	—	**132**	55
Increase in fair value of other financial assets at fair value through profit or loss	**—**	7	**—**	—	**—**	7
Gain on disposal of property, plant and equipment and land use rights	**10**	—	**—**	—	**10**	—
Gain on disposal of an available-for-sale financial asset	**—**	61	**—**	—	**—**	61
Gains on disposal of jointly controlled entities	**—**	—	**13**	1	**13**	1
Net exchange gains	**46**	41	**7**	8	**53**	49
Others	**—**	11	**—**	—	**—**	11
	188	175	**20**	9	**208**	184
Other income						
Income from held-to-maturity investments	**1**	—	**4**	9	**5**	9
Dividend income	**13**	2	**—**	1	**13**	3
Others	**13**	16	**—**	—	**13**	16
	27	18	**4**	10	**31**	28

8 Expenses by nature

	Continuing operations		Discontinued operations		Total	
	2007	2006	2007	2006	2007	2006
	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
Changes in finished goods	—	(48)	—	—	—	(48)
Cost of raw materials and consumables used	2,223	1,569	—	—	2,223	1,569
Cost of development properties sold	—	—	140	320	140	320
Staff costs (including Directors' emoluments) (note 9)	623	488	18	26	641	514
Depreciation of property, plant and equipment	510	320	1	1	511	321
Amortisation of leasehold land and land use rights	128	57	—	—	128	57
Auditor's remuneration	14	14	1	—	15	14
Operating lease rentals in respect of						
– land and buildings	98	93	—	—	98	93
– plant and machinery	26	16	—	—	26	16
Other expenses	1,125	822	5	16	1,130	838
Total cost of sales, distribution costs and administrative expenses	4,747	3,331	165	363	4,912	3,694

9 Staff costs (including Directors' emoluments)

	Continuing operations		Discontinued operations		Total	
	2007	2006	2007	2006	2007	2006
	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
Wages and salaries	498	377	15	24	513	401
Retirement benefit scheme contributions (Note)	51	32	—	—	51	32
Share-based payments (note 32(b))	74	79	3	2	77	81
	623	488	18	26	641	514

Note:

The amount of forfeiture utilised during 2007 as at 31 December 2007 was HK$48,956 (2006: HK$117,000). There is no available balance as at 31 December 2007 (2006: HK$nil).

10 Directors' and senior management's emoluments

(a) Directors' emoluments comprise payments to Directors by the Group in connection with the management of the affairs of the Group. The amount paid to each Director was as follows:

Name of Director	Fees HK$'million	Salary HK$'million	Discretionary bonus HK$'million	Share based payments HK$'million	Employer's contribution to pension scheme HK$'million	2007 Total HK$'million	2006 Total HK$'million
Fu Yuning	—	—	—	1.47	—	1.47	1.66
Zhao Huxiang [a]	—	—	—	0.28	—	0.28	0.86
Li Yinquan	—	—	—	0.73	—	0.73	0.83
Hu Zheng	—	—	—	0.73	—	0.73	0.83
Meng Xi	—	—	—	0.73	—	0.73	0.83
Su Xingang [b]	—	—	—	0.64	—	0.64	—
Wang Hong	—	0.55	0.67	1.19	0.03	2.44	2.19
Yu Liming	—	—	—	0.92	—	0.92	1.02
To Wing Sing	—	1.39	0.60	0.92	0.15	3.06	2.75
Hu Jian Hua [b]	—	0.35	0.45	—	0.02	0.82	—
Tsang Kam Lam	0.12	—	—	—	—	0.12	0.12
Kut Ying Hay	0.12	—	—	—	—	0.12	0.12
Lee Yip Wah, Peter	0.12	—	—	—	—	0.12	0.12
Li Kwok Heem	0.12	—	—	—	—	0.12	0.12
Li Ka Fai, David [c]	0.12	—	—	—	—	0.12	—
Total for the year 2007	0.60	2.29	1.72	7.61	0.20	12.42	11.45
Total for the year 2006	0.48	1.76	0.72	8.33	0.16		

No Director waived emoluments in respect of the years ended 31 December 2007 and 2006.

Notes:

(a) Resigned on 25 May 2007

(b) Appointed on 25 May 2007

(c) Appointed on 1 June 2007

10 Directors' and senior management's emoluments (Continued)

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, two (2006: two) was Director of the Company whose emoluments are included in the disclosure in note 10(a) to the financial statements above. The emoluments of the remaining three (2006: three) individuals were as follows:

	2007 HK$'million	2006 HK$'million
Salaries, other allowances and benefit-in-kinds	4	5
Performance related incentive payments	2	1
Share-based payments	1	2
	7	8

The emoluments fell within the following bands:

	Number of individuals 2007	 2006
HK$1,500,001 - HK$2,000,000	1	1
HK$2,500,001 - HK$3,000,000	1	2
HK$3,000,001 - HK$3,500,000	1	—
	3	3

11 Finance income and costs

	Continuing operations		Discontinued operations		Total	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'million	HK$'million	**HK$'million**	HK$'million	**HK$'million**	HK$'million
Interest expense on:						
Bank borrowings, wholly repayable within five years	**(239)**	(204)	**(5)**	(10)	**(244)**	(214)
Bank borrowings, not wholly repayable within five years	**(17)**	(24)	**—**	—	**(17)**	(24)
Listed notes payable, not wholly repayable within five years	**(212)**	(211)	**—**	—	**(212)**	(211)
Amounts due to minority shareholders of subsidiaries	**(4)**	(3)	**—**	—	**(4)**	(3)
Other financial liabilities (Note 38)	**(152)**	—	**—**	—	**(152)**	—
Total borrowing costs incurred	**(624)**	(442)	**(5)**	(10)	**(629)**	(452)
Less: amount capitalised in assets under construction	**47**	60	**—**	—	**47**	60
Finance cost	**(577)**	(382)	**(5)**	(10)	**(582)**	(392)
Interest income from:						
Bank deposits	**30**	17	**7**	12	**37**	29
Available-for-sale financial assets	**2**	4	**—**	—	**2**	4
Finance income	**32**	21	**7**	12	**39**	33
Finance costs - net	**(545)**	(361)	**2**	2	**(543)**	(359)

Capitalisation rate of 5.678% (2006: 5.172%) per annum was used, representing the weighted average rate of the costs of borrowings used to finance the assets under construction.

12 Taxation

Hong Kong profits tax has been provided for at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the year.

The Group's operations in Mainland China are subject to Foreign Enterprise Income Tax of the People's Republic of China (the "PRC Foreign Enterprise Income Tax") at a tax rate of 10% to 15% on assessable profits. The Group's certain major operating subsidiaries of the Group are exempted from PRC Foreign Enterprise Income Tax in the first two to five profit making years and followed by a 50% reduction in the PRC Foreign Enterprise Income Tax for the next three to five years thereafter.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"). The corporate income tax rate for foreign invested enterprises established in PRC will be 18%, 20%, 22% and 24% in 2008, 2009, 2010 and 2011 respectively. 25% standard rate will apply from year 2012 onwards. The Group's subsidiaries will continue to enjoy the preferential tax rates during the exemption period. The tax rate increase impacts the carrying values of deferred tax asset and liabilities which are provided for at rates at which the assets and liabilities are expected to reverse. 10% withholding income tax will also be imposed on dividends relating to profits earned in year 2008 onwards to foreign investors starting from 1 January 2008. For investors incorporated in Hong Kong, preferential rate of 5% will be applied.

Taxation outside Hong Kong and Mainland China has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated income statement represents:

	Continuing operations		Discontinued operations		Total	
	2007 HK$'million	2006 HK$'million	**2007 HK$'million**	2006 HK$'million	**2007 HK$'million**	2006 HK$'million
Hong Kong profits tax						
Current year	**8**	7	**—**	—	**8**	7
Over provision in prior years	**(1)**	—	**—**	—	**(1)**	—
PRC Foreign Enterprise Income Tax						
Current year	**87**	62	**—**	—	**87**	62
Under provision in prior years	**35**	3	**—**	—	**35**	3
Overseas taxation						
Current year	**—**	—	**9**	18	**9**	18
Under provision in prior years	**—**	1	**—**	—	**—**	1
Deferred taxation (note 34)						
(Credited)/charged for the year	**(12)**	6	**—**	2	**(12)**	8
Effect of change in tax rate	**93**	—	**—**	—	**93**	—
	210	79	**9**	20	**219**	99

12 Taxation (Continued)

The tax on the Group's profit before taxation differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the group companies as follows:

	2007 HK$'million	2006 HK$'million
Profit before taxation (excluding share of profits of associates and jointly controlled entities)		
Continuing operations	1,181	310
Discontinued operations	32	62
	1,213	372
Expected tax calculated at the weighted average applicable tax rate	173	47
Income not subject to taxation	(223)	(102)
Expenses not deductible for taxation purposes	142	150
Under provision in prior years	34	4
Effect of change in tax rate	93	—
Taxation charge	219	99

The weighted average applicable tax rate was 14.3% (2006: 12.6%). The increase is caused by a change in the profitability of the Group's subsidiaries in the respective countries.

13 Discontinued operations

On 11 July 2007, the Company disposed of its entire equity interest and preference shareholding in China Merchants Holdings (Pacific) Limited ("CMHP"), a subsidiary of the Group to a fellow subsidiary. CMHP is mainly engaged in toll road operation and property development. Details of the disposal are disclosed in note 36(d).

The results and cash flows of the discontinued operations included in the consolidated income statement and the consolidated cash flow statement are set out below.

	2007 HK$'million	2006 HK$'million
Revenue	**171**	404
Costs of sales	**(140)**	(320)
Gross profit	**31**	84
Other gains, net	**20**	9
Other income	**4**	10
Distribution costs	**(7)**	(15)
Administrative expenses	**(18)**	(28)
Operating profit	**30**	60
Finance income	**7**	12
Finance costs	**(5)**	(10)
Finance costs, net	**2**	2
Share of profits of jointly controlled entities	**119**	187
Profit before taxation	**151**	249
Taxation	**(9)**	(20)
Profit after taxation	**142**	229
Gain on disposal of discontinued operations	**77**	—
Profit for the year discontinued operations	**219**	229
Attributable to:		
Shareholders of the Company	**179**	169
Minority interest	**40**	60
	219	229
Net cash inflow from operating activities	**40**	102
Net cash inflow from investing activities	**151**	169
Net cash inflow from financing activities	**44**	31
Net cash inflow from discontinued operations	**235**	302

14 Profit attributable to shareholders

Profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK$2,918 million (2006: HK$1,591 million).

15 Dividends

	2007 HK$'million	2006 HK$'million
Interim, paid, of 20 HK cents (2006: 17 HK cents) per share	**480**	394
Final, proposed, of 45 HK cents (2006: 36 HK cents) per share	**1,083**	841
	1,563	1,235

At a meeting held on 15 April 2008, the Directors proposed a final dividend of 45 HK cents which will be satisfied by allotment of new shares of the Company, credited as fully paid, by way of scrip dividend, with an alternative to shareholders to elect to receive such final dividend (or part thereof) in cash in lieu of such allotment. This proposed dividend is not reflected as a dividend payable in these financial statements but will be reflected as an appropriation of retained earnings for the year ending 31 December 2008.

The amount of proposed final dividend for 2007 was based on 2,406,413,200 (2006: 2,334,852,168) shares in issue as at 15 April 2008.

16 Earnings per share

Basic earnings per share is calculated by dividing the Group's profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

Basic	Continuing operations	Discontinued operations	Total
For the year ended 31 December 2007			
Profit attributable to shareholders of the Company (HK$'million)	**3,366**	**179**	**3,545**
Weighted average number of ordinary shares in issue	**2,370,334,871**	**2,370,334,871**	**2,370,334,871**
Basic earnings per share (HK cents)	**141.98**	**7.55**	**149.53**
For the year ended 31 December 2006			
Profit attributable to shareholders of the Company (HK$'million)	2,371	169	2,540
Weighted average number of ordinary shares in issue	2,320,044,447	2,320,044,447	2,320,044,447
Basic earnings per share (HK cents)	102.15	7.28	109.43

16 Earnings per share (Continued)

Diluted earnings per share is calculated by adjusting weighted average number of ordinary shares outstanding to assume all outstanding options had been exercised at nil consideration.

Diluted	Continuing operations	Discontinued operations	Total
For the year ended 31 December 2007			
Profit attributable to shareholders of the Company (HK$'million)	**3,366**	**179**	**3,545**
Weighted average number of ordinary shares in issue	**2,370,334,871**	**2,370,334,871**	**2,370,334,871**
Adjustment for share options	**14,513,217**	**14,513,217**	**14,513,217**
Weighted average number of ordinary shares for diluted earnings per share	**2,384,848,088**	**2,384,848,088**	**2,384,848,088**
Diluted earnings per share (HK cents)	**141.12**	**7.5**	**148.62**
For the year ended 31 December 2006			
Profit attributable to shareholders of the Company (HK$'million)	2,371	169	2,540
Weighted average number of ordinary shares in issue	2,320,044,447	2,320,044,447	2,320,044,447
Adjustment for share options	7,694,787	7,694,787	7,694,787
Weighted average number of ordinary shares for diluted earnings per share	2,327,739,234	2,327,739,234	2,327,739,234
Diluted earnings per share (HK cents)	101.81	7.26	109.07

17 Goodwill

	2007 HK$'million	2006 HK$'million
Carrying value as at 1 January	**281**	281
Acquisition of subsidiaries (note 38)	**3,469**	—
Carrying value as at 31 December	**3,750**	281

Goodwill is allocated to the Group's cash generating units ("CGUs") identified according to location of operation and business segment. The goodwill is attributable to ports operation. An analysis of net book value by geographical area is as follows:

	2007 HK$'million	2006 HK$'million
Hong Kong	**52**	52
Mainland China	**3,698**	229
	3,750	281

The recoverable amount of a CGUs is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Management determined the financial budgets based on past performance and its expectations for market development. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

The key assumptions used for value-in-use calculations are as follows:

	2007 HK$'million	2006 HK$'million
Growth rate (i)	**5.00%**	5.00%
Discount rate (ii)	**12.35%**	11.90%

Notes:

(i) Weighted average growth rate is used to extrapolate cash flows beyond the budget period which does not exceed the historical trend of the CGUs. The weighted average growth rates used are consistent with the forecasts included in industry reports.

(ii) Pre-tax discount rate has been applied to the cash flow projections. The discount rates used are pre-tax and reflect specific risks relating to the Group.

During the year ended 31 December 2007, there is no impairment of any of its CGUs or group of CGUs containing goodwill with indefinite useful lives (2006: nil).

18 Property, plant and equipment

	Group						Company
	Land and buildings HK$'million	Harbour works, buildings and dockyard HK$'million	Plant, machinery, furniture and equipment HK$'million	Others HK$'million	Assets under construction HK$'million	Total HK$'million	Furniture and equipment and motor vehicles HK$'million
Net book value at 1 January 2007	**118**	**3,850**	**2,333**	**226**	**1,472**	**7,999**	**1**
Exchange adjustments	**4**	**233**	**136**	**16**	**62**	**451**	**—**
Acquisition of subsidiaries	**63**	**601**	**639**	**2**	**2**	**1,307**	**—**
Additions	**—**	**226**	**53**	**15**	**1,709**	**2,003**	**1**
Disposal of subsidiaries	**(12)**	**—**	**(5)**	**—**	**—**	**(17)**	**—**
Disposals	**—**	**(28)**	**(6)**	**(2)**	**—**	**(36)**	**—**
Transfer	**3**	**789**	**739**	**2**	**(1,533)**	**—**	**—**
Transfer from investment properties	**5**	**—**	**—**	**—**	**—**	**5**	**—**
Depreciation	**(9)**	**(191)**	**(284)**	**(27)**	**—**	**(511)**	**(1)**
Net book value at 31 December 2007	**172**	**5,480**	**3,605**	**232**	**1,712**	**11,201**	**1**
At 31 December 2007							
Cost	**273**	**6,294**	**4,747**	**354**	**1,712**	**13,380**	**7**
Accumulated depreciation and impairment	**(101)**	**(814)**	**(1,142)**	**(122)**	**—**	**(2,179)**	**(6)**
Net book value	**172**	**5,480**	**3,605**	**232**	**1,712**	**11,201**	**1**
Net book value at 1 January 2006	110	2,250	1,536	68	1,572	5,536	1
Exchange adjustments	2	92	58	4	57	213	—
Acquisition of subsidiaries	—	334	111	81	13	539	—
Additions	—	116	271	13	1,933	2,333	—
Disposals	—	—	(2)	—	—	(2)	—
Transfer	11	1,192	519	82	(2,103)	(299)	—
Depreciation	(5)	(134)	(160)	(22)	—	(321)	—
Net book value at 31 December 2006	118	3,850	2,333	226	1,472	7,999	1
At 31 December 2006							
Cost	173	4,279	2,859	335	1,472	9,118	7
Accumulated depreciation and impairment	(55)	(429)	(526)	(109)	—	(1,119)	(6)
Net book value	118	3,850	2,333	226	1,472	7,999	1

18 Property, plant and equipment (Continued)

Notes:

(a) Included in assets under construction is interest capitalised of approximately HK$58 million (2006: HK$112 million).

(b) Plant, machinery, furniture and equipment with net book value of HK$31 million (2006: HK$73 million) has been pledged as security for the Group's bank borrowings of HK$2 million (2006: HK$30 million). At 31 December 2006, land and buildings of approximately HK$11 million have been pledged as one of the securities for the Group's bank borrowings of HK$60 million. The pledge has been released upon the disposal of CMHP (note 13).

(c) Others comprise vessels and ships, motor vehicles and leasehold improvements with net book values of HK$172 million (2006: HK$173 million), HK$29 million (2006: HK$29 million) and HK$31 million (2006: HK$24 million) respectively as at 31 December 2007.

(d) Depreciation expense of HK$464 million (2006: HK$301 million) has been charged in cost of sales, HK$1 million (2006: HK$1 million) in distribution costs and HK$46 million (2006: HK$19 million) in administrative expenses.

(e) The Group's interests in buildings and harbour works, buildings and dockyard at their net book values are analysed as follows:

	Group			
	Land and buildings		Harbour works and buildings and dockyard	
	2007	2006	**2007**	2006
	HK$'million	HK$'million	**HK$'million**	HK$'million
Land and buildings in Hong Kong, held on leases of between 10 to 50 years	**59**	56	**—**	—
Buildings outside Hong Kong, held on leases of between 10 to 50 years	**113**	51	**5,480**	3,850
Freehold land and buildings outside Hong Kong	**—**	11	**—**	—
	172	118	**5,480**	3,850

19 Investment properties

	2007 HK$'million	2006 HK$'million
Carrying value at 1 January	603	539
Acquisition of subsidiaries	—	9
Increase in fair value (note 7)	132	55
Transfer to property, plant and equipment	(5)	—
Transfer to leasehold land	(38)	—
Carrying value at 31 December	692	603

Notes:

(a) The investment properties were revalued at 31 December 2007 by the following independent and professionally qualified valuers. Valuations are based on current prices in an active market.

Properties located in	Name of valuers
– Hong Kong	Grant Sherman Appraisal Limited
– Shenzhen	Shenzhenshi Gongpingheng Assets Appraisal Co., Ltd.

(b) The Group's interests in investment properties, held on leases for between 10 to 50 years, at their carrying values are analysed as follows:

	2007 HK$'million	2006 HK$'million
Hong Kong	670	581
Mainland China	22	22
	692	603

(c) The following amounts have been recognised in the consolidated income statement:

	2007 HK$'million	2006 HK$'million
Rental income	27	29
Direct operating expense arising from investment properties	(1)	(1)
	26	28

(d) The Group leases out its investment properties under operating lease is within 1 year.

20 Leasehold land and land use rights

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and the movements are analysed as follows:

	2007 HK$'million	2006 HK$'million
Net book value at 1 January	3,104	2,007
Exchange adjustments	231	35
Transfer from assets under construction	—	299
Transfer from prepayment	2,208	—
Transfer from investment properties	38	—
Additions	154	6
Acquisitions of subsidiaries	1,009	814
Disposal	(11)	—
Amortisation	(128)	(57)
Net book value at 31 December	6,605	3,104

The Group's interests in leasehold land and land use rights, held on leases between 10 to 50 years at their net book values are analysed as follows:

	2007 HK$'million	2006 HK$'million
Hong Kong	153	108
Mainland China	6,452	2,996
	6,605	3,104

21 Interests in subsidiaries

	Company	
	2007 HK$'million	2006 HK$'million
Unlisted shares, at cost	12,643	5,158
Advances to subsidiaries – non-current portion (note (a))		
– interest free	17,253	18,831
– interest bearing	64	—
	29,960	23,989
Advance to a subsidiary – current portion (note (b))	2,461	44
Advances from subsidiaries		
– current portion (note (c))	3,169	—
– non-current portion (note (d))	5,041	7,426
	8,210	7,426

21 Interests in subsidiaries (Continued)

Notes:

(a) The advances to subsidiaries are unsecured, interest-free and will not be repayable within one year, except for the amount of HK$64 million (2006: nil) which is interest bearing at London Interbank Offered Rate plus 0.35% per annum.

(b) As at 31 December 2007, the advance to a subsidiary is unsecured, interest bearing at London Interbank Offered rate plus 0.35% per annum and repayable within one year. As at 31 December 2006, the advances to subsidiaries were unsecured, interest free and repayable in January 2007.

(c) The advances from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

(d) The advances from subsidiaries are unsecured, interest free and will not be repayable within one year.

(e) Particulars of the Company's principal subsidiaries at 31 December 2007 are set out in note 42 to the financial statements.

22 Interests in associates

	Group		Company	
	2007 HK$'million	2006 HK$'million	**2007 HK$'million**	2006 HK$'million
Listed shares, at cost				
Shares listed in the Mainland China	**—**	—	**325**	227
Share of net assets of (note (a)):				
Listed associates	**12,256**	9,478	**—**	—
Unlisted associates	**3,574**	2,857	**—**	—
	15,830	12,335	**325**	227
Goodwill (note (b)):				
Listed associates	**188**	103	**—**	—
Unlisted associates	**140**	140	**—**	—
	328	243	**—**	—
Advances to associates (note (c))	**46**	67	**—**	—
	16,204	12,645	**325**	227
Market value of listed shares	**62,964**	46,194	**8,860**	7,437

22 Interests in associates (Continued)

Notes:

(a) Movements of share of net assets attributable to the Group for the year:

	2007 HK$'million	2006 HK$'million
Carrying value as at 1 January	**12,335**	10,321
Exchange adjustments	**671**	248
Capital contribution	**107**	226
Acquisition	**44**	—
Disposals	**(3)**	—
Loss on deemed disposal of partial interest in an associate (note (d))	**—**	(143)
Share of profits	**2,645**	2,184
Share of reserves	**1,137**	243
Share of net actuarial gains on defined benefit pension scheme of associates	**16**	65
Dividends received and receivable	**(1,122)**	(654)
Reclassification as subsidiary	**—**	(155)
Carrying value as at 31 December	**15,830**	12,335

(b) Movement of goodwill during the year:

	2007 HK$'million	2006 HK$'million
Carrying value as at 1 January	**243**	388
Exchange adjustments	**5**	4
Acquisition	**80**	—
Loss on deemed disposal of partial interest in an associate (note (d))	**—**	(9)
Reclassification as subsidiary	**—**	(140)
Carrying value as at 31 December	**328**	243

(c) The advances to associates are unsecured, interest free and repayable on demand.

(d) On 26 October 2006, Shanghai International Port (Group) Co., Ltd. ("SIPG"), an associate of the Group, merged with its non-wholly owned subsidiary, Shanghai Port Container Co., Ltd ("SPC") by way of a share swap (the "Absorption Merger"). SPC is a joint stock limited company incorporated in the PRC and its A shares were listed on the Shanghai Stock Exchange. SIPG issued new shares ("New SIPG Shares"), representing approximately 11.54% of the enlarged capital of SIPG, to the minority shareholders of SPC as consideration of the Absorption Merger. Upon completion of the Absorption Merger, SIPG became the listed company and SPC's shares were delisted. The Group's interest in SIPG was diluted from 30% to 26.539% and resulted in a loss on deemed disposal of HK$152 million.

22 Interests in associates (Continued)

Notes: (Continued)

(e) At 31 December 2006, the Group provided guarantees to banks for bank loans drawn by an associate of HK$1 million.

(f) The Group's share of revenue, net interest expenses, depreciation and amortisation, profit for the year, assets and liabilities of associates which are included in the consolidated income statement and balance sheet using equity method are as follows:

	2007					2006				
	CIMC HK$'million	SIPG HK$'million	Other ports operation HK$'million	Others HK$'million	Total HK$'million	CIMC HK$'million	SIPG HK$'million	Other ports operation HK$'million	Others HK$'million	Total HK$'million
Revenue	11,182	3,048	3,306	—	17,536	7,353	2,726	2,709	35	12,823
Net interest expense	(70)	(97)	(131)	—	(298)	(7)	(89)	(55)	—	(151)
Depreciation and amortisation	(121)	(285)	(307)	—	(713)	(84)	(273)	(124)	(1)	(482)
Profit for the year	743	979	923	—	2,645	628	840	711	5	2,184
Non-current assets	2,899	10,931	8,506	—	22,336	2,007	9,021	6,353	6	17,387
Current assets	7,216	3,370	2,542	—	13,128	3,273	3,405	1,680	27	8,385
Current liabilities	(4,394)	(4,621)	(3,472)	—	(12,487)	(2,098)	(4,375)	(1,840)	(29)	(8,342)
Non-current liabilities	(1,804)	(1,341)	(4,002)	—	(7,147)	(398)	(1,357)	(3,340)	—	(5,095)
Net assets	3,917	8,339	3,574	—	15,830	2,784	6,694	2,853	4	12,335

(g) Particulars of the Group's principal associates at 31 December 2007 are set out in note 43 to the financial statements.

23 Interests in jointly controlled entities

	Group		Company	
	2007 HK$'million	2006 HK$'million	2007 HK$'million	2006 HK$'million
Unlisted investment, at cost	—	—	3	3
Share of net assets of jointly controlled entities (note (a))	2,316	3,354	—	—
Goodwill (note (b))	52	403	—	—
Loans to jointly controlled entities (note (c))	—	764	—	—
Less: Provision for impairment loss	—	(100)	—	—
	2,368	4,421	3	3

23 Interests in jointly controlled entities (Continued)

Notes:

(a) Movements of share of net assets attributable to the Group for the year:

	2007 HK$'million	2006 HK$'million
Carrying value as at 1 January	3,354	3,124
Exchange adjustments	108	47
Share of profits	179	436
Dividends received and receivable	(101)	(426)
Acquisition (note 39(b))	1,655	—
Capital contribution	87	13
Capitalisation of loans to jointly controlled entities	—	160
Reclassification as subsidiaries (note 38)	(1,074)	—
Disposals (note 36(d))	(1,892)	—
Carrying value as at 31 December	2,316	3,354

(b) Movement of goodwill during the year:

	2007 HK$'million	2006 HK$'million
Carrying value as at 1 January	403	404
Exchange adjustments	—	(1)
Acquisition (note 39(b))	52	—
Reclassification as subsidiaries (note 38)	(403)	—
Carrying value as at 31 December	52	403

(c) As at 31 December 2006, loans to jointly controlled entities are unsecured, interest free and have no fixed terms of repayment except for certain amounts totalling HK$192 million which borne interest at 5.49% per annum.

23 Interests in jointly controlled entities (Continued)

Notes: (Continued)

(d) The Group's share of revenue, net interest expense, depreciation and amortisation, profit for the year, assets and liabilities of jointly controlled entities which are included in the consolidated income statement and balance sheet using equity method are as follows:

	2007 HK$'million	2006 HK$'million
Revenue	459	849
Net interest expenses	(9)	(9)
Depreciation and amortisation	(133)	(227)
Profit for the year	179	436
Non-current assets	4,658	4,970
Current assets	448	973
Current liabilities	(1,135)	(568)
Non-current liabilities	(1,655)	(2,021)
Net assets	2,316	3,354

(e) Particulars of the Company's and the Group's jointly controlled entities at 31 December 2007 are set out in note 44 to the financial statements.

24 Other financial assets

	2007 HK$'million	2006 HK$'million
Held-to-maturity investments (note (a))	7	50
Available-for-sale financial assets (note (b))	493	867
	500	917

24 Other financial assets (Continued)

Notes:

(a) Held-to-maturity investments

	2007 HK$'million	2006 HK$'million
Unlisted investments in Mainland China	7	50

All held-to-maturity investments are denominated in Renminbi.

(b) Available-for-sale financial assets

	2007 HK$'million	2006 HK$'million
Listed equity investments in Mainland China	15	14
Unlisted investments:		
Equity investments in Hong Kong	—	125
Equity investments in Mainland China	478	265
Advances to an investee	—	463
	493	867

The movement in available-for-sale financial assets is summarised as follows:

	2007 HK$'million	2006 HK$'million
Carrying value as at 1 January	867	767
Exchange difference	2	—
Acquisition of subsidiaries	—	26
Additions	3	—
Disposal	—	(87)
Repayment of advances	(208)	(23)
Interest income	2	4
Net change in fair value transferred to equity (note 32(b))	273	180
Carrying value as at 31 December	939	867
Reclassification to non-current assets held for sale (note 30)	(446)	—
	493	867

24 Other financial assets (Continued)

Notes: (Continued)

(b) Available-for-sale financial assets (Continued)

Available-for-sale financial assets are denominated in the following currencies:

	2007 HK$'million	2006 HK$'million
Hong Kong dollar	—	588
Renminbi	493	279
	493	867

The determination of fair values of unlisted available-for-sale investments in Mainland China are with reference to the weighted average of earnings and price-earnings multiples of certian listed companies in the same industry. Marketability discount has also been applied on assessing the fair values of these unlisted available-for-sale investments.

25 Prepayment

Pursuant to an agreement dated 22 December 2007 signed with a fellow subsidiary, the Company agreed to purchase seven parcels of land located in Shenzhen Qianhaiwan Logistics Park, Nanshan District, Shenzhen, PRC ("Qianhaiwan land") at a cash consideration of RMB509 million (equivalent to approximately HK$530 million). As at 31 December 2007, the prepayment of HK$434 million represented approximately 80% of the total consideration prepaid for Qianhaiwan land.

As at 31 December 2006, the prepayment of HK$2,066 million represented the consideration for the acquisition of the rights to purchase certain pieces of land located in Shekou, Shenzhen, the PRC. During the year, the relevant land grant contracts have been executed and the prepayment has been transferred to land use rights.

26 Inventories

	2007 HK$'million	2006 HK$'million
Raw materials	185	111
Finished goods	120	120
Spare parts and consumables	19	8
	324	239

27 Development properties for sale

	2007 HK$'million	2006 HK$'million
Freehold land outside Hong Kong	—	291
Development costs capitalised	—	96
	—	387

During the year, the Group disposed of its property development operation upon disposing its interests in CMHP (note 13).

28 Debtors, deposits and prepayments

	Group		Company	
	2007 HK$'million	2006 HK$'million	2007 HK$'million	2006 HK$'million
Trade debtors	1,785	1,208	—	—
Less: provision for impairment of receivables (note (a))	(117)	(88)	—	—
Trade debtors, net (note (b))	1,668	1,120	—	—
Amounts due from fellow subsidiaries (note (d))	49	46	—	—
Amounts due from an associate (note (d))	3	7	—	—
Amounts due from jointly controlled entities (note (d))	—	226	—	—
Amounts due from related companies (note (d))	—	1	—	7
	1,720	1,400	—	7
Other debtors, deposits and prepayments	175	123	53	9
	1,895	1,523	53	16

28 Debtors, deposits and prepayments (Continued)

Notes:

(a) Movements on the provision for impairment of trade debtors are as follows:

	2007 HK$'million	2006 HK$'million
At 1 January	**88**	101
Provision for impairment of receivables	**30**	14
Reversal of provision	**(1)**	(27)
At 31 December	**117**	88

The creation and release of provision for impairment of receivables have been included in administrative expenses in the consolidated income statement. The other classes within debtors, deposits and prepayments do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of debtors, deposits and prepayments. The Group does not hold any collateral as security.

(b) Included in trade debtors at 31 December 2007 are amounts due from associates, a minority shareholder of subsidiaries and bill receivables totalling HK$523 million (2006: HK$318 million), HK$23 million (2006: HK$21 million) and HK$16 million (2006: HK$27 million) respectively.

The Group has a credit policy of allowing an average credit period of 90 days to its trade customers. The ageing analysis of trade debtors is as follows:

	2007 HK$'million	2006 HK$'million
Not yet due	**587**	412
1 - 30 days	**366**	271
31 - 60 days	**291**	178
61 - 120 days	**238**	132
Over 120 days	**186**	127
	1,668	1,120

28 Debtors, deposits and prepayments (Continued)

Notes: (Continued)

(c) Trade debtors that are less than four months past due are not considered impaired. As at 31 December 2007, debtors of HK$895 million (2006: HK$581 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of those trade debtors is as follows:

	2007 HK$'million	2006 HK$'million
1 to 30 days	366	271
31 to 60 days	291	178
61 to 90 days	145	70
91 to 120 days	93	62
	895	581

Trade debtors overdue by more than four months of HK$303 million (2006: HK$215 million) were impaired. The amount of provision was HK$117 million as at 31 December 2007 (2006: HK$88 million). The individually impaired receivable mainly related to customers, which was in unexpected difficult financial situations. It was assessed that a portion of the receivable was expected to be recovered.

(d) The amounts are unsecured, interest free and repayable on demand.

(e) Trade debtors and amounts due from related companies are denominated in the following currencies:

	Group		Company	
	2007 HK$'million	2006 HK$'million	2007 HK$'million	2006 HK$'million
Hong Kong dollar	626	58	—	7
Renminbi	266	711	—	—
United States dollar	806	613	—	—
Euro	22	18	—	—
	1,720	1,400	—	7

(f) The carrying amounts of all debtors, deposits and prepayments approximate their fair values.

29 Cash and cash equivalents

	Group		Company	
	2007 HK$'million	2006 HK$'million	**2007 HK$'million**	2006 HK$'million
Cash at bank and in hand	**928**	447	**143**	48
Time deposits with initial maturity of less than three months	**302**	334	**—**	3
	1,230	781	**143**	51

The weighted average effective interest rate on time deposits during the year was approximately 3.50% (2006: 2.67%) per annum. These deposits had an average maturity period of 7 days (2006: 45 days).

The cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2007 HK$'million	2006 HK$'million	**2007 HK$'million**	2006 HK$'million
Hong Kong dollar	**327**	259	**143**	48
Renminbi	**653**	198	**—**	—
United States dollar	**250**	298	**—**	3
Other currencies	**—**	26	**—**	—
	1,230	781	**143**	51

The maximum exposure credit risk is HK$1,230 million (2006: HK$781 million).

30 Non-current assets held for sale

The Company and the Group have classified its 13% equity interest in Western Harbour Tunnel Company Limited, an available for sale investment as held for sale following the management approval of disposal of the investment during the year. As at 31 December 2007, the investment is stated at its fair value in the Group's financial statements which is determined based on cash flows projection discounted using a rate of 12.25%. On 21 February 2008, the Group entered into an agreement with a third party to dispose the investment at a cash consideration of HK$460 million.

As at 31 December 2006, the non-current assets held for sale represented 35% equity interests in two jointly controlled entities. The disposal has been completed during the year.

31 Share capital

	Company			
	Number of shares		Share capital	
	2007	2006	**2007 HK$'million**	2006 HK$'million
Ordinary shares of HK$0.1 each				
Authorised:				
At 1 January	**5,000,000,000**	3,000,000,000	**500**	300
Increase in authorised share capital (note (a))	**—**	2,000,000,000	**—**	200
At 31 December	**5,000,000,000**	5,000,000,000	**500**	500
Issued and fully paid ordinary shares of HK$0.1 each:				
At 1 January	**2,333,280,168**	2,194,556,610	**233**	219
Issue of shares on exercise of share options (note (b))	**17,543,000**	17,618,000	**2**	2
Issue of scrip dividend shares (note (c))	**4,300,032**	36,152,938	**1**	4
Issue of shares for purchase of land use rights (note (d))	**—**	84,952,620	**—**	8
Issue of shares for purchase of additional interests of subsidiaries and land use rights (note 39(a))	**50,988,000**	—	**5**	—
At 31 December	**2,406,111,200**	2,333,280,168	**241**	233

Notes:

(a) Pursuant to a shareholders' resolution passed in the Extraordinary General Meeting of the Company held on 25 January 2006, the authorised share capital was increased from HK$300 million to HK$500 million by the creation of an additional 2,000,000,000 ordinary shares of HK$0.1 each.

(b) During the year, 17,543,000 (2006: 17,618,000) shares were issued on exercise of share options, with proceeds of HK$318 million (2006: HK$175 million).

The weighted average share price at the time of exercise was HK$43.23 (2006: HK$25.41) per share. The related transaction cost of HK$0.4 million (2006: HK$0.3 million) has been deducted from the proceeds received.

During the year, no ordinary shares were repurchased.

31 Share capital (Continued)

Notes: (Continued)

(c) The Company distributed dividends to its shareholders by way of scrip dividends, with a cash alternative to shareholders. Details of ordinary shares of HK$0.1 each issued by the Company as dividends are as follows:

	Date of issue	Number of shares issued	Nominal value of shares issued HK$'million	Premium on shares issued HK$'million	Total scrip dividend HK$'million
2006 final dividend	5 July 2007	3,457,955	1	122	123
2007 interim dividend	**29 November 2007**	**842,077**	—	**44**	**44**
2007 Total			**1**	**166**	**167**
2006 Total			4	782	786

(d) On 27 January 2006, the Company issued 84,952,620 new ordinary shares in the amount of HK$1,427 million as part of the consideration for the purchase of certain pieces of land located in Shekou, Shenzhen, PRC.

(e) Since 1 January 2008 to the date of approval of these financial statements the Company issued and allotted a total of 302,000 ordinary shares of HK$0.1 at an average exercise price of HK$23.03 per share upon the exercise of share options which were granted under the share option schemes disclosed in note 31(f) to the financial statements.

(f) Share options

The share option scheme of the Company was approved and adopted by the shareholders at the meeting on 20 December 2001. Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2007		2006	
	Weighted average exercise price HK$	**Number of share options**	Weighted average exercise price HK$	Number of share options
At 1 January	**20.44**	**50,743,000**	10.14	28,421,000
Granted	—	—	23.02	40,190,000
Exercised	**18.10**	**(17,543,000)**	9.95	(17,618,000)
Lapsed	—	—	5.05	(250,000)
At 31 December	**21.68**	**33,200,000**	20.44	50,743,000

All share options were exercisable as at 31 December 2007.

31 Share capital (Continued)

Notes: (Continued)

(f) Share options (Continued)

Share options outstanding at 31 December 2007 have the following expiry dates and exercise prices:

		Share options	
Year of expiry	Exercise price HK$	**2007 Number of share options**	2006 Number of share options
2012	4.985	**150,000**	1,000,000
2014	11.08	**3,530,000**	9,353,000
2015	15.31	**—**	200,000
2016	23.03	**29,370,000**	40,040,000
2016	20.91	**150,000**	150,000
		33,200,000	50,743,000

The fair values of options issued during the year ended 31 December 2006 were determined by using the Black-Scholes valuation model. The significant inputs into the model for options granted during the year ended 31 December 2006 were as follows:

	Share options granted on	
	21 June 2006	25 May 2006
Fair value of options	HK$3.802	HK$3.705
Share price per share at grant rate	HK$20.80	HK$22.15
Exercise price per share	HK$20.91	HK$23.03
Share volatility	28.18%	27.83%
Expected life of options	2.5 years	2.5 years
Expected dividends payout rate	2.64%	2.48%
Average annual risk-free interest rate	4.649%	4.399%

Share volatility measured at a 4-month moving average of annualised volatility at the standard deviation of expected share price return is based on statistical analysis of daily share prices over the past 30 months before the date of grant.

32 Reserves

(a) Consolidated statement of changes in equity

	Attributable to the shareholders of the Company				Minority interest	Total
			(note 32(b))			
	Share capital HK$'million	Share premium HK$'million	Other reserves HK$'million	Retained earnings HK$'million	HK$'million	HK$'million
At 1 January 2007	233	11,540	2,405	6,743	2,522	23,443
Share of reserves of associates and jointly controlled entities	—	—	1,137	—	—	1,137
Realisation of reserves upon disposal of a subsidiary	—	—	(198)	189	—	(9)
Realisation of reserves upon disposal of an associate	—	—	(2)	2	—	—
Share of net actuarial gains on defined benefit plan of associates	—	—	—	16	—	16
Exchange differences from translation of financial statements of subsidiaries, associates and jointly controlled entities	—	—	1,248	—	170	1,418
Increase in fair value of available -for-sale financial assets	—	—	273	—	—	273
Effect of change in tax rate on assets revaluation	—	—	(17)	—	—	(17)
Assets revaluation arising from existing equity interests in jointly controlled entities before the business combination (note 38)	—	—	83	—	—	83
Net income recognised directly in equity	—	—	2,524	207	170	2,901
Profit for the year	—	—	—	3,545	350	3,895
Total recognised income for the year	—	—	2,524	3,752	520	6,796
Issue of shares on exercise of share options, net of share issue expenses of HK$0.4 million	2	316	—	—	—	318
Issue of shares in lieu of dividends	1	166	—	—	—	167
Purchase of additional interests of subsidiaries and land use rights (note 39(a))	5	1,799	(1,400)	—	(747)	(343)
Capital contributions by minority shareholders of subsidiaries	—	—	—	—	43	43
Share-based payments	—	—	77	—	—	77
Transfer to reserves	—	—	185	(185)	—	—
Disposal of a subsidiary (note 36(d))	—	—	—	—	(549)	(549)
Dividends paid	—	—	—	(1,321)	(156)	(1,477)
At 31 December 2007	241	13,821	3,791	8,989	1,633	28,475
Representing:						
Reserves				7,906		
Proposed dividend				1,083		
At 31 December 2007				8,989		

32 Reserves (Continued)

(a) Consolidated statement of changes in equity (Continued)

	Attributable to the shareholders of the Company				Minority interest	Total
	Share capital HK$'million	Share premium HK$'million	(note 32(b)) Other reserves HK$'million	Retained earnings HK$'million	HK$'million	HK$'million
At 1 January 2006	219	9,166	1,310	5,464	1,468	17,627
Share of reserves of associates and jointly controlled entities	—	—	243	—	—	243
Realisation of reserves upon deemed disposal of partial interest in an associate	—	—	(2)	—	—	(2)
Realisation of reserve upon disposal of jointly controlled entities	—	—	(2)	2	—	—
Realisation of reserves upon disposal of an available-for-sale financial assets	—	—	(56)	—	—	(56)
Share of net actuarial gains on defined benefit plan of associates	—	—	—	65	—	65
Exchange differences from translation of financial statements of subsidiaries, associates and jointly controlled entities	—	—	445	—	91	536
Increase in fair value of available-for-sale financial assets	—	—	180	—	—	180
Net income recognised directly in equity	—	—	808	67	91	966
Profit for the year	—	—	—	2,540	353	2,893
Total recognised income for the year	—	—	808	2,607	444	3,859
Issue of shares on exercise of share options, net of share issue expenses of HK$0.3 million	2	173	—	—	—	175
Issue of shares in lieu of dividends	4	782	—	—	—	786
Issue of shares for purchase of land use rights	8	1,419	—	—	—	1,427
Acquisition of subsidiaries	—	—	29	—	645	674
Capital contributions by minority shareholders of subsidiaries	—	—	—	—	175	175
Share-based payments	—	—	81	—	—	81
Transfer to reserves	—	—	177	(177)	—	—
Dividends paid	—	—	—	(1,151)	(210)	(1,361)
At 31 December 2006	233	11,540	2,405	6,743	2,522	23,443
Representing:						
Reserves				5,902		
Proposed dividend				841		
At 31 December 2006				6,743		

32 Reserves (Continued)

(b) Other reserves

	Group					
	Share-based compensation reserve HK$'million	(note (i)) Capital reserves HK$'million	Investment revaluation reserve HK$'million	Translation reserve HK$'million	(note (ii)) Statutory reserves HK$'million	Total HK$'million
At 1 January 2007	**117**	**(142)**	**597**	**687**	**1,146**	**2,405**
Realisation of reserve upon disposal of a subsidiary	**(4)**	**—**	**—**	**(166)**	**(28)**	**(198)**
Realisation of reserve upon disposal of an associate	**—**	**—**	**—**	**(1)**	**(1)**	**(2)**
Share of reserves of associates and jointly controlled entities	**—**	**—**	**1,137**	**—**	**—**	**1,137**
Exchange adjustments	**—**	**—**	**—**	**1,248**	**—**	**1,248**
Increase in fair value of available-for-sale financial assets (note 24(b))	**—**	**—**	**273**	**—**	**—**	**273**
Share-based payments (note 9)	**77**	**—**	**—**	**—**	**—**	**77**
Transfer from retained earnings	**—**	**—**	**—**	**—**	**185**	**185**
Purchase of additional interests of subsidiaries (note 39(a))	**—**	**(1,400)**	**—**	**—**	**—**	**(1,400)**
Effect of change in tax rate on assets revaluation	**—**	**—**	**(17)**	**—**	**—**	**(17)**
Assets revaluation arising from existing equity interests in jointly controlled entities before the business combination (note 38)	**—**	**—**	**83**	**—**	**—**	**83**
At 31 December 2007	**190**	**(1,542)**	**2,073**	**1,768**	**1,302**	**3,791**
At 1 January 2006	36	(142)	203	242	971	1,310
Realisation of reserve upon disposal of jointly controlled entities	—	—	—	—	(2)	(2)
Realisation of reserve upon deemed disposal of partial interest in an associate	—	—	(2)	—	—	(2)
Realisation of reserves upon disposal of an available-for-sale financial asset	—	—	(56)	—	—	(56)
Share of reserves of associates and jointly controlled entities	—	—	243	—	—	243
Exchange adjustments	—	—	—	445	—	445
Increase in fair value of available-for-sale financial assets (note 24(b))	—	—	180	—	—	180
Share-based payments (note 9)	81	—	—	—	—	81
Transfer from retained earnings	—	—	—	—	177	177
Acquisition of subsidiaries	—	—	29	—	—	29
At 31 December 2006	117	(142)	597	687	1,146	2,405

Notes:

(i) Included in capital reserve is an amount of HK$2,340 million which arose in 1998 upon reduction of share premium as confirmed by the order of the High Court of the Hong Kong Special Administrative Region. It is a non-distributable reserve.

(ii) The statutory reserves are reserves required under PRC laws and regulations of subsidiaries, associates and jointly controlled entities established in the PRC.

32 Reserves (Continued)

(c) Reserves

	Company				
	Share premium HK$'million	Share-based compensation reserve HK$'million	(note) Capital reserve HK$'million	Retained earnings HK$'million	Total HK$'million
At 1 January 2007	**11,540**	**116**	**2,340**	**1,540**	**15,536**
Issue of shares on exercise of share options, net of share issue expenses of HK$0.4 million	**316**	**—**	**—**	**—**	**316**
Share-based payments	**—**	**74**	**—**	**—**	**74**
Profit for the year	**—**	**—**	**—**	**2,918**	**2,918**
Dividends paid (note 31(c))	**166**	**—**	**—**	**(1,321)**	**(1,155)**
Issue of shares for acquisition of subsidiaries and land use rights (note 39(a))	**1,799**	**—**	**—**	**—**	**1,799**
At 31 December 2007	**13,821**	**190**	**2,340**	**3,137**	**19,488**
Representing:					
Reserves				**2,054**	
Proposed dividend				**1,083**	
				3,137	
At 1 January 2006	9,166	36	2,340	1,100	12,642
Issue of shares on exercise of share options, net of share issue expenses of HK$0.3 million	173	—	—	—	173
Share-based payment	—	80	—	—	80
Profit for the year	—	—	—	1,591	1,591
Dividends paid (note 31(c))	782	—	—	(1,151)	(369)
Issue of shares for purchase of land use rights (note 24)	1,419	—	—	—	1,419
At 31 December 2006	11,540	116	2,340	1,540	15,536
Representing:					
Reserves				699	
Proposed dividend				841	
				1,540	

Note:

The Company's capital reserve, which arose in 1998 upon reduction of share premium as confirmed by the Order of the High Court of the Hong Kong Special Administrative Region, is a non-distributable reserve.

33 Other financial liabilities

	Group		Company	
	2007 HK$'million	2006 HK$'million	**2007 HK$'million**	2006 HK$'million
Short-term bank loans				
– unsecured	**1,945**	1,337	**1,010**	479
– secured (note (a))	**—**	73	**—**	—
Long-term bank loans, wholly repayable within five years				
– unsecured	**2,908**	2,975	**—**	—
– secured (note (a))	**2**	17	**—**	—
Long-term bank loans, not wholly repayable within five years, unsecured	**650**	458	**—**	—
	5,505	4,860	**1,010**	479
Loans from a minority shareholder of a subsidiary (note (b))	**62**	62	**—**	—
Listed Notes Payable (note (c))	**3,880**	3,865	**—**	—
Other financial liability (note (d))	**3,850**	—	**3,850**	—
	13,297	8,787	**4,860**	479
Less: amounts due within one year included under current liabilities	**(6,206)**	(2,705)	**(4,860)**	(479)
Non-current portion	**7,091**	6,082	**—**	—

Notes:

(a) Bank loans of HK$2 million (2006: HK$30 million) are secured by property, plant and equipment with net book value at 31 December 2007 of HK$31 million (2006: HK$73 million). As at 31 December 2006, bank loans of HK$60 million were secured by mortgage debenture over all assets of certain subsidiaries with aggregate carrying value of HK$411 million including freehold land and buildings with an aggregate carrying value of HK$11 million. Bank borrowings drawn by subsidiaries of the Group of HK$5,221 million (2006: HK$5,908 million) were secured by corporate guarantees provided by the Company.

(b) Loans from minority shareholders of a subsidiary are unsecured, interest free and are repayable on demand.

(c) Listed Notes Payable represents US$500 million, 5.375% guaranteed listed notes maturing in 2015.

(d) The amount represents the Group's obligation to purchase the equity interest of a subsidiary from its minority shareholder under a put option . The put option was lapsed on 21 February 2008.

33 Other financial liabilities (Continued)

Notes: (Continued)

(e) The Group has undrawn bank loan facilities amounting to HK$5,752 million (2006: HK$5,533 million).

(f) The other financial liabilities are repayable as follows:

	Bank borrowings		Listed Notes Payable		Loans from minority shareholders of subsidiaries		Other financial liabilities		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'million	HK$'million	**HK$'million**	HK$'million	**HK$'million**	HK$'million	**HK$'million**	HK$'million	**HK$'million**	HK$'million
Within 1 year	**2,294**	2,643	**—**	—	**62**	62	**3,850**	—	**6,206**	2,705
Between 1 and 2 years	**835**	256	**—**	—	**—**	—	**—**	—	**835**	256
Between 2 and 5 years	**1,726**	1,503	**—**	—	**—**	—	**—**	—	**1,726**	1,503
Wholly repayable within 5 years	**4,855**	4,402	**—**	—	**62**	62	**3,850**	—	**8,767**	4,464
Not wholly repayable within 5 years	**650**	458	**3,880**	3,865	**—**	—	**—**	—	**4,530**	4,323
	5,505	4,860	**3,880**	3,865	**62**	62	**3,850**	—	**13,297**	8,787

(g) The effective interest rates of the other interest bearing financial liabilities at the balance sheet date were as follows:

	Bank borrowings				Listed Notes Payable	
	Group		Company		Group	
	2007	2006	**2007**	2006	**2007**	2006
Hong Kong dollar	**3.90% to 5.74%**	4.15% to 4.90%	**3.90% to 5.72%**	4.25% to 4.40%	**—**	—
Renminbi	**5.48% to 6.97%**	5.00% to 5.76%	**—**	—	**—**	—
United States dollar	**—**	—	**—**	—	**5.47%**	5.47%
Other currencies	**—**	9.12%	**—**	—	**—**	—

(h) The fair values of bank borrowings not wholly repayable within one year and the Listed Notes Payable were HK$2,644 million (2006: HK$1,800 million) and HK$3,916 million (2006: HK$3,785 million) respectively as at 31 December 2007. The fair value of borrowings not wholly repayable within one year was determined by discounting the future cash flows at the current market interest rate available to the Group and the fair value of the Listed Notes Payable was determined with reference to quoted market price. Other than bank borrowings not wholly repayable within one year and the Listed Notes Payable, the carrying amounts of the other financial liabilities approximate their fair values as at 31 December 2007.

33 Other financial liabilities (Continued)

Notes: (Continued)

(i) The carrying amounts of other financial liabilities are denominated in the following currencies:

	Group		Company	
	2007 **HK$'million**	2006 HK$'million	**2007** **HK$'million**	2006 HK$'million
Hong Kong dollar	**7,578**	3,250	**4,860**	479
Renminbi	**1,644**	1,612	**—**	—
United States dollar	**4,075**	3,865	**—**	—
Other currencies	**—**	60	**—**	—
	13,297	8,787	**4,860**	479

34 Deferred taxation

Deferred taxation are calculated in full on temporary differences under the liability method using taxation rates enacted or substantively enacted by the balance sheet date in the respective jurisdictions. The movement in the deferred income account is as follows:

	2007 **HK$'million**	2006 HK$'million
At 1 January	**(221)**	(120)
Exchange adjustments	**(13)**	(3)
Acquisition of subsidiaries	**(100)**	(90)
Effect of change in tax rate	**(110)**	—
Deferred taxation credited/(charged) to income statement (note 12)	**12**	(8)
At 31 December	**(432)**	(221)

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK$188 million (2006: HK$167 million) to carry forward against future taxable income. The unrecognised tax losses of HK$16 million (2006: HK$99 million) can be carried forward indefinitely. The remaining HK$172 million (2006: HK$68 million) expires in the following years:

	2007 **HK$'million**	2006 HK$'million
2008	**5**	5
2009	**3**	3
2010	**4**	4
2011	**54**	56
2012	**106**	—
	172	68

34 Deferred taxation (Continued)

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax liabilities	Accelerated tax depreciation allowance	
	2007	2006
	HK$'million	HK$'million
At 1 January	**(243)**	(155)
Exchange adjustments	**(13)**	(3)
Acquisition of subsidiaries	**(104)**	(90)
Effect of change in tax rate	**(110)**	—
Credited to income statement	**2**	5
At 31 December	**(468)**	(243)

Deferred tax assets	Provision for doubtful debts and inventories		Others		Total	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'million	HK$'million	**HK$'million**	HK$'million	**HK$'million**	HK$'million
At 1 January	**10**	12	**12**	23	**22**	35
Acquisition of subsidiaries (note 38)	**—**	—	**4**	—	**4**	—
Credited/(charged) to income statement	**1**	(2)	**9**	(11)	**10**	(13)
At 31 December	**11**	10	**25**	12	**36**	22

35 Creditors and accruals

	Group		Company	
	2007	2006	**2007**	2006
	HK$'million	HK$'million	**HK$'million**	HK$'million
Trade creditors (note (a))	**615**	510	**—**	—
Amount due to the ultimate holding company (note (b))	**939**	—	**—**	—
Amount due to an intermediate holding company (note (c))	**3**	3	**—**	—
Amounts due to fellow subsidiaries (note (c))	**380**	658	**320**	639
Amounts due to associates (note (c))	**2**	7	**—**	—
	1,939	1,178	**320**	639
Other payables and accruals	**1,470**	1,414	**26**	18
	3,409	2,592	**346**	657
Less: non-current portion	**—**	(320)	**—**	(320)
	3,409	2,272	**346**	337

35 Creditors and accruals (Continued)

Notes:

(a) Included in trade creditors at 31 December 2007 is an amount due to minority shareholders of a subsidiary totalling HK$36 million (2006: HK$34 million).

The ageing analysis of the trade creditors balance is as follows:

	2007 HK$'million	2006 HK$'million
0 - 30 days	550	438
31 - 60 days	49	29
61 - 120 days	11	10
Over 120 days	5	33
	615	510

(b) The amounts are unsecured, interest bearing at an annual rate of 5.2% and repayable on demand.

(c) The amounts are unsecured, interest free and repayable on demand.

(d) The carrying amounts of the trade creditors and amounts due to related companies are denominated in the following currencies:

	Group		Company	
	2007 HK$'million	2006 HK$'million	2007 HK$'million	2006 HK$'million
Hong Kong dollar	563	871	320	639
Renminbi	1,226	150	—	—
United States dollar	137	107	—	—
Other currencies	13	50	—	—
	1,939	1,178	320	639

36 Consolidated cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operations:

	2007 HK$'million	2006 HK$'million
Operating profit	1,756	731
Adjustments for:		
Depreciation and amortisation	639	378
Net gains on disposal of associates and jointly controlled entities	(13)	(1)
Gain on disposal of other financial assets	—	(61)
Gain on disposal of property, plant and equipment and land use rights	(10)	—
Income received from held-to-maturity investments	(5)	(9)
Increase in fair value of investment properties	(132)	(55)
Increase in fair value of other financial assets at fair value through profit or loss	—	(8)
Loss on deemed disposal of partial interest in an associate	—	152
Share-based payments	77	81
Operating profit before working capital changes	2,312	1,208
Increase in inventories	(196)	(72)
Increase in debtors, deposits and prepayments	(670)	(425)
Increase in creditors and accruals	500	129
Net cash inflow from operations	1,946	840

36 Consolidated cash flow statement (Continued)

(b) Purchase of subsidiaries

	2007 HK$'million	2006 HK$'million
The fair value of assets acquired and liabilities assumed (note 38):		
Property, plant and equipment	1,307	539
Investment properties	—	9
Leasehold land and land use rights	787	814
Other non-current assets	277	—
Deferred tax assets	4	—
Other financial assets	—	26
Inventories	13	4
Debtors, deposits and prepayments	232	41
Bank balances and cash	862	72
Creditors and accruals	(379)	(182)
Other financial liabilities	(739)	(253)
Taxation payable	—	(9)
Deferred tax liabilities	(67)	(90)
Minority interest	—	(645)
	2,297	326
Change in fair value credited to assets revaluation reserve	(83)	(29)
Interest in an associate/a jointly controlled entity previously accounted for	(1,074)	(155)
	1,140	142
Goodwill arose from acquisition	3,066	(134)
	4,206	8
Representing:		
Cash consideration	238	8
Direct costs incurred	8	—
Other financial liability incurred	3,960	—
	4,206	8
Analysis of cash inflows on purchase of subsidiaries:		
Cash consideration paid	(246)	(8)
Bank balances and cash in hand acquired	862	72
Net cash inflow on purchase of subsidiaries	616	64

The subsidiaries acquired during the year utilised HK$257 million (2006: HK$29 million) and HK$595 million (2006: HK$164 million) for investing and financing activities respectively. The subsidiaries also contributed to the Group's net operating cash flows of HK$99 million (2006: HK$151 million) for the year.

36 Consolidated cash flow statement (Continued)

(c) Purchase of additional interest of subsidiaries and land use rights

	HK$'million
Purchase consideration satisfied by cash	(528)
Less: consideration payable	18
Net cash outflow on purchase of additional interest in subsidiaries and land use rights (note 39(a))	(510)

(d) Disposal of CMHP, a subsidiary of the Company (note 13)

	2007 HK$'million	2006 HK$'million
Net assets disposed		
Property, plant and equipment	17	—
Interests in jointly controlled entities		
- share of net assets of jointly controlled entities	1,892	—
- loans to jointly controlled entities	740	—
- provision for impairment loss	(100)	—
	2,549	—
Other financial assets	44	—
Development properties for sale	511	—
Debtors, deposits and prepayment	61	—
Cash and cash equivalents	536	—
Other financial liabilities	(89)	—
Creditors and accruals	(173)	—
Taxation payable	(8)	—
Minority interest	(549)	—
	2,882	—
Realisation of reserves upon disposal of a subsidiary	(9)	—
	2,873	—
Cash consideration	2,950	—
Gain on disposal of a subsidiary	77	—
Analysis of cash flows on disposal of a subsidiary		
Cash consideration	2,950	—
Cash and cash equivalents disposed	(536)	—
Net cash inflow on disposal of a subsidiary	2,414	—

37 Commitments

(a) Capital commitments for property, plant and equipment and leasehold land and land use rights

	2007 HK$'million	2006 HK$'million
Authorised but not contracted	**2,748**	1,611
Contracted but not provided for	**1,582**	3,597
	4,330	5,208

(b) Capital commitments for investments

	2007 HK$'million	2006 HK$'million
Contracted but not provided for		
Investments	**1**	85
Port projects	**144**	144
	145	229

(c) Commitments under operating leases

At 31 December 2007, the Group had future aggregate minimum lease payments under non-cancellable operating leases for leasehold land, land use rights and property, plant and equipment as follows:

	2007 HK$'million	2006 HK$'million
Within one year	**97**	79
In the second to fifth year inclusive	**48**	22
After the fifth year	**52**	—
	197	101

(d) Future operating lease receivables

At 31 December 2007, the Group had future aggregate lease receivables under non-cancellable operating leases for land and buildings as follows:

	2007 HK$'million	2006 HK$'million
Within one year	**14**	30
In the second to fifth year inclusive	**—**	6
After the fifth year	**—**	10
	14	46

38 Business combinations

Restructuring of ports interests in Shekou, PRC

Prior to 22 February 2007, the Group had a 50% equity interest in Shekou Container Terminals Limited ("SCT I"), a 51% equity interest in Shekou Container Terminal (Phase II) Company Limited ("SCT II") and wholly owned Shekou Container Terminal (Phase III) Limited ("SCT III"). SCT I and SCT II were accounted for as jointly controlled entities and SCT III was accounted for as a subsidiary of the Group.

On 22 February 2007, the Group through a restructuring acquired an additional 40% equity interest in SCT I and a 39.2% equity interest in SCT II at a total consideration of HK$3,168 million. The remaining interest of SCT I and SCT II were held by Modern Terminal Limited ("MTL"), an associate of the Group.

On the same day, the Group and MTL injected their entire equity interest in SCT I, SCT II and SCT III into a new company, namely Mega Shekou Container Terminals Limited ("Mega SCT") of which the Group and MTL initially holds 70% and 30% equity interests respectively. The Group also received HK$3,168 million from MTL as consideration and granted a Put Option to MTL which enables MTL to sell its entire 30% equity interest in Mega SCT to the Group for HK$3,960 million within one year.

The Directors consider that substantial risks and rewards relating to the equity interest subject to the Put Option remain with the Group until the Put Option lapses. Accordingly, no minority interest has been recognised in respect of the equity interest subject to the Put Option and Mega SCT has been accounted for as if it is a wholly-owned subsidiary of the Group. The profit attributable to the equity interest from 22 February 2007 to 31 December 2007 subject to the Put Option of approximately HK$152 million is recognised as finance cost and the obligation to purchase the equity interest of Mega SCT from MTL of approximately HK$3,850 million is credited as other financial liabilities.

SCT I and SCT II contributed revenue of HK$325 million and HK$350 million and net profit of HK$163 million and HK$203 million respectively to the Group for the year ended 31 December 2007. If the restructuring had occurred on 1 January 2007, the Group's revenue (including continuing and discontinued operations) would have been HK$6,536 million and the Group's net profit would have been HK$3,608 million. These amounts have been calculated using the Group's accounting policies and by adjusting the results of SCT I and SCT II to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments had been applied from 1 January 2007, together with the consequential tax effects.

38 Business combinations (Continued)

Restructuring of ports interests in Shekou, PRC (Continued)

Details of the net assets acquired are as follows:

	HK$'million
Purchase consideration	
– Cash paid	238
– Direct costs	8
– Other financial liabilities	3,960
Total consideration	4,206
Reclassification from interests in jointly controlled entities	1,477
Change in fair value of net identifiable assets attributable to existing interest in SCT I and SCT II credited to assets revaluation reserve (note (ii))	83
	5,766
Fair value of net identifiable assets of SCT I and SCT II (note (i))	(2,297)
Goodwill	3,469
Representing:	
– Goodwill arising from acquisition	3,066
– Goodwill brought forward from previous acquisition of SCT I interest	403
	3,469

The goodwill is attributable to the significant synergies in the Group's ports operations in Shekou, Shenzhen expected to arise after the Group's acquisition of additional interests in SCT I and SCT II.

38 Business combinations (Continued)

Restructuring of ports interests in Shekou, PRC (Continued)

Note:

(i) The identifiable assets and liabilities of SCT I and SCT II are as follows:

	Carrying amount HK$'million	Fair value HK$'million
Non-current assets		
Land use rights	475	787
Property, plant and equipment	1,307	1,307
Other non-current assets	277	277
Deferred tax assets	4	4
	2,063	2,375
Current assets		
Inventories	13	13
Debtors, deposits and prepayments	232	232
Cash and cash equivalents	862	862
	1,107	1,107
Non-current liabilities		
Other financial liabilities	(643)	(643)
Deferred tax liabilities	—	(67)
	(643)	(710)
Current liabilities		
Creditors and accruals	(379)	(379)
Other financial liabilities	(96)	(96)
	(475)	(475)
Net assets	2,052	2,297
Net assets attributable to existing interests in SCT I and SCT II		(1,157)
Net assets acquired		1,140

(ii) Change in fair value of net identifiable assets attributable to existing interests in SCT I and SCT II

	Fair value HK$'million
Fair value of net assets attributable to existing interest in SCT I and SCT II (note (i))	1,157
Less: Carrying amount of share of net assets	(1,074)
Amount credited to assets revaluation reserve	83

39 Other acquisitions

(a) Purchase of additional interests in subsidiaries

On 29 June 2007, the Group acquired the entire equity interest in Elite Vantage Investments Limited ("EVI") from certain fellow subsidiaries. The consideration was satisfied by the issue of 50,988,000 of the Company's shares and the payment of RMB450 million in cash. The fair value of the shares is determined with reference to the fair value of the land acquired and the market value of the Company's shares at the date of completion.

EVI principally engages in investment holding. It holds a piece of land in Shekou, Shenzhen, PRC ("Youlian Land") and interest in Equity Castle Limited, a BVI holding company which holds 40% equity interest in each of Shenzhen Mawan Port Service Co., Ltd., Shenzhen Mawan Wharf Co., Ltd. and Shenzhen Mawan Terminals Co., Ltd. (collectively "Mawan companies") and 34% equity interest in Shenzhen Haixing Harbour Development Co., Ltd. ("Haixing"). Mawan companies and Haixing have been subsidiaries of the Group prior to the acquisition of the aforesaid interests. The difference between the consideration paid and the net assets attributable to the additional interests acquired is charged to equity as the additional interests are acquired from minority shareholders. Details of the net assets acquired are as follows:

	HK$'million
Purchase consideration	
– Cash paid	507
– Direct costs	3
– Shares issued	1,804
– Consideration payable	18
Total consideration	2,332
Net assets attributable to minority interest in Mawan companies and Haixing acquired	(747)
Fair value of Youlian Land	(185)
Amount charged to equity	1,400

39 Other acquisitions (Continued)

(b) Acquisition of 45% interest in Zhanjiang Port (Group) Co., Ltd.

On 15 September 2007, the Group entered into various agreements with State-owned Assets Supervision and Administration Commission of Zhanjiang Municipal People's Government ("Zhanjiang SASAC") to convert Zhanjiang Port Group Co., Ltd. ("Zhanjiang Port Group") into a sino-foreign joint stock limited company, Zhanjiang Port (Group) Co., Ltd. ("Zhanjiang Port JV"). The Group agreed to subscribe for 1,620 million shares in Zhanjiang Port JV, representing 45% of the registered capital, at a consideration of RMB1,620 million (approximately HK$1,697 million).

The transaction was completed on 30 November 2007. The Group held 45% interest in Zhanjiang Port JV and the Group accounted for its investment in Zhanjiang Port JV as an interest in a jointly controlled entity.

Details of share of net assets of the jointly controlled entity acquired and goodwill are as follows:

	HK$'million
Purchase consideration paid in cash	1,697
Direct costs relating to the acquisition	10
Total purchase consideration	1,707
Fair value of share of net assets acquired	(1,655)
Goodwill	52

40 Related party transactions

Related parties refer to entities in which CMG has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions, or directors or officers of the Company. Given that the PRC government still owns a significant portion of the operating assets in the PRC despite the continuous reform of the government structure, the majority of the Group's business activities had been conducted with certain enterprises directly or indirectly owned or controlled by the PRC government (the "State-controlled Enterprises"), including CMG, its subsidiaries, associates and jointly controlled entities (collectively referred as to the "CMG Group") in the ordinary course of business. In accordance with HKAS 24, state-controlled enterprises and their subsidiaries, other than entities under CMG (also a state-controlled enterprise), directly or indirectly controlled by the PRC government are also defined as related parties of the Group. Neither CMG nor the PRC government has published financial statements.

In addition to the related party information shown elsewhere in these financial statements, the following is a summary of significant related party transactions entered into in the normal course of business between the Group and its related parties during the year and balances arising from related transactions at 31 December 2007 indicated below:

(a) Balances and transactions with the CMG Group

	Note	**2007 HK$'million**	2006 HK$'million
Sales of goods to	(i)		
– associates		**973**	669
– a fellow subsidiary		**9**	8
Rental income from	(ii)		
– an intermediate holding company		**17**	16
– fellow subsidiaries		**9**	11
Interest income from	(iii)		
– a jointly controlled entity		**—**	1
Rental expenses paid to fellow subsidiaries	(ii)	**72**	77
Service fees paid to			
– fellow subsidiaries	(iv)	**7**	7
– a jointly controlled entity	(v)	**2**	—
Interest expense to an intermediate holding company	(vi)	**9**	—

40 Related party transactions (Continued)

(a) Balances and transactions with the CMG Group (Continued)

Notes:

(i) Sales of goods were conducted at negotiated prices by transacting parties.

(ii) The Group rented certain vessels and properties from and leased office premises to the CMG Group. Rental income or expense were charged at a fixed amount per month in accordance with respective tenancy agreements.

(iii) Interest income was charged at interest rates as specified in note 23(c) to the financial statements on the outstanding amounts due from the jointly controlled entities.

(iv) The fellow subsidiaries provided barges to bring ships into ports operated by the Group and provided cargo management and paint shipping services to the Group. The service fees were charged by reference to market rates.

(v) The jointly controlled entity provided information technology system and services to the Group. The service fees were charged by reference to market rates.

(vi) Interest expenses were charged at interest rate as specified in note 35(c) to the financial statements on the outstanding amount due to the intermediate holding company.

(vii) On 11 July 2007, the Group disposed of its entire 71.92% equity interest and preference shareholdings in CMHP, a subsidiary of the Group, to a fellow subsidiary at a total consideration of HK$2,950 million. Details of the disposal are disclosed in note 36(d) to the financial statements.

(viii) On 29 June 2007, the Group acquired the entire equity interest in EVI from certain fellow subsidiaries. The consideration was satisfied by the issue of 50,988,000 of the Company's shares and RMB450 million in cash. Details of the acquisition are disclosed in note 39(a).

(ix) On 20 December 2007, the Group entered into an agreement to purchase 7 pieces of land in Shenzhen Qianhaiwan Logistics Park, Nanshan District, Shenzhen, PRC from a fellow subsidiary at a cash consideration of RMB509 million (approximately HK$530 million). Details of the acquisition are disclosed in note 25 to the financial statements.

The balances with entities within the CMG Group as at 31 December 2007 are disclosed in notes 28 and 35 to the financial statements.

(b) Transactions with other Stated-controlled Enterprises

During the year, the Group engaged certain State-controlled Enterprises in the construction of ports and related facilities amounting to approximately HK$993 million (2006: HK$779 million).

As at 31 December 2007, bank balances deposited in State-controlled Enterprises amounted to HK$1,151 million (2006: HK$281 million). During the year ended 31 December 2007, interest income from State-controlled Enterprises amounted to HK$25 million (2006: 12 million).

40 Related party transactions (Continued)

(c) Transactions with minority shareholders of subsidiaries:

	Note	**2007 HK$'million**	2006 HK$'million
Sales of goods	(i)	**184**	170
Rental income	(ii)	**3**	3
Royalty paid	(iii)	**101**	58
Sourcing service expense	(iv)	**—**	2
Service expense	(v)	**21**	8
Interest expense	(vii)	**3**	3

Notes:

(i) Sales of goods were determined by a subsidiary of the Group on the basis of the subsidiary's total production costs for the products plus a mark-up.

(ii) Rental income was charged at a fixed amount per month in accordance with respective tenancy agreement.

(iii) Royalties were based on percentages of the net sales of paints in accordance with respective agreement.

(iv) Sourcing service was charged based on percentages of the purchase price payable to a subsidiary of the Group for the unfinished paint products in accordance with respective agreement.

(v) Service expense was based on the number and the type of vehicles to be used for container horizontal transportation and the operators required for such transportation in accordance with respective agreement.

(vi) Interest was charged at 0.5% above the HIBOR per annum on the principal amounts of the respective loans.

The balances with minority shareholders of subsidiaries are disclosed in notes 28, 33 and 35 to the financial statements.

(d) Key management compensation

	2007 HK$'million	2006 HK$'million
Salaries and other short-term employee benefits	**12**	7
Share-based payments	**8**	9
	20	16

41 Subsequent events

China Merchants International Ports (Ningbo) Limited, a wholly-owned subsidiary of the Company ,entered into an agreement in March 2008 with Ningbo Port Group Limited（寧波港集團有限公司）(“Ningbo Port Group”) and six other parties, being Shanghai CITIC Port Investment Company Limited （上海中信港口投資有限公司）, Ningbo Ning Shing (Holdings) Company Limited （寧波寧興（集團）有限公司）, Ningbo Communications Investment Holdings Company Limited （寧波交通投資控股有公司）, Ningbo Urban Construction Investment Holdings Company Limited （寧波開發投資集團有限公司）, Ningbo Development & Investment Group Company Limited and Zhoushan Port Group Limited（舟山港務集團有限公司）(each being their respective unofficial English name) to establish Ningbo Port Company Limited（寧波港股份有限公司）(“Ningbo Port”), a joint stock company with limited liability under the law of the People’s Republic of China. The principal activities of Ningbo Port Group is the operation of a modern, comprehensive, multifunctional deep-water port, combining inland, estuary and coastal harbours and consisting of five port areas of Beilun, Zhenhai, Ningbo old port, Daxie and Chuanshan.

Pursuant to the agreement, the Group agreed to subscript new shares of Ningbo Port, represented 5.4% of its registered capital for RMB847 million (approximately HK$924 million) in cash. The agreement was completed on 27 March 2008 and the consideration paid was funded by internal resources.

42 Particulars of principal subsidiaries

The table below lists only those subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

Particulars of the Company's principal subsidiaries are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of issued capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Bitto Limited	British Virgin Islands	US$1	100%	—	Provision of financial services to group companies
China Merchants Container Services Limited	Hong Kong	HK$500,000	—	100%	Provision of container terminal services and port transportation
China Merchants International Container Terminal (Qingdao) Co., Ltd #	PRC	US$194,300,000	—	100%	Provision of container terminal services and ports transportation
China Merchants (CIMC) Holdings Limited	Hong Kong	HK$2	100%	—	Investment holding and securities trading
China Merchants International Shipping Logistic (Qingdao) Company Limited #	PRC	US$12,000,000	—	100%	Provision of container terminal services and port transportation
China Merchants Port Services (Shenzhen) Company Limited #	PRC	RMB550,000,000	—	100%	Provision of terminal services and ports transportation
China Merchants International Terminals (Ningbo) Limited	British Virgin Islands	US$1	100%	—	Investment holding
China Merchants International Terminal (Qingdao) Company Limited ^	PRC	US$12,000,000	—	90.1%	Port, container terminal and logistic business
China Merchants Maritime & Logistics (Shenzhen) Ltd. # 1	PRC	RMB300,000,000	—	60%	Provision of container related logistics services
CMH International (China) Investments Company Limited # 1	PRC	US$30,000,000	100%	—	Investment holding

42 Particulars of principal subsidiaries (Continued)

Name of subsidiary	Place of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of issued capital/ registered capital held by the Company Directly	Indirectly	Principal activities
Hai Hong Industry (Shenzhen) Co Ltd # 1	PRC	HK$30,700,000	—	100%	Investment holding
Hempel-Hai Hong (China) Limited	Hong Kong	HK$106,000,000	—	64%	Sales of paint products
Hempel-Hai Hong Coatings (Kunshan) Company Limited #	PRC	HK$40,000,000	—	64%	Manufacture and sales of paint products
Hempel-Hai Hong Coatings (Shenzhen) Company Limited #	PRC	HK$40,000,000	—	64%	Manufacture and sales of paint products
Hempel-Hai Hong Coatings (Yantai) Company Limited #	PRC	RMB18,604,652	—	64%	Manufacture and sales of paint products
Hempel Coatings (Shenzhen) Company Limited #	PRC	RMB20,000,000	—	64%	Manufacture and sales of paint products
Mega Shekou Container Terminals Limited	British Virgin Islands	US$100	—	70%	Investment holding
Shenzhen Mawan Port Service Co., Ltd. ^	PRC	RMB200,000,000	—	70%	Operation of berth No. 5 in Mawan, Shenzhen, PRC
Shenzhen Mawan Wharf Co., Ltd. ^	PRC	RMB200,000,000	—	70%	Operation of berth No. 0 in Mawan, Shenzhen, PRC
Shenzhen Mawan Terminals Co., Ltd. ^	PRC	RMB335,000,000	—	70%	Operation of berths No. 6 & No. 7 in Mawan, Shenzhen, PRC
Shenzhen Haixing Harbor Development Co., Ltd. ^1	PRC	US815,151,500	—	67%	Ports and container terminal business
Shenzhen Huxing Tug Service Co., Ltd ^1	PRC	RMB2,000,000	—	55%	Operation of tugboats
Shenzhen Haiqin Engineering Supervision & Management Co., Ltd. ^1	PRC	RMB3,000,000	—	55%	Provision of services on ports construction

42 Particulars of principal subsidiaries (Continued)

Name of subsidiary	Place of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of issued capital/ registered capital held by the Company Directly	Indirectly	Principal activities
Shekou Container Terminals Limited #	PRC	HK$618,201,150	—	70%	Operation of berth No.1 and 2 in Shekou
Shekou Container Terminals (Phase II) Company Limited #	PRC	HK$608,549,000	—	70%	Operation of berth No.3 and 4 in Shekou
Shekou Container Terminals (Phase III) Company Limited #	PRC	RMB1,276,000,000	—	70%	Operation of berth No. 5, 6 and 7 in Shekou, PRC
Treasure Group Investments Limited	British Virgin Islands	US$50,000	100%	—	Investment holding
Alliance Field Limited	British Virgin Islands	US$50,000	—	100%	Investment holding
Billion Winner Limited	British Virgin Islands	US$50,000	—	100%	Investment holding
Oriental Palace Limited	British Virgin Islands	US$50,000	—	70%	Investment holding
Universal Sheen Investment Limited	Hong Kong	HK$100	100%	—	Property holding
Zhangzhou China Merchants Port Company Limited ^	PRC	RMB1,000,000,000	—	60%	Operation of berths No. 3 to No. 6 in the Zhangzhou Economic Development Zone, Fujian Province, PRC
Zhangzhou China Merchants Tugboat Company Limtied ^	PRC	RMB15,000,000	—	70%	Operation of tugboat in the Zhangzhou Economic Development Zone Fujian Province, PRC
安通捷碼頭倉儲服務（深圳）大限公司 #1	PRC	HK$100,000,000	—	100%	Holding of certain pieces of land in Shekou
安速捷碼頭倉儲服務（深圳）有限公司 #1	PRC	HK$100,000,000	—	100%	Holding of certain pieces of land in Shekou
安運捷碼頭倉儲服務（深圳）有限公司 #1	PRC	HK$30,000,000	—	70%	Holding of certain pieces of land in Shekou
漳洲招商局廈門灣港務有限公司 ^1	PRC	RMB80,000,000	—	60%	Provision of container terminal services and ports transportation

1 The financial statements of these subsidiaries were not audited by PricewaterhouseCoopers.

Foreign investment enterprises.

^ Sino-foreign joint ventures

43 Particulars of principal associates

Name of associate	Place of incorporation/ registration and operation	Proportion of issued capital/ registered capital held by the Company Directly	Indirectly	Principal activities
Asia Airfreight Terminals Company Limited [1]	Hong Kong	—	20%	Airfreight
China International Marine Containers (Group) Co., Ltd. (B shares listed in the Mainland China) [1]	PRC	6.767%	16.302%	Design, manufacture and sales of dry freight containers and refrigerated containers
China Nanshan Development (Group) Incorporation ^ [1]	PRC	—	37%	Ports transportation, petroleum services, property development, food and oil processing, building materials and other engineering services
Modern Terminals Limited [1]	Hong Kong	—	27.01%	Provides container terminal services and warehouse services
Chiwan Container Terminal Co. Ltd ^	PRC	—	20%	Ports and container terminal business
Shanghai International Port (Group) Co., Ltd. (A shares listed in the Mainland China) ^ [1]	PRC	—	26.539%	Ports and container terminal business
Tianjin Haitian Bonded Logistics Co., Ltd.	PRC	—	49%	Provides container terminal services and warehouse services
深圳鐵和儲運有限公司	PRC	—	45%	Provision of logistics and storage services

1 The financial statements of these associates were not audited by PricewaterhouseCoopers

^ Sino-foreign joint ventures

44 Particulars of principal jointly controlled entities

Name of jointly controlled entity	issued capital/ registered capital	Proportion of issued capital/ registered capital held indirectly by the Company	Principal activities
Zhanjiang Port (Group) Co. Ltd.	RMB3,600,000,000	45%	Ports and container terminal business
Ningbo Daxie China Merchants International Terminals Company Limited ^ 1	RMB1,209,090,000	45%	Ports and container terminal business
Shenzhen Cyber-Harbour Netwrok Co., Limited ^ 1	RMB5,000,000	62.5%	Provision of computer network services
China Merchants Svitzer (Qingdao) Towage Co., Ltd ^	RMB27,000,000	51%	Operation of tugboats
Regional Merchants International Freight Forwarding Co., Ltd	HK$12,000,000	20%	Provision of transportation service
Regional Merchants Maritime Ltd.	HK$8,000,000	20%	Provision of shipping service

1 The financial statements of these jointly controlled entities were not audited by PricewaterhouseCoopers

^ Sino-foreign joint ventures

Corporate Information

Board of Directors

Dr. Fu Yuning *(Chairman and Managing Director)*

Mr. Li Yinquan

Mr. Hu Zheng

Mr. Meng Xi

Mr. Su Xingang

Mr. Hu Jianhua

Mr. Wang Hong

Mr. Yu Liming

Mr. To Wing Sing

Mr. Tsang Kam Lan*

Mr. Kut Ying Hay*

Mr. Lee Yip Wah Peter*

Mr. Li Kwok Heem John*

Mr. Li Ka Fai David*

* independent non-executive director

Registered Office

38th Floor East, China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Company Secretary

Mr. Leung Chong Shun, Practising Solicitor

Principal Bankers

China Construction Bank

Industrial and Commercial Bank of China

China Merchants Bank

Bank of China

Auditor

PricewaterhouseCoopers

Legal Adviser

Linklaters

Stock Code

0144

Registrars

Computershare Hong Kong Investor Services Limited
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

Website

http://www.cmhi.com.hk

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at the Atrium Room, Level 39, Island Shangri-La Hong Kong, Pacific Place, Supreme Court Road, Central, Hong Kong on Friday, 23 May 2008 at 9:30 a.m. for the following purposes:

1. To receive and consider the Audited Consolidated Financial Statements and the Report of the Directors and the Independent Auditor's Report for the year ended 31 December 2007.
2. To declare a final dividend for the year ended 31 December 2007.
3. To re-elect the retiring Directors and to authorise the Board to fix the remuneration of Directors.
4. To re-appoint Auditors and to authorise the Board to fix their remuneration.
5. As special business, to consider and, if thought fit, to pass with or without modifications the following resolutions as ordinary resolutions:

A. "THAT:

(a) subject to paragraph (c) of this Resolution and pursuant to section 57B of the Companies Ordinance, the exercise by the Directors of the Company during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company or securities convertible into such shares or options, warrants or similar rights to subscribe for any shares in the Company and to make or grant offers, agreements and options which might require the exercise of such power be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) of this Resolution shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such power after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as defined below); (ii) the exercise of rights of subscription or conversion under the terms of any warrants issued by the Company or any securities which are convertible into shares of the Company; (iii) any option scheme or similar arrangement for the time being adopted for the grant or issue of shares or rights to acquire shares of the Company; or (iv) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Articles of Association of the Company, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this Resolution and the said approval shall be limited accordingly; and

(d) for the purposes of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable law to be held; and

(iii) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders in general meeting.

"Rights Issue" means an offer of shares of the Company open for a period fixed by the Directors of the Company to holders of shares of the Company on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong)."

B. "THAT:

(a) subject to paragraph (b) of this Resolution, the exercise by the Directors of the Company during the Relevant Period (as defined below) of all the powers of the Company to repurchase its own shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of shares of the Company which may be repurchased by the Company pursuant to the approval in paragraph (a) of this Resolution during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution and the said approval shall be limited accordingly; and

(c) for the purposes of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable law to be held; and

(iii) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders of the Company in general meeting."

C. **"THAT** conditional upon Resolutions numbered 5A and 5B set out in the notice convening this meeting being passed, the aggregate nominal amount of the number of shares in the capital of the Company which are repurchased by the Company under the authority granted to the Directors of the Company as mentioned in Resolution numbered 5B set out in the notice convening this meeting shall be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors of the Company pursuant to Resolution numbered 5A set out in the notice convening this meeting, provided that the amount of share capital repurchased by the Company shall not exceed 10 per cent. of the total nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution."

By order of the Board

Dr. Fu Yuning
Chairman

Hong Kong, 25 April 2008

Registered Office:
38th Floor East, China Merchants Tower,
Shun Tak Centre,
168-200 Connaught Road Central,
Hong Kong

Notes:

1. A member entitled to attend and vote at the meeting convened pursuant to the above notice is entitled to appoint one or more proxies to attend and vote in his place. A proxy need not be a member of the Company.

2. In order to be valid, the instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power of attorney or authority, must be deposited at the Company's registered office at 38th Floor East, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting.

3. The register of members of the Company will be closed from 19 May 2008 to 23 May 2008, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend to be approved at the meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 16 May 2008.

4. Concerning resolutions numbered 5A and 5C above, the Board wishes to state that it has no immediate plans to issue any new shares in the Company. The ordinary resolution is being sought from members as a general mandate in compliance with section 57B of the Companies Ordinance and the Listing Rules.

5. Concerning resolution numbered 5B above, the Board wishes to state that it has no immediate plans to repurchase any existing shares pursuant to the relevant mandate. Approval is being sought from members as a general mandate to be given to the Directors to repurchase shares. The Explanatory Statement required by the Listing Rules in connection with the proposed repurchase mandate will be despatched to members together with the notice of the meeting.

6. According to the Articles of Association of the Company, a poll may be demanded by:

   (a) the chairman of the Annual General Meeting; or

   (b) at least five Shareholders having the right to vote at the Annual General Meeting; or

   (c) any Shareholder or Shareholders representing in aggregate not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the Annual General Meeting; or

   (d) any Shareholder or Shareholders holding shares conferring a right to vote at the Annual General Meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

   A poll shall be taken either forthwith or at such time (being not later than thirty days after the date of the demand) and in such manner as the chairman of the Annual General Meeting directs. On a poll, every Shareholder present at the Annual General Meeting shall be entitled to one vote for every fully paid up share of which he is the holder. The result of such poll shall be deemed for all purposes to be the resolution of the meeting at which the poll was so directed or demanded.

7. As at the date of this notice, the Board of Directors of the Company comprises Dr. Fu Yuning, Mr. Li Yinquan, Mr. Hu Zheng, Mr. Meng Xi, Mr. Su Xingang, Mr. Hu Jianhua, Mr. Wang Hong, Mr. Yu Liming and Mr. To Wing Sing as executive directors; and Mr. Tsang Kam Lan, Mr. Kut Ying Hay, Mr. Lee Yip Wah Peter, Mr. Li Kwok Heem John and Mr. Li Ka Fai David as independent non-executive directors.

DESIGNED BY MONOPOLY DESIGN LIMITED

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