Management Discussion and Analysis

Business Review

During the first half of 2008, China's national economy grew as expected and, as a whole, maintained a satisfactory growing trend. Statistics released by the National Bureau of Statistics of China revealed that China's Gross Domestic Product grew 10.4%. Affected by factors such as the sub-prime crisis in the United States and a high oil price internationally, inflationary pressure heightened globally alongside the slowing down of the world's economic growth and the increasing uncertainties in economic development combined have intensified the complexity encountered by ports operators in responding to the prevailing international economic climate. Whilst China's economic growth has also reflected signs of slowing down, it has still maintained a relatively speedy pace. During the period under review, external economic environment together with the continuing RMB appreciation and increasing raw material costs have collectively led to a decreasing export growth and an increasing import growth in China's foreign trade, resulting in turn in an aggregate foreign trade growth of approximately 26%, or an increase of over 2 percentage points as compared to the same period last year. Notwithstanding a slower growth in China's foreign export during this period, Chinese exports to its major trade partners have continued to grow at a relatively satisfactory rate. According to data published by China's General Administration of Customs, China's exports during the first half of the year to the European Union member countries rose 27%, 9% for the US, 30% for the ASEAN countries, and respectively 15% and 36% for Japan and Korea. Currently, the European Union and the Asian countries have, in terms of export trade values, emerged as China's key trade partners. This to a certain extent has offset the adverse impact on foreign exports brought about by a slow-down in the US economy and effectively continued to fuel and support the development of China's container port business. Statistics released by the Ministry of Communications of China revealed that China's container throughput reached 61.65 million TEUs for the first half of this year, representing an increase of 17.1% over the same period last year.

Currently the Group's ports operations, its core business segment, are still primarily based in Mainland China. With the ASEAN and EU countries having become the major driving forces to sustain China's fast-growing international trade, the container throughput for the Group's ports in various regions has benefited from its focused market development efforts towards expanding Euro-Asian routes and hence continued to grow satisfactorily. During the first half of 2008, in response to the prevailing market's changing environment and competitive dynamics, and escalation in operating costs, the Group has initiated and implemented a series of measures - ranging from strategic development to internal control - with which to bring about the sustainable economic benefits to the Group as reflected in the more-than-satisfactory double-digit growth.

The Group's profit attributable to shareholders during the first half of the year was HK$2,019 million, an increase of 32.8% over that of last year, whereas its after-tax recurrent profit excluding net-of-tax exceptional items rose 27.4% to HK$1,932 million year-on-year. The share of EBITDA[Note 1] derived from the Group's ports operations relative to the Group's total EBITDA rose to 82% from 73% of last year.

During the period under review, the Group recorded revenue of HK$3,365 million, an increase of 10.9% over that of the corresponding period last year. Revenue of the Group's ports operations amounted to HK$2,042 million, representing an increase of 39.8% over that of last year.

Ports Operations

During the first half of 2008, EBIT[Note2] derived from the Group's ports operations amounted to HK$2,457 million, representing a year-on-year increase of 41.1% and accounting for 79.8% of the Group's total EBIT.

During this period, the port projects in which the Group is interested handled a total container throughput volume of 25.14 million TEUs, an increase of 13% over that of last year. Of these, throughput volume handled by the Group's ports projects in Mainland China and Hong Kong were respectively 21.66 million TEUs and 3.48 million TEUs, representing a corresponding year-on-year increase of 15% and 4% respectively. Amid market environment where the growth rate for exports has been slowing down, the Group's ports have continued to, on the one hand, step up their efforts in exploring target markets and, on the other hand, improve the operating efficiency and service quality through introduction of measures aimed to enhance internal control and encourage efficient deployment of resources. As a result, both shipping routes for, and the associated container throughput volumes handled by, the Group's ports have all recorded relatively significant increases alongside the claiming of expanded market shares in their respective regions. During the first half of 2008, container throughput handled by the Group's Western Shenzhen Port Zone totalled 5.86 million TEUs, or an increase of 18%, which has far exceeded the 7% throughput growth rate recorded by the entire Shenzhen area. The market share of Western Shenzhen Port Zone has, as a result, expanded by 5 percentage points over that of last year, to approximately 58%. The container throughput of the Group's Zhangzhou Terminal has accomplished its initial scale ramp-up with throughput reached 0.21 million TEUs during the period, an increase of 101% over the same period last year. Ningbo Daxie Terminal achieved a throughput volume of 0.48 million TEUs, a year-on-year increase of approximately 48% while Shanghai International Ports (Group) Co., Ltd ("SIPG") handled 13.82 million TEUs, an increase of 10% as compared to that of last year. Qingdao Terminal commenced its first full year operation in 2008 and, for the first half of the year, handled slightly under 0.2 million TEUs of throughput, whereas Tianjin Five Continents Terminal handled 0.96 million TEUs, an increase of 6%. Zhanjiang Port (Group) Co., Ltd. ("ZPG"), in which the Group invested at the end of last year, recorded a throughput volume of 0.13 million TEUs in the first half of 2008, representing an increase of 20% over the same period last year. In Hong Kong, Kwai Chung Container Terminals and the mid-stream operation, the Group's investment interests there, achieved a total container throughput of 3.48 million TEUs, a 4% increase year-on-year.

The Group's investment in ZPG has further enhanced the Group's handling capability in bulk and general cargoes. During the period under review, the total throughput of bulk and general cargoes handled by the Group rose 47% when compared to those of last year to reach 114.26 million tonnes. The volume of bulk and general cargoes handled by ZPG during the period stood at 31.31 million tonnes, a year-on-year increase of 37%. The Group is of the view that China's demand for resource-related and raw-material bulk commodities will persist for a long time into the future and expects that its investment in ZPG will enable the Group to derive economic benefits with which to further support the Group's development in ports operations. Enhancements in the handling capacity of berths at the Group's Zhangzhou Port have greatly facilitated its business growth: throughput handled rose 25% to 3.16 million tonnes. On the other hand, the bulk and general cargo operation of the Group's facilities at Western Shenzhen Port Zone continued to consolidate and recorded a total throughput of 17.12 million tonnes, a growth of approximately 3% year-on-year.

Stemmed from the perspective of pursuing integration of ports resources, the Group has, in addition to continuing to consolidate the customer groups for its ports assets at the Western Shenzhen Port Zone, endeavoured to expand the geographical coverage by, and further refine the network mapping of, these assets, all aiming towards improving the operating environment in the region while enhancing operational efficiency. At present, the coverage of the South China shuttle barge services has already extended to three provinces, viz. Guangdong, Guangxi and Hainan. The commuter service between ZPG and China Merchants Container Services Limited has also commenced. The Group's Western Shenzhen Port Zone possesses unique geographical advantage in attracting cargo sources generated along the coastal area of the Pearl River. Seamless connection between Western Shenzhen Port Zone and cargo origin locations in the Pearl River Delta is one of the factors for the throughput growth at the Western Shenzhen Port Zone. Developing the shuttle barge services has helped to effectively guide the directions of cargo flows. Extension of geographical coverage by these liner services combined with cargo sources penetration will facilitate closer co-operations between shipping companies and terminal operators and, in turn, elevate the overall competitiveness of the Western Shenzhen Port Zone to meet demand arising from the prevailing new market environment.

With a view to further expanding the reach-out by land of the Group's "home-base" ports at Western Shenzhen into the Pearl River Delta hinterland, the Group is in the course of establishing smooth inter-modal connections by linking up terminals by rail ("Sea-Rail link"). Such multi-modal linkage by rail is expected to release the efficiency potential provided by the container transport service under modern logistics and international container multi transport mode. It also avails the Group's target customers with another alternative for transportation routings. Whilst still at the beginning stage, the Group believes that the establishment of a smooth sea-rail inter-modal linkage network will enable its operations at Western Shenzhen Port Zone to expand both laterally and vertically, and eventually become a new revenue source to add to the Group's business growth.

In recent years, the Group has initiated a series of on-going improvement measures that aim to continuously uplift the Group's competitiveness. These range from road network refinements within the ports zone, channel improvements, resources re-alignment alongside cost saving and environment protection measures. In addressing issues like soaring oil price and rising operating costs faced by shipping companies, with a view to achieving higher operating efficiency and offering better quality service, and to meeting demand for constructing cost-effective green port facilities, the Group has adopted means such as internal technical improvement of equipment, streamlining operation flow, etc. in order to reduce energy consumption at terminals, a designated key task in the operational procedures of its ports. During the period under review, measures implemented include transforming diesel-driven equipment into electricity power-driven, and offering electricity as an alternative to vessels at terminal berthing (the "Alternative Maritime Power Service"), all in all to help the Group's port production and operation units to reduce energy consumption.

Furthermore, in response to the pressure of RMB appreciation, the Group has basically completed all liaison processes with its customers that were needed to have them agree to convert all foreign currency-based contracts into RMB-based contracts, thereby effectively mitigating the negative impact of exchange rate risks on the Group brought about by the RMB appreciation. The Group considers that this adjustment will protect the investment interests of its shareholders.

Ports-related Operations

During the first half of 2008, EBIT generated by the Group's ports-related operations amounted to HK$519 million, representing an increase of 4.3% compared to that of last year. With the global economic development becoming increasingly uncertain due to the negative impact caused by the US sub-prime crisis, the performance of China International Marine Container (Group) Co., Ltd. (the "CIMC Group"), with its core business being closely related to the global economy and trade, the performance of the shipping industry and of China's manufacturing industry and export trade, has been directly affected by the current economic volatility. Its operating profit has, in particular, been impacted by the relatively significant price increases in raw materials such as steel and wood in the first half of 2008. Compared to the same period last year, the CIMC Group's sales volume has seen little increase during this period, as a result of the relatively weak demand from the shipping market. Sales of containers in the first half of 2008 totaled 1.043 million TEUs, an increase of 2.8% over those of last year. Sales of various kinds of vehicles totaled 71,000 units, a year-on-year increase of 14.6%.

Due also to the volatility in its market, the Group's subsidiary, Hempel-Hai Hong (China) Limited, sold a total of 50.77 million litres of paints during the first half of the year, a drop of 10% year-on-year.

Future Prospects

According to the latest forecast by the International Monetary Fund in July 2008, the global economy is expected to grow by 3.9% in 2008, which reflects a decrease of 1.1 percentage point from 2007, while the growth rates of major economies is expected to display different degrees of decline. During the period under review, China's economy has steered on track, maintaining an overall steady and rapid momentum that is in line with the forecast laid down under the macro-economic control scheme earlier implemented. Outlook for the second half of 2008 suggests that, with external demand expected to continue to weaken and prices of major cost factors to remain high, growth rate in China's export business is likely to be affected. Overall, however, the Group is of the opinion that the economy of the Asia region will continue its vibrant trend and that China's trades with Europe and the ASEAN countries will continue to do well. These factors combined will firmly support the continued growth of China's international trade and, in turn, its container terminal business for the long term. In the meantime, the Group is becoming aware of the increasing share of domestic-trade-related container throughput in China's total container throughput and the corresponding influencing force exerted by such throughput volume on the growth trend of China's total container throughput. The Group will closely monitor the development of container business for domestic trades in the future.

China's sustainable and steady economic growth has provided strong and solid support to the development of its ports. For five consecutive years to 2007, ports in China have been ranked No.1 in the world in terms of throughputs in cargoes and in container volume. In 2007, the number of ports which reported a handled cargo throughput in excess of 100 million tonnes reached 14, while container throughput handled by China, on the other hand, exceeded 100 million TEUs. At present, the Group's operation is primarily situated in Mainland China and Hong Kong and is at a good development stage, benefiting from the enormous China hinterland market together with its strong economic progress which provides a satisfactory operating environment for the Group's ports. While its business would inevitably be affected by the prevailing volatility of the global economy, the Group is confident in its ability to, through strategic adjustments and enhanced internal management, weather the pressure induced by such economic environment. In order to further strengthen the competitive positioning of the Group's "home-base" ports in Western Shenzhen and to continuously enhance their operating capability, the Group has consistently pursued integration of internal resources and improvement of efficiency, and continues to enhance its transhipment transportation network in South China waters through the South China shuttle barge services. In addition, the Group has been instigating to establish a seamless inter-modal network at the Western Shenzhen Ports Zone by, at this stage, linking up with the rail network. The Group firmly believes that equipping its ports assets at Western Shenzhen Port Zone with the shuttle barge services and the sea-rail inter-modal linkage in order to extend Western Shenzhen Port Zone's reach-out into the Southern China hinterland will ensure the Group's operation strength in Shenzhen is maintained.

Taking into consideration the development trends of China's major economic regions, the Group is of the view that the Pearl River Delta's position as China's major export processing region is unlikely to change radically for a considerable period of time. The pace of development at the Yangtze River Delta region is expected to remain rapid on the whole, particularly in the development of market economy, thereby well-positioning the Group to weather adverse impact that may be caused by possible economic changes. As regards the Bohai Rim, with the development of the Tianjin Binhai New Area and the commencement of operation of the Beijing-Tianjin intercity railway, the vast hinterland centred around, and covered by, Beijing and Tianjin is expected to give rise to new development opportunities. ZPG, representative of the Group's investment foothold in China's southwestern coastal region, is China's major receiving port for resource-based bulk commodities under China's current development plan. The continuing growth of China's economy and its growing consumption ability is expected to play a prominent role in supporting the development of dedicated bulk commodities business in the long term. In July 2008, Baosteel Group Corporation ("BGC") was brought in as an 8% strategic investor in ZPG as part of a new issue of shares by ZPG, which resulted in a modest dilution of the Group's stake in ZPG from 45% to 40.3%. The Group believes that this strategic investment tie-up, which marked another milestone in ZPG's corporate development, will further enhance not only the long-term co-operation between ZPG and BGC and also ZPG's position as a major delicated resource-based port in Southern China.

One differentiating edge uniquely possessed by the Group in terms of investments in, operating and managing ports is that not only is the Group involved in container stevedoring operations, but it also possesses extensive practical experience in the construction and operation of ports for bulk commodities business. With increasing industrialization and urbanization, sufficiency or otherwise of energy supply has become a crucial restrictive factor in the economic and social development of a location. Therefore, China has long-term demand for resource-based bulk commodities. Further, the appreciation of Renminbi will to a certain extent fuel China's import of bulk commodities. The Group believes that ports projects to handle dedicated bulk commodities will over time become one of the Group's important profits contributors.

The growth potential of a ports operation hinges on the establishment of a comprehensive logistics network in the proximity. To gradually derive benefits from and to enhance the functions of comprehensive logistics networks has been, and will continue to be, the Group's consistently prime task. As regards the developing of ancillary logistics business, the Group´s marine logistics business in Shenzhen has been progressing smoothly. The Group also expects Qingdao Logistics Park to soon effect its interactive functions through a physical link-up with the Group's terminal operations in the area. In addition, the Tianjin Dong Jiang Bonded Logistics and Processing Park, in which the Group is interested, will also commence operation by the end of the year. Currently, the Shenzhen City Municipality has already applied to the relevant State authorities for qualifying the Qianhaiwan area, at which the Group owns land designated for use by ports and related projects situated there, as one of China's bonded port zone and positive progress has been made. The official approval for qualifying the Qianhaiwan area as a bonded port zone, as and when received, will further enhance its attractiveness for export and import of cargoes to flow through. The award of such status is expected to directly benefit the Group's Western Shenzhen Ports Zone.

At the same time as it develops its container handling operations, the Group believes developing environmental-friendly green ports is the key trend for the future, and green ports will gradually become one of the major indicators of enhancing port competitiveness. Therefore, simultaneous as it expands its operations, the Group will, from the perspective of cost-saving and environmental-friendly construction, implement energy-saving modification and reduce fuel consumption, with a view to improving the economic and social benefits of ports operations.

In response to opportunities and challenges relating to ports operations, the Group will, on one hand, conduct in-depth research on macro-economy and trade environment as well as on micro-market changes, and the related dynamics for marine and terminal operations. It will, on the other hand, endeavour to capture appropriate investment opportunities for target projects with a view to optimizing the Group's interests. Meanwhile, given the current market trends towards operating larger-scale vessels and vessel companies forming alliances, the Group will further strengthen connections and co-operation with enterprises engaged in maritime sectors with a view to achieving mutually beneficial situations. The Group has established meaningful business relations with leading marine and shipping companies around the world and is business partner to many ports operator groups in Mainland China. Its ports have also worked closely among one another in respect of information exchange and resources sharing in order to achieve optimal benefits. The Group believes that, along its future development path, not only will it continue to maintain its leading position in the home market in the ports sector, it is also capable of demonstrating its operating capability in development projects overseas.

Note 1: 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.

Note 2: Earnings before net interests and 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.

Liquidity and Treasury Policies

As at 30 June 2008, the Group had approximately HK$3,231 million in cash, 7.4% of which was denominated in Hong Kong dollars, 72.1% in US dollars, 19.7% in Renminbi and the balance in Euros.

The Group's source of funds is mainly derived from its operating activities in ports and ports-related businesses and investment returns from associates and jointly controlled entities, amounting to HK$1,785 million in total. During the period, the Group incurred more than HK$851 million for its capital expenditure. While the Group has been expanding its investment, it continues to adopt a prudent financial policy. The Group, with abundant cash to meet its daily operating requirements, is financially sound. 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, the pressure for repaying the short-term loans is limited.

Share Capital and Financial Resources

As at 30 June 2008, the Company had 2,407,715,200 shares in issue. During the period, the Company issued 1,604,000 new shares upon the exercise of share options and received HK$32 million as a result. On 4 July 2008, the Company issued 3,758,457 shares under the Company's scrip dividend scheme.

As at 30 June 2008, the Group's gearing ratio (total interest-bearing debts divided by net assets) was about 42.4%.

Considering the currency mix of its assets and liabilities and that significant depreciation of Renminbi is not expected, the Group has not entered into any specific hedging arrangements for its foreign currency investments during the period.

As at 30 June 2008, the Group's outstanding interest-bearing debts were analysed as below:

	30 June 2008 HK$'million	31 December 2007 HK$'million
Floating-rate bank borrowings which are repayable *(Note)*:		
Within 1 year	**2,723**	2,294
Between 1 and 2 years	**675**	835
Between 2 and 5 years	**1,464**	1,726
Not wholly repayable within 5 years	**—**	650
	4,862	5,505
Fixed-rate listed notes payables are repayable:		
In 2013	**2,320**	—
In 2015	**3,881**	3,880
In 2018	**1,535**	—
	7,736	3,880

The interest bearing debts are denominated in the following currencies:

	30 June 2008			31 December 2007		
	Bank borrowings HK$'million	**Notes payable HK$'million**	**Total HK$'million**	Bank borrowings HK$'million	Notes payable HK$'million	Total HK$'million
HKD & USD	**2,913**	**7,736**	**10,649**	3,861	3,880	7,741
RMB	**1,949**	**—**	**1,949**	1,644	—	1,644
	4,862	**7,736**	**12,598**	5,505	3,880	9,385

Note: All bank borrowings are unsecured except for HK$2 million in 2007.

Assets Charge

As at 30 June 2008, the Group did not have any charge over its assets.

Employees and Remuneration

As at 30 June 2008, the Company and its subsidiaries employed 5,832 full time staff, of which 62 were working in Hong Kong, and the remaining 5,770 were working in the PRC. The remuneration paid for the period amounted to HK$323 million, representing 13.2% 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.

Interim Dividend

In order to reward investors' continuous support of the Group, the Board has declared an interim dividend of 28 HK cents per share in scrip form for the period, represents a dividend payout of 33.4%. The interim dividend will be paid on or around 26 November 2008 to shareholders whose names appear on the Register of Members of the Company on 10 October 2008, with an alternative to the shareholders to elect to receive such interim dividend (or part thereof) in cash in lieu of such allotment (the "Scrip Dividend Scheme").

A circular containing details of the Scrip Dividend Scheme together with the relevant election form will be sent to shareholders on or around 24 October 2008. The Scrip Dividend Scheme is conditional upon the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited of the listing of and permission to deal in the new shares to be issued pursuant thereto. It is expected that certificates for the new shares will be despatched to shareholders on or around 26 November 2008.

Closure of Register

The Register of Members will be closed from 6 October 2008 to 10 October 2008 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers and 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 3 October 2008. The interim dividend will be paid on or around 26 November 2008 to shareholders whose names appear on the Register of Members of the Company on 10 October 2008.

Directors' Interests in Securities

As at 30 June 2008, 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 ("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 of the Company as at 30 June 2008
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	506,989	150,000	0.0273%
Mr. Yu Liming	Beneficial owner	Personal interest	200,000	650,000	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	141,120	—	0.0059%
Mr. Li Kwok Heem John	Interest of spouse	Family interest	1,413,409	—	0.0587%
			2,950,547	**3,000,000**	**0.2472%**

Save as disclosed above and based on the register maintained by the Company under section 352 of the SFO, as at 30 June 2008, none of the directors or chief executive of the Company or any of their associates had any interests and short positions in the shares, underlying shares and debenture of the Company or any of its associated corporations (within the meaning of 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 Issuers ("Model Code") set out in Appendix 10 to 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 of Hong Kong Limited (the "Stock Exchange").

Apart from the share option scheme disclosed below, at no time during the current period 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 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 (the "Eligible Persons"), to take up options to subscribe for fully paid ordinary shares (the "Shares") in the Company subject to the terms and conditions stipulated therein.

In view of the on-going support given to the Company by China Merchants Holdings (Hong Kong) Company Limited, an intermediate holding company of the Company, together with its subsidiaries (excluding the Group) and associated companies (together, the "CMHK Group"), the Board considered that it is in the best interest 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 of the Company held on 27 August 2002 to amend the Share Option Scheme to effect such extension of Eligible Persons.

Details of the share options outstanding as at 30 June 2008 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 2008	Options granted during the period	Options exercised during the period	Options lapsed/ cancelled during the period	Other changes during the period	Options held as at 30 June 2008
Director								
Dr. Fu Yuning	25 May 2006	23.03	400,000	—	—	—	—	400,000
Mr. Li Yinquan	27 October 2004	11.08	50,000	—	—	—	—	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	25 May 2006	23.03	200,000	—	—	—	—	200,000
Mr. Su Xingang	25 May 2006	23.03	350,000	—	—	—	—	350,000
Mr. Wang Hong	25 May 2006	23.03	150,000	—	—	—	—	150,000
Mr. Yu Liming	27 October 2004	11.08	350,000	—	(200,000)	—	—	150,000
	25 May 2006	23.03	500,000	—	—	—	—	500,000
Mr. To Wing Sing	25 May 2006	23.03	100,000	—	—	—	—	100,000
			3,200,000	**—**	**(200,000)**	**—**	**—**	**3,000,000**

Name		Date of grant	Exercise price HK$	Options held as at 1 January 2008	Options granted during the period	Options exercised during the period	Options lapsed/ cancelled during the period	Other changes during the period	Options held as at 30 June 2008
Continuous contract employees									
(I)	The Group	11 October 2002	4.985	50,000	—	(50,000)	—	—	—
		27 October 2004	11.08	1,730,000	—	(222,000)	—	—	1,508,000
		25 May 2006	23.03	14,714,000	—	(480,000)	—	—	14,234,000
		21 June 2006	20.91	150,000	—	—	—	—	150,000
(II)	The CMHK Group	11 October 2002	4.985	100,000	—	—	—	—	100,000
		27 October 2004	11.08	1,100,000	—	—	—	—	1,100,000
		25 May 2006	23.03	12,156,000	—	(652,000)	—	—	11,504,000
				30,000,000	—	(1,404,000)	—	—	28,596,000
				33,200,000	**—**	**(1,604,000)**	**—**	**—**	**31,596,000**

Notes:

1. 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.
2. The weighted average closing market price per share immediately before the dates on which the share options were exercised was HK$36.28.
3. No options were granted during the period.

Substantial Shareholders

As at 30 June 2008, 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]	55.73%
China Merchants Steam Navigation Company Limited	Interest of Controlled Corporation	1,194,928,479[2]	49.63%
China Merchants Holdings (Hong Kong) Company Limited	Interest of Controlled Corporation	1,194,928,479[2]	49.63%
China Merchants Union (BVI) Limited	Beneficial Owner	1,164,476,497	48.36%
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 Limited	Beneficial Owner	20,406,034	
	Interest of Controlled Corporation	124,314,569[3]	6.01%
Super Talent Group Limited	Beneficial Owner	124,314,569[3]	5.16%

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 ("CMG"). 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.

Corporate Governance

(a) Compliance with the Code on Corporate Governance Practices

During the period, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules except the following:

Code Provision A.2.1

Code Provision A.2.1 provides that the role of chairman and chief executive officer should be separated and should not be performed by the same individual.

Due to the resignation of Mr. Li Yi as an Executive Director and Managing Director of the Company with effect from 31 May 2005, from which date Dr. Fu Yuning, Chairman of the Company, has been acting as Managing Director of the Company. The Board considers that, having performed the roles of Chairman and Managing Director of the Company for over three years, Dr. Fu has been leading the Company and is most aware of the Company's strategic policies and development. The Board further considers that it is therefore in the best interests of the Company for the roles of Chairman and Managing Director to be combined and continued to be performed by Dr. Fu in order to facilitate the efficient formulation and implementation of the Company's strategies thereby enabling the Company to smoothly progress as it has been and to capture business opportunities promptly and efficiently as and when they arise.

(b) Compliance with Model Code

The Company has adopted 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, they confirmed that all of them have complied with the required standard set out in the Model Code during the period.

Audit Committee

The Audit Committee of the Company comprises all of the five independent non-executive directors. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financing reporting matters including the review of the unaudited interim results for the six months ended 30 June 2008.

Purchase, Sale or Redemption of the Company's Listed Securities

For the period, the Company and its subsidiaries did not purchase, sell or redeem any of the Company's listed securities.

By order of the Board
Dr. Fu Yuning
Chairman

Hong Kong, 2 September 2008