

Notes to Condensed Consolidated Interim Financial Information

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. The address of its registered office is 38/F East, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

This condensed consolidated interim financial information was approved for issue on 2 September 2008.

2 Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2008 has been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. This condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2007, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

3 Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2007, as described in those annual financial statements.

- (i) Interpretations that are effective for the Group’s accounting periods beginning on or after 1 January 2008
- HK(IFRIC)-Int 11 ‘HKFRS 2 – Group and treasury share transaction’
 - HK(IFRIC)-Int 12 ‘Service concession arrangements’
 - HK(IFRIC)-Int 14 ‘HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction’

The adoption of the above interpretations do not have any significant impact to the Group’s financial statements.

3 Accounting policies (Continued)

- (ii) Standards, amendments to standards and interpretations that have been issued but are not yet effective in 2008 and have not been early adopted by the Group
- HKAS 1 (Revised) 'Presentation of financial statements'
 - HKAS 23 (Revised) 'Borrowing costs'
 - HKAS 32 Amendment 'Financial instruments: presentation' and consequential amendments to HKAS 1 'Presentation of financial statements – puttable financial instruments and obligations arising on liquidation'
 - HKFRS 1 (Revised) 'First-time adoption of Hong Kong Financial Reporting Standards' and HKAS 27 (Revised) 'Consolidation and separate financial statements'
 - HKFRS 2 Amendment 'Share-based payment vesting conditions and cancellations'
 - HKFRS 3 (Revised) 'Business combinations'
 - HKFRS 8 'Operating segments'
 - HK(IFRIC)-Int 13 'Customer loyalty programmes'
 - HK(IFRIC)-Int 15 'Agreements for the construction of real estate'
 - HK(IFRIC)-Int 16 'Hedges of a net investment in a foreign operation'

4 Revenue

The Group is principally engaged in ports and ports-related operations. Revenue recognised during the period is as follows:

	Six months ended 30 June	
	2008 HK\$'million	2007 HK\$'million
Continuing operations		
Ports service and transportation income, container service and container yard management income	2,042	1,461
Sale of paints and related goods	1,308	1,390
Gross rental income from investment properties	15	12
	3,365	2,863
Discontinued operations		
Sale of development properties	—	171
Total	3,365	3,034

5 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 include paint manufacturing by the Group and container manufacturing by the Group's associate.
- (3) Other operations mainly 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 mainly 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 or other transactions between the geographical segments.

The Group disposed of its interests in toll road operation in Mainland China and property development operation in New Zealand on 11 July 2007 (*note 10*).

5 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	
	Six months ended 30 June							
	2008 HK\$' million	2007 HK\$' million	2008 HK\$' million	2007 HK\$' million	2008 HK\$' million	2007 HK\$' million	2008 HK\$' million	2007 HK\$' million
Continuing operations								
Ports operations	2,042	1,461	3,837	3,484	465	108	6,344	5,053
Ports-related operations	1,308	1,390	8,171	5,274	—	—	9,479	6,664
Other operations								
Property investment	15	12	—	—	—	—	15	12
	3,365	2,863	12,008	8,758	465	108	15,838	11,729
Discontinued operations								
Toll road	—	—	—	—	—	210	—	210
Property development	—	171	—	—	—	—	—	171
	—	171	—	—	—	210	—	381
	3,365	3,034	12,008	8,758	465	318	15,838	12,110

5 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 of associates		Share of profits of jointly controlled entities		Total	
	2008 HK\$' million	2007 HK\$' million	2008 HK\$' million	2007 HK\$' million	2008 HK\$' million	2007 HK\$' million	2008 HK\$' million	2007 HK\$' million
Six months ended 30 June								
Continuing operations								
Ports operations	874	606	1,149	891	87	39	2,110	1,536
Ports-related operations	150	144	270	307	—	—	420	451
Other operations								
Property investment	104	56	—	—	—	—	104	56
	1,128	806	1,419	1,198	87	39	2,634	2,043
Unallocated income less expenses							(12)	(84)
Finance income							9	25
Finance costs							(280)	(277)
Taxation							(159)	(134)
Profit for the period from continuing operations							2,192	1,573
Discontinued operations								
Toll road	—	17	—	—	—	119	—	136
Property development	—	13	—	—	—	—	—	13
	—	30	—	—	—	119	—	149
	1,128	836	1,419	1,198	87	158		
Finance income							—	7
Finance costs							—	(5)
Taxation							—	(9)
Profit for the period from discontinued operations							—	142
Profit for the period							2,192	1,715

5 Segment information (Continued)

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

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

	Segment assets		Interests in associates		Interests in jointly controlled entities		Segment liabilities		Total	
	30 June 2008 HK\$'million	31 December 2007 HK\$'million	30 June 2008 HK\$'million	31 December 2007 HK\$'million	30 June 2008 HK\$'million	31 December 2007 HK\$'million	30 June 2008 HK\$'million	31 December 2007 HK\$'million	30 June 2008 HK\$'million	31 December 2007 HK\$'million
Ports operations	24,465	23,561	12,742	12,174	2,604	2,368	(5,714)	(8,945)	34,097	29,158
Ports-related operations	1,821	1,742	4,371	4,030	–	–	(938)	(929)	5,254	4,843
Other operations										
Toll road	446	446	–	–	–	–	–	–	446	446
Property investment	798	700	–	–	–	–	(5)	(5)	793	695
Others	44	19	–	–	–	–	–	–	44	19
	1,288	1,165	–	–	–	–	(5)	(5)	1,283	1,160
	27,574	26,468	17,113	16,204	2,604	2,368	(6,657)	(9,879)	40,634	35,161
Unallocated assets									3,061	609
Unallocated liabilities									(11,018)	(6,827)
Tax recoverable									–	1
Taxation payable									(33)	(37)
Deferred tax assets									25	36
Deferred tax liabilities									(561)	(468)
									32,108	28,475

5 Segment information (Continued)**(a) Primary reporting format – business segments** (Continued)

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

	Capital expenditure		Depreciation and amortisation	
	Six months ended 30 June		Six months ended 30 June	
	2008 HK\$'million	2007 HK\$'million	2008 HK\$'million	2007 HK\$'million
Continuing operations				
Ports operations	846	3,012	339	262
Ports-related operations	5	24	7	7
Property investment	—	—	3	2
	851	3,036	349	271
Discontinued operations				
Property development	—	—	—	1
	851	3,036	349	272

5 Segment information (Continued)

(b) Secondary reporting format – geographical segments

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

	Revenue		Segment results	
	Six months ended 30 June		Six months ended 30 June	
	2008 HK\$'million	2007 HK\$'million	2008 HK\$'million	2007 HK\$'million
Continuing operations				
Hong Kong	185	197	128	76
Mainland China	3,036	2,514	985	714
Others	144	152	15	16
	3,365	2,863	1,128	806
Unallocated income less expenses			(12)	(84)
Operating profit from continuing operations			1,116	722
Discontinued operations				
Mainland China	—	—	—	17
New Zealand	—	171	—	13
Revenue/operating profit from discontinued operations	—	171	—	30
Revenue/operating profit	3,365	3,034	1,116	752

5 Segment information (Continued)**(b) Secondary reporting format – geographical segments** (Continued)

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

	Segment assets		Capital expenditure	
	30 June 2008 HK\$'million	31 December 2007 HK\$'million	Six months ended 30 June 2008 HK\$'million	2007 HK\$'million
Hong Kong	1,148	1,013	7	1
Mainland China	26,426	25,455	844	3,035
	27,574	26,468	851	3,036

6 Other gains, net and other income

	Continuing operations		Discontinued operations		Total	
	2008 HK\$'million	2007 HK\$'million	2008 HK\$'million	2007 HK\$'million	2008 HK\$'million	2007 HK\$'million
	Six months ended 30 June					
Other gains, net						
Increase in fair value of investment properties	95	45	—	—	95	45
Gains on disposal of jointly controlled entities	—	—	—	13	—	13
Loss on disposal of property, plant and equipment	(2)	—	—	—	(2)	—
Net exchange gains	78	7	—	7	78	14
Others	3	1	—	—	3	1
	174	53	—	20	174	73
Other income						
Income from held-to-maturity investments	—	—	—	4	—	4
Dividend income	18	12	—	—	18	12
	18	12	—	4	18	16

7 Expenses by nature

	Continuing operations		Discontinued operations		Total	
	Six months ended 30 June					
	2008 HK\$'million	2007 HK\$'million	2008 HK\$'million	2007 HK\$'million	2008 HK\$'million	2007 HK\$'million
Cost of inventories sold	984	1,047	—	—	984	1,047
Cost of development properties sold	—	—	—	140	—	140
Depreciation of property, plant and equipment	296	220	—	1	296	221
Amortisation of leasehold land and land use rights	53	51	—	—	53	51
Other expenses	1,108	888	—	24	1,108	912
	2,441	2,206	—	165	2,441	2,371

8 Finance income and costs

	Continuing operations		Discontinued operations		Total	
	Six months ended 30 June					
	2008 HK\$'million	2007 HK\$'million	2008 HK\$'million	2007 HK\$'million	2008 HK\$'million	2007 HK\$'million
Finance income from:						
Bank deposits	8	24	—	7	8	31
Available-for-sale financial assets	1	1	—	—	1	1
Finance income	9	25	—	7	9	32
Interest expense on:						
Bank borrowings, wholly repayable within five years	(124)	(153)	—	(5)	(124)	(158)
Bank borrowings, not wholly repayable within five years	(10)	—	—	—	(10)	—
Listed notes payable, wholly repayable within five years	(5)	—	—	—	(5)	—
Listed notes payable, not wholly repayable within five years	(109)	(105)	—	—	(109)	(105)
Amount due to ultimate holding company	(24)	—	—	—	(24)	—
Other financial liabilities	(36)	(43)	—	—	(36)	(43)
Total borrowing costs incurred	(308)	(301)	—	(5)	(308)	(306)
Less: amount capitalised in assets under construction	28	24	—	—	28	24
Finance costs	(280)	(277)	—	(5)	(280)	(282)
Finance (costs)/ income – net	(271)	(252)	—	2	(271)	(250)

Capitalisation rate of 6.2726% per annum (2007: 5.8628% per annum) was used, representing the weighted average rate of the costs of borrowings used to finance the assets under construction.