

17 Reserves

	Unaudited					
	Attributable to shareholders of the Company				Minority interest	Total
	Share capital HK\$'million	Share premium HK\$'million	Other reserves HK\$'million	Retained earnings HK\$'million	HK\$'million	HK\$'million
At 1 January 2008	241	13,821	3,791	8,989	1,633	28,475
Share of investment revaluation reserves of associates and jointly controlled entities	—	—	(196)	—	—	(196)
Exchange differences from translation of financial statements of subsidiaries, associates and jointly controlled entities	—	—	1,321	—	83	1,404
Decrease in fair value of available-for-sale financial assets	—	—	(239)	—	—	(239)
Gain on partial disposal of subsidiaries (note 21)	—	—	1,034	—	—	1,034
Net income recognised directly in equity	—	—	1,920	—	83	2,003
Profit for the period	—	—	—	2,019	173	2,192
Total recognised income for the period	—	—	1,920	2,019	256	4,195
Issue of shares on exercise of share options, net of share issue expenses of HK\$0.03 million	1	31	—	—	—	32
Partial disposal of subsidiaries (note 21)	—	—	—	—	651	651
Acquisition of subsidiary	—	—	—	—	28	28
Transfer to reserves	—	—	48	(48)	—	—
Dividends paid	—	—	—	(1,083)	(190)	(1,273)
At 30 June 2008	242	13,852	5,759	9,877	2,378	32,108
Representing:						
Reserves				9,202		
Proposed dividend				675		
At 30 June 2008				9,877		

Notes to Condensed Consolidated Interim Financial Information

17 Reserves (Continued)

	Unaudited					
	Attributable to shareholders of the Company				Minority interest	Total
	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 investment revaluation reserves of associates and jointly controlled entities	—	—	698	—	—	698
Share of net actuarial gains on defined benefit plan of associates	—	—	—	16	—	16
Realisation of reserves upon disposal of an associate	—	—	(2)	2	—	—
Exchange differences from translation of financial statements of subsidiaries, associates and jointly controlled entities	—	—	689	—	53	742
Increase in fair value of available-for-sale financial assets	—	—	192	—	—	192
Effect of change in tax rate on assets revaluation reserve	—	—	(17)	—	—	(17)
Assets revaluation arising from existing equity of interests in jointly controlled entities before business combination	—	—	83	—	—	83
Net income recognised directly in equity	—	—	1,643	18	53	1,714
Profit for the period	—	—	—	1,520	195	1,715
Total recognised gains	—	—	1,643	1,538	248	3,429
Issue of shares on exercise of share options, net of share issue expenses of HK\$0.1 million	1	73	—	—	—	74
Acquisition of additional interests of subsidiaries	5	1,836	(1,295)	—	(740)	(194)
Share-based payments	—	—	57	—	—	57
Transfer to reserves	—	—	6	(6)	—	—
Dividends paid	—	—	—	(841)	(96)	(937)
At 30 June 2007	239	13,449	2,816	7,434	1,934	25,872
Representing:						
Reserves				6,955		
Proposed dividend				479		
At 30 June 2007				7,434		

18 Other financial liabilities

	30 June 2008 HK\$'million	31 December 2007 HK\$'million
Unsecured short-term bank loans	2,219	1,945
Long-term bank loans, wholly repayable within five years		
– unsecured	2,643	2,908
– secured (<i>note (a)</i>)	–	2
Long-term bank loans, not wholly repayable within five years, unsecured	–	650
	4,862	5,505
Loan from a minority shareholder of a subsidiary (<i>note (b)</i>)	62	62
Listed notes payable (<i>note (c)</i>)		
– US\$300 million, 6.125% guaranteed listed notes maturing in 2013	2,320	–
– US\$500 million, 5.375% guaranteed listed notes maturing in 2015	3,881	3,880
– US\$200 million, 7.125% guaranteed listed notes maturing in 2018	1,535	–
Other financial liabilities (<i>note (d)</i>)	–	3,850
	12,660	13,297
Less: amounts due within one year included under current liabilities	(2,785)	(6,206)
Non-current portion	9,875	7,091

Notes:

- (a) Bank loan of HK\$2 million was secured by the property, plant and equipment with net book value at 31 December 2007 of HK\$31 million. Other financial liabilities drawn by subsidiaries of the Group of HK\$8,277 million (2007: HK\$5,221 million) are secured by corporate guarantees provided by the Company.
- (b) Loan from a minority shareholder of a subsidiary is unsecured, interest free and is repayable on demand.

Notes to Condensed Consolidated Interim Financial Information

18 Other financial liabilities (Continued)

Notes: (Continued)

(c) On 18 June 2008, the Group issued US\$300 million, 6.125% guaranteed notes and US\$200 million, 7.125% guaranteed notes.

Effective interest rates of the listed notes payables at the balance sheet date were as follows:

	30 June 2008	31 December 2007
US\$300 million, 6.125% guaranteed notes	6.33%	—
US\$200 million, 7.125% guaranteed notes	7.36%	—
US\$500 million, 5.375% guaranteed notes	5.47%	5.47%

(d) The amount as at 31 December 2007 represented the Group's obligation to purchase the equity interest of a subsidiary from its minority shareholder under a written put option. The put option lapsed on 22 February 2008.

(e) The Group has undrawn bank loan facilities amounting to HK\$8,661 million (2007: HK\$5,752 million).

(f) The other financial liabilities as at 30 June 2008 are repayable as follows:

	Bank borrowings HK\$'million	Listed notes payable HK\$'million	Loans from a minority shareholder of a subsidiary HK\$'million	Other financial liabilities HK\$'million	Total HK\$'million
Within 1 year	2,723	—	62	—	2,785
Between 1 and 2 years	675	—	—	—	675
Between 2 and 5 years	1,464	2,320	—	—	3,784
Wholly repayable within 5 years	4,862	2,320	62	—	7,244
Not wholly repayable within 5 years	—	5,416	—	—	5,416
	4,862	7,736	62	—	12,660

The other financial liabilities as at 31 December 2007 are repayable as follows:

	Bank borrowings HK\$'million	Listed notes payable HK\$'million	Loans from a minority shareholder of a subsidiary HK\$'million	Other financial liabilities HK\$'million	Total HK\$'million
Within 1 year	2,294	—	62	3,850	6,206
Between 1 and 2 years	835	—	—	—	835
Between 2 and 5 years	1,726	—	—	—	1,726
Wholly repayable within 5 years	4,855	—	62	3,850	8,767
Not wholly repayable within 5 years	650	3,880	—	—	4,530
	5,505	3,880	62	3,850	13,297

18 Other financial liabilities (Continued)

Notes: (Continued)

(g) The effective interest rates of bank borrowings at the balance sheet date were as follows:

	30 June 2008	31 December 2007
Hong Kong dollar	2.05% to 3.02%	3.90% to 5.74%
Renminbi	5.91% to 7.47%	5.48% to 6.97%
United States dollar	5.37%	—

(h) The fair values of the bank borrowings not wholly repayable within one year and the listed notes payables were HK\$2,144 million (2007: HK\$2,644 million) and HK\$7,473 million (2007: HK\$3,916 million) respectively. 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 values of the listed notes payables were determined with reference to quoted market price. Other than bank borrowings not wholly repayable within one year and the listed notes payables, the carrying amounts of the other financial liabilities approximate their fair values as at 30 June 2008.

19 Creditors and accruals

	30 June 2008 HK\$'million	31 December 2007 HK\$'million
Trade creditors (<i>note (a)</i>)	717	615
Other payables and accruals	1,872	1,470
Dividend payable to the Company's shareholders	1,083	—
Amounts due to the ultimate holding company (<i>note (b)</i>)	938	939
Amount due to an intermediate holding company (<i>note (c)</i>)	4	3
Amounts due to fellow subsidiaries (<i>note (c)</i>)	398	380
Amounts due to associates (<i>note (c)</i>)	3	2
	5,015	3,409

Note:

(a) Included in trade creditors is an amount due to a minority shareholder of a subsidiary totalling HK\$43 million (2007: HK\$36 million).

The ageing analysis of trade creditors is as follows:

	30 June 2008 HK\$'million	31 December 2007 HK\$'million
0 - 30 days	664	550
31 - 60 days	41	49
61 - 120 days	5	11
Over 120 days	7	5
	717	615

(b) The amounts are unsecured, interest bearing at an annual rate of 5.2% (2007: 5.2%) and repayable on demand.

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

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

	30 June 2008 HK\$'million	31 December 2007 HK\$'million
Authorised but not contracted	2,901	2,748
Contracted but not provided for	1,921	1,582
	4,822	4,330

(b) Capital commitments for investments

	30 June 2008 HK\$'million	31 December 2007 HK\$'million
Contracted but not provided for		
– Investments	1	1
– Ports projects	146	144
	147	145

(c) Commitments under operating leases

At 30 June 2008, 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:

	30 June 2008 HK\$'million	31 December 2007 HK\$'million
Within one year	48	97
In the second to fifth year inclusive	52	48
After the fifth year	52	52
	152	197

20 Commitments (Continued)

(d) Future operating lease receivables

At 30 June 2008, the Group had future aggregate lease receivables under non-cancellable operating leases for leasehold land and buildings as follows:

	30 June 2008 HK\$'million	31 December 2007 HK\$'million
Within one year	41	14
In the second to fifth year inclusive	51	—
	92	14

21 Partial disposal of subsidiaries

In 2007, the Group restructured its ports interests in Shekou, PRC. Under the restructuring, the Group granted a written put option to Modern Terminal Limited (“MTL”) which enabled MTL to sell its 20% equity interest in Mega Shekou Container Terminals Limited (“Mega SCT”), to the Group within one year from 22 February 2007. The Group accounted for its obligation to purchase the equity interest of Mega SCT as financial liabilities and no minority interest was recognised as substantial risks and rewards was retained by the Group before the lapse of the put option.

On 22 February 2008, the put option lapsed and the Group effectively disposed 20% of its interest in Mega SCT to MTL.

As a result of the disposal, the Group derecognised the goodwill attributable to the equity interest of HK\$1,239 million and recognised minority interest in net asset of Mega SCT of HK\$651 million. Since the Group adopted the economic entity method for accounting of transaction with minority shareholders, the difference arising of HK\$1,034 million from the disposal was credited to equity.

22 Business combination

On 30 April 2008, the Group acquired 70% of equity interest in China Merchants Cold Chain Logistics (China) Company Limited (“CMCCL”). The principal activities of the CMCCL are provision of cold storage services.

CMCCL contributed revenue of HK\$3 million and net profit of HK\$1 million respectively to the Group for the six months ended 30 June 2008. If the acquisition had occurred on 1 January 2008, the Group’s revenue and net profit would have been HK\$3,369 million and HK\$2,022 million respectively.

22 Business combination (Continued)

Details of the net assets acquired are as follows:

	HK\$'million
Purchase consideration	
– Cash paid	58
– Direct costs	1
– Consideration payable	8
Total consideration	67
Fair value of net identifiable assets of CMCCCL	(65)
Goodwill	2

23 Related party balances and transactions

Related parties refer to entities in which China Merchants Group Limited (“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’s structure, the majority of the Group’s business activities had been conducted with 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 the CMG (also a State-controlled Enterprise), directly or indirectly controlled by the PRC government are also defined as related parties of the Group.

23 Related party balances and transactions (Continued)

In addition to the related party information shown in other parts of this condensed consolidated interim financial information, 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 period and balances arising from related transactions at 30 June 2008:

(a) Balances and transactions with the CMG Group

		Six months ended 30 June	
	Note	2008 HK\$'million	2007 HK\$'million
Transactions with the CMG Group			
Sales of goods to	(i)		
– associates		336	539
– a fellow subsidiary		2	3
Rental income from	(ii)		
– an intermediate holding company		11	9
– fellow subsidiaries		4	4
Rental expenses paid to fellow subsidiaries	(ii)	26	39
Service fee paid to fellow subsidiaries	(iii)		
– fellow subsidiaries		2	4
– jointly controlled entities		1	—
Interest expense paid to ultimate holding company	(iv)	24	—

23 Related party balances and transactions (Continued)**(a) Balances and transactions with the CMG Group** (Continued)

	Note	30 June 2008 HK\$'million	31 December 2007 HK\$'million
Balances with the CMG Group			
Advances to associates	(v)	46	46

Other balances with entities within the CMG Group as at 30 June 2008 are disclosed in notes 14 and 19 to this condensed consolidated interim financial information.

Notes:

- (i) Sales of goods were 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 was charged at a fixed amount per month in accordance with respective tenancy agreements.
- (iii) 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 fee was charged with reference to market rates.
- (iv) Interest expense was charged at interest rate as specified in note 19(b) to the financial statements on the outstanding amount due to ultimate holding company.
- (v) The advances to associates are unsecured, interest free and no fixed term of repayment.

(b) Transactions with other State-controlled Enterprises

During the period, the Group engaged certain State-controlled Enterprises in the construction of ports and related facilities amounting to approximately HK\$993 million (2007: HK\$175 million).

As at 30 June 2008, bank balances deposited in the State-controlled banks amounted to HK\$1,051 million (31 December 2007: HK\$1,151 million). During the six months ended 30 June 2008, interest income from State-controlled banks amounted to HK\$7 million (2007: HK\$17 million).

23 Related party balances and transactions (Continued)

(c) Balances and transactions with minority shareholders of subsidiaries:

	Note	Six months ended 30 June	
		2008 HK\$'million	2007 HK\$'million
Sales of goods	(i)	94	84
Rental income	(ii)	2	2
Royalty paid	(iii)	45	49
Sourcing service expenses	(iv)	1	2
Service expenses	(v)	10	11
Interest expense	(vi)	3	1

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 the respective tenancy agreements.
- (iii) Royalty was based on percentages of the net sales of paints and negotiated on an arms-length basis.
- (iv) Sourcing service was charged based on percentages of the purchase price payable to a subsidiary of the Group for the unfinished paint products and negotiated on an arm-length basis.
- (v) Service expenses were charged in accordance with the agreement and negotiated on an arm-length basis.
- (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 14, 18 and 19 to this condensed consolidated interim financial information.

(d) Key management compensation

	Six months ended 30 June	
	2008 HK\$'million	2007 HK\$'million
Salaries and other short-term employee benefits	4	2
Share-based payments	—	6
	4	8

24 Subsequent events

On 28 July 2008, Zhanjiang Port (Group) Co., Ltd. ("ZPG"), a jointly controlled entity of the Group, increased its registered capital by issuing 420,690,955 new shares at RMB1.09 per share, representing 10.46% of the enlarged capital. The new shares were subscribed by other third party investors. As a result of the issuance of new shares by ZPG, the Group's interest in ZPG has been diluted from 45% to 40.2916%.