招商局國際有限公司

CHINA MERCHANTS HOLDINGS (INTERNATIONAL) COMPANY LIMITED

Stock Code : 0144

Annual Report 2008

2008

Contents

FINANCIAL HIGHLIGHTS

	2008 HK$'million	2007 HK$'million	Changes
Income statement highlights			
Revenue[1]	**28,167**	24,424	15.3%
Profit attributable to shareholders	**3,706**	3,545	4.5%
One off gains, net of tax[2]	**(394)**	(140)	181.4%
Recurrent Profit	**3,312**	3,405	(2.7%)
Earnings per share (HK cents)			
Basic	**152.97**	149.53	2.3%
Diluted	**152.43**	148.62	2.6%
Dividend per share (HK cents)			
Interim dividend	**28.00**	20.00	40.0%
Final dividend	**40.00**	45.00	(11.1%)
	68.00	65.00	4.6%
Balance sheet highlights			
Total assets	**50,493**	45,686	10.5%
Capital and reserves attributable to the shareholders of the Company	**30,280**	26,842	12.8%
Net interest bearing debts [3]	**11,264**	9,094	23.9%
Cash flow statement highlights			
Net cash inflow from operating activities	**3,717**	3,056	21.6%
Net cash inflow from provision of finance to associates, jointly controlled entities and other financial assets	**57**	286	(80.1%)
Recurrent net cash inflow	**3,774**	3,342	12.9%

	2008 HK$'million	2007 HK$'million	Changes
Revenue[1]			
Ports operations	**12,727**	9,921	28.3%
Ports-related operations	**15,408**	14,095	9.3%
Other operations	**32**	408	(92.2%)
Total	**28,167**	24,424	15.3%
EBITDA [4]			
Ports operations	**6,322**	5,166	22.4%
Ports-related operations	**767**	974	(21.3%)
Other operations	**101**	157	(35.7%)
Discontinued operations	**319**	392	(18.6%)
EBITDA	**7,509**	6,689	12.3%
Unallocated net income [6]	**220**	81	171.6%
Net interest expenses [5]	**(1,028)**	(850)	20.9%
Taxation [5]	**(829)**	(567)	46.2%
Depreciation and amortisation [5]	**(1,846)**	(1,458)	26.6%
Profit for the year	**4,026**	3,895	3.4%
Minority interest	**(320)**	(350)	(8.6%)
Profit attributable to shareholders	**3,706**	3,545	4.5%

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 subsidiary of HK$33 million (2007: HK$77 million), gain on deemed disposal of partial interest in a jointly controlled entity of HK$15 million (2007: Nil), gain on disposal of an available-for-sale financial asset of HK$280 million (2007: Nil), increase in fair value of investment properties, net of tax, of HK$62 million (2007: HK$121 million) and additional tax credit of HK$4 million (2007: additional tax charge of HK$58 million) for change in tax rate.

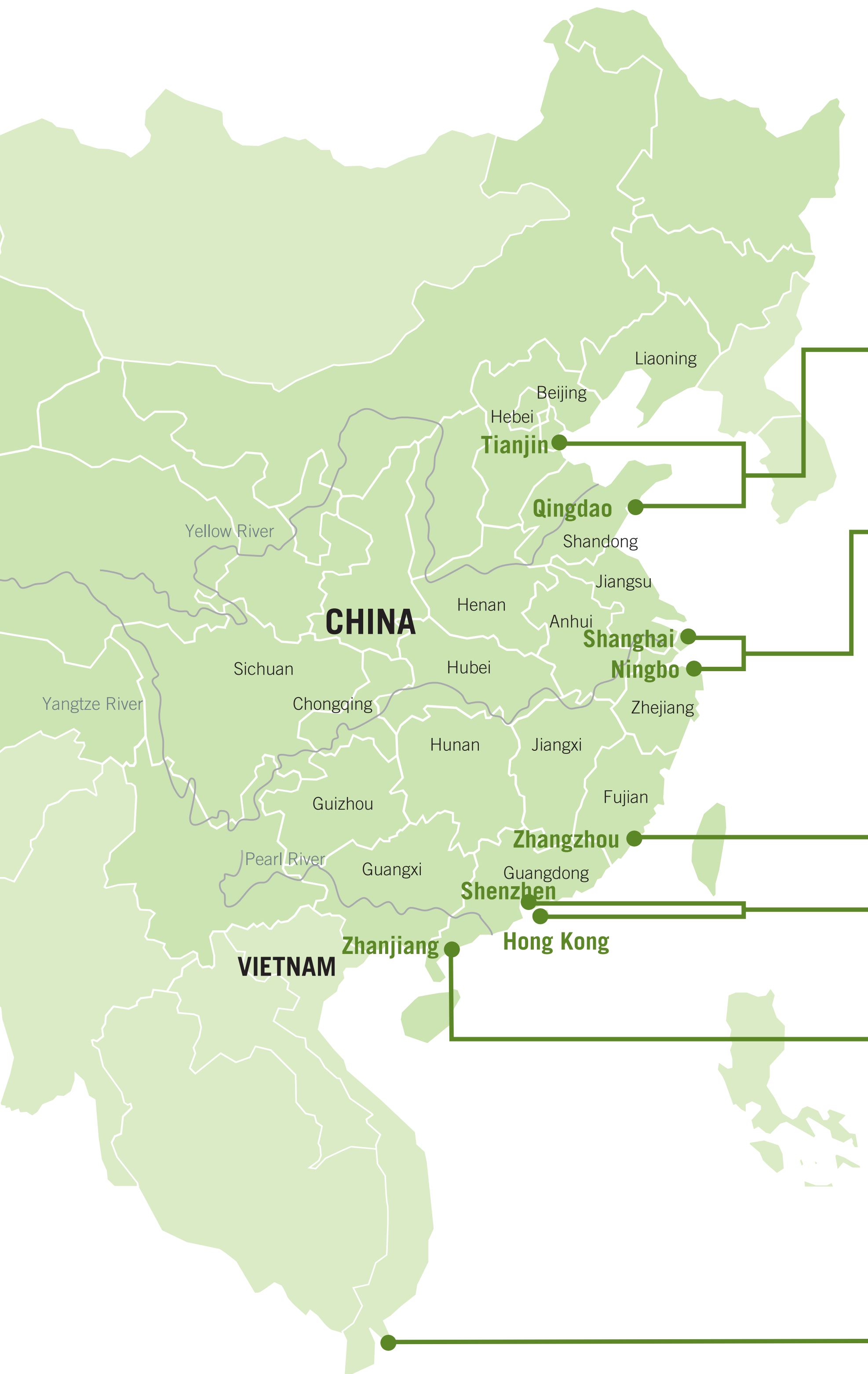
3 Interest bearing debts less cash and cash equivalents.

4 Earnings before net interest expenses, taxation, 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



Bohai Coastal Area

- Tianjin Five Continents Int'l Container Terminal
- Tianjin Haitian Bonded Logistics Park
- China Merchents Int'l Terminal (Qingdao)
- Qingdao Qianwan Bonded Logistics Park

Yangtze River Delta

- Shanghai Int'l Port (Group)
- Ningbo Daxie Terminal
- Ningbo Port

Xiamen Bay Economic Zone

- Zhangzhou China Merchants Port

Pearl River Delta

- Mega SCT
- China Merchants Port Services
- Chiwan Container Terminal
- Shenzhen Mawan Project
- Shenzhen Chiwan Wharf
- Shenzhen Haixing
- Shenzhen Qianhaiwan Bonded Logistics Park
- China Merchants Container Services
- Modern Terminals

South-west Area

- Zhanjiang Port

Greater Ho Chi Minh Area, Vietnam

- Ben Dinh Sao Mai Container Terminals


MSC
MSC LORETTA
PANAMA

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 China, including Hong Kong, Shenzhen, Shanghai, Ningbo, Qingdao, Tianjin, Zhanjiang and Xiamen Bay, and Vietnam.

Top Ten Container Ports in China - 2008

Unit: 'mil TEU

	Port	CMHI Presence	Throughput
1.	Shanghai	✓	28.01
2.	Hong Kong	✓	24.49
3.	Shenzhen	✓	21.40
4.	Ningbo	✓	11.23
5.	Guangzhou		11.00
6.	Qingdao	✓	10.32
7.	Tianjin	✓	8.50
8.	Xiamen	✓	5.03
9.	Dalian		4.50
10.	Lianyungang		3.00

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

CMHI strives to provide with its customers the gateway to China's foreign trade by offering timely, efficient and effective port services and integrated marine logistic support under its proactive but stable, efficient and effective strategy. CMHI seeks to capitalize on the synergy generated by its existing network of ports to create value for its shareholders.

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

Major Milestones in 2008

February

The disposal of a 13% equity interest of Hong Kong Western Harbour Tunnel project companies for a total consideration of HK$460 million.

March

China Merchants International Ports (Ningbo) Limited ("China Merchants Ningbo"), a wholly-owned subsidiary of the Group , and Ningbo Port Group Limited and other promoters entered into a promoter agreement for the establishment of Ningbo Port Company Limited ("Ningbo Port") in the PRC. Upon the establishment of Ningbo Port, China Merchants Ningbo subscribed for a consideration of HK$924 million for a 5.4% of the issued share capital in, and became the second largest shareholder of, Ningbo Port.

June

The Group issued guaranteed listed notes of 5-year and 10-year tenor for a total amount of US$500 million through its wholly-owned subsidiary, CMHI Finance (BVI) Co. Ltd. This was the second issue by the Group. The 5-year US$300 million tranche carries a fixed annual interest coupon of 6.125%, and the 10-year US$200 million tranche, a fixed annual interest coupon of 7.125%.

July

Zhanjiang Port (Group) Co., Ltd. ("ZPG"), of which the Group is the second largest shareholder, brought in, among others, Baosteel Group Corporation ("Baosteel"), as new strategic investors by way of a new share issue. Upon completion of the new share issue, the shareholding of ZPG changed as follows: the shareholding of CMHI, a promoter shareholder, was diluted from 45% to approximately 40.29%; the shareholding of Zhanjiang SASAC another promoter shareholders, was diluted from 55% to 50%; the new shareholder Baosteel contributed capital by way of cash, accounting for 8%; other new shareholders own the remaining shareholding of less than 2%.

September

The Group and Vietnam National Shipping Lines Corporation ("Vinalines") entered into a joint venture agreement for the establishment of Vung Tau International Container Port Company Limited. Pursuant to the joint venture agreement, the Group will hold a 49% equity interest of the joint venture company and Vinalines will hold 51% interests of the joint venture company. This essentially marks the Group's first move towards overseas expansion.

October

The Group entered into the Ben Dinh-Sao Mai Framework Agreement with Sao Mai Ben Dinh Petroleum Investment Joint Stock Company ("PVSB") for the establishment of a joint venture company for investing, developing and constructing a marine logistics base and a general cargo port located in Ben Dinh-Sao Mai, Vung Tau within the economic central zone in southern Vietnam. Pursuant to the agreement, the Group and PVSB will hold 65% and 35% interests in the joint venture company respectively.

The Group also entered into the Tien Giang Framework Agreement with Petrovietnam Construction Joint Stock Corporation ("PVC") for the establishment of a joint venture company for investing, developing and operating the Tien Giang Oil and Gas Service Base located in Tien Giang, Vietnam. Pursuant to the agreement, the Group and PVC will hold 49% and 51% interests in the joint venture company respectively.

November

The Group agreed to sell 678,400 ordinary shares of Hempel-Hai Hong (China) Limited (or 64% of its issued share capital), and to assign certain trademarks to Hempel A/S. The total consideration for the disposal of shares and the assignment of the trademarks is HK$1,146 million.

December

Ports of the Group recorded container throughputs of 50.48 million TEUs for the whole year, marking the first time for the Group's container throughputs to exceed 50 million TEUs, a new level for the ports operations of the Group.

Chairman's Statement

2008 has been a year of the extraordinary for the Group when its ports operations continued to display growth with a record-high throughput handled in excess of 50 million TEUs amid a drastic slowdown in the global economy. This performance has not only further consolidated the Group's leading position in the port industry of the PRC, but also marked a new milestone in the development progress of the Group's ports business. Taking this opportunity I would like to express my sincere appreciation to all our shareholders and business partners for their support for and their trust in the Group. I would also like to send my heartfelt gratitude to all directors and staff members of the Group for their hard work and excellent performance. In the year of 2009 which will likely carry features of uncertainty and turbulence, I look forward to working with all of you, in the same way as we have been, towards striving for our common goals of corporate advancement and sustainable profitability.

I am pleased to present the Group's annual report and audited financial statements for the year ended 31 December 2008.

During the year under review, lower import demand from countries in Europe and America induced by the global financial crisis had considerably impacted China's export sectors. China's foreign trade saw growth decelerated in the second half of 2008 faster than expected, with negative growths recorded in November and December. Such adverse external economic environment has led to declines in the growth rates of China's container throughput and the Group's ports operations in Mainland China and Hong Kong were inevitably affected. Notwithstanding, the Group's container throughput continued their growing trend, which exceeded 50 million TEUs by the end of the year, a record-breaking achievement. In addition, the Group continued to reflect growth in its profitability during the year, despite the complex and fast-deteriorating external environment, through its proactive and on-going endeavours to strengthen its homebase establishments in Western Shenzhen, continuing improvements and asset streamlining.

Operating results

In 2008, the Group's profit attributable to shareholders was HK$3,706 million, representing an increase of 4.5% over that of the last year. Of this amount, recurrent profit totaled HK$3,312 million, which decreased 2.7% over the corresponding figure of HK$3,405 million in the previous year. The Group's basic earnings per share for the year under review were 152.97 HK cents, an increase of 2.3% over that of the last year.

Revenue of the Group for the year under review amounted to HK$6,831 million and, when the proportionate share of revenue of its associates and jointly controlled entities was included, reached HK$28,167 million, an increase of respectively 6.3% and 15.3% over the corresponding figures for the previous year.

Dividends

To reward shareholders for their constant support to the Group, the Board of Directors has resolved to propose at the forthcoming Annual General Meeting the payment of a final dividend of 40 HK cents per share which, together with the interim dividend of 28 HK cents, will give a total dividend of 68 HK cents per share for the whole year (giving a payout ratio of 44.4%). Subject to the approval by shareholders at the forthcoming general meeting, the final dividend will be payable on or around 17 July 2009 to shareholders whose names appear on the register of members of the Company as at 2 June 2009.

Review for the year

2008 has seen the Chinese economy facing an unusually stressed environment, both domestically and overseas, prevailed with complex and ever-changing economic conditions thus casting severe challenges upon China's macroeconomic adjustment control measures. The global financial tsunami triggered by the U.S. sub-prime crisis has caused the import consumption demand of developed countries in Europe and America to fall. For China, such contraction in external demand has curbed its export productivity. Growth rates of China's exports to its top five trade partners have seen different magnitudes of decline. Specifically, growth rates of exports to the European Union and the U.S. were, respectively, approximately 19.5% and 10.5%, representing respective decreases of 7.5 and 4.5 percentage points. According to the statistics of the General Administration of Customs of the PRC, China's foreign trade (total of import and export trades) in 2008 stood at US$2,561.6 billion, reflecting an increase of 17.8% but a decrease in growth rate of 5.7 percentage points, when compared to the corresponding figures of last year. For the ports logistics sector which is closely linked to the progress of foreign trade, the growth of the container handling business has been very much affected. Data released by the Ministry of Transport of the PRC revealed that aggregate throughput volumes of all key ports (that handled significant container business) in China reached approximately 126 million TEUs in 2008, a year-on-year volume increase of 12.2% but approximately 10 percentage points lower than the year-on-year growth rate achieved in 2007.

The Group through its various ports handled a total of 50.48 million TEUs and 211 million tons of bulk cargoes in 2008, achieving respective increases of approximately 7.1% and 32.4% year-on-year. Affected by the demand shrinkage in the maritime market, sales volume of containers of China International Marine Container (Group) Co., Ltd. ("CIMC Group"), in which the Group is interested, has declined with container sales totaled 1.56 million TEUs and vehicle sales, approximately 0.11 million units during the year.

The Group has during the year achieved another new milestone in business expansion through the HK$924 million investment in Ningbo Port Company Limited ("Ningbo Port"), with whom the Group also intends to jointly develop the proposed container terminal project at Port Zone C of Ningbo Daxie. Moreover, the Group has formally signed a joint venture agreement for the container terminal project located in Vung Tau, Vietnam. The Group will continue to closely monitor market developments in other regions with a view to identifying appropriate development opportunities with which to further expand the Group's business network.

In order to further cement its ports in Western Shenzhen as the Group's homebase the Group has during 2008 taken a series of capability-enhancing steps including encouraging the Shenzhen Municipal Government to address navigation problems encountered by large vessels in passing through the Tonggu Channel, as well as launching, as part of the "Sea-Rail Link" campaign, the scheduled freight-related train services running between Western Shenzhen Port Zone and Changsha. These steps, all in all, lend positive support to not only improve the operating capability of Western Shenzhen Port Zone, but also ensure an integrated operating environment for the maritime-related logistics business in the area. In this regard, the Group's acquisition during 2008 of a 70% equity interest in South-China Cold Storage & Ice Co., Ltd. (now renamed as China Merchants International Cold Chain (Shenzhen) Company Limited) has provided a platform through which to accelerate the development of container transportation services for frozen products deriving from ports. During the year, state approval for Western Shenzhen's Qianhaiwan to be established as a "Bonded Port Zone" has been officially granted. The status with all accompanying support policies will render Shenzhen Qianhaiwan Bonded Port Zone adequately attractive to businesses such as international trans-shipment, international procurement and distribution, and export processing trades. Diversion by some of these businesses to establish presences at the Bonded Port Zone will help accelerate the development pace of the maritime logistics industry in the proximity. Furthermore, development of the Shenzhen Qianhaiwan Bonded Port Zone will further integrate the Group's logistics resources, through which the Group can offer its customers with better business environment whilst creating mutual benefits. The Group firmly believes that the establishment of the Shenzhen Qianhaiwan Bonded Port Zone will complement the Group's ports operations in Shenzhen.

Throughout the year, the Group continued to seek improvements in its ports operations via adoption of measures aimed at refining operating process, encouraging technical innovation, optimising resource efficiency, elevating awareness in safety management, and enhancing cost management and control – all of which have enabled the Group to improve its production efficiency indicators. The Group regards reducing energy consumption cost at terminal operations as an important task at its operation. Being able to effectively controlled the unit energy consumption cost lends a ports operator a firm base with which to support the establishment of environmentally-friendly and cost-effective ports.

As regards efforts towards improving its asset quality, the Group disposed of its 13% equity interests in Hong Kong Western Harbour Tunnel project companies. It also entered into an agreement with Hempel A/S, a Danish company, for the disposal of a 64% equity interest in Hempel-Hai Hong (China) Limited ("Hempel-Hai Hong"), which transaction was completed in January 2009. The completion of the above transactions further reflected the implementation of the Group's effort to improve asset quality thus enabling the Group to gravitate its assets towards ports and ports-related businesses. Following upon the disposal of these non-core business assets, ports assets accounted for 82.7% of the Group's total assets, thereby facilitating the Group's pursuance in developing ports operation as its core business.

Future prospects

Affected by factors such as increasing labor costs and exchange rate fluctuations alongside global financial credit crunch and decelerating economic growth, many export enterprises, especially the small-to-medium enterprises (or SMEs), have encountered increasing difficulties in their operations during 2008. Up to the time of writing, there are still little signs, at global scale, of the financial crisis easing off or of the economy structurally recovering and the year 2009, hence, has begun with considerable uncertainties over the prospects of foreign trade. Being fortunate are that China, as the world's second largest economy, has a relatively stable financial system, and that the Chinese government is committing proactive resources to address problems brought about by this financial crisis. A continuing development of the Chinese economy will be an important force in reviving global economic growth. Notwithstanding the wide-spread impact caused by the financial crisis alongside a slowdown in China's foreign trade growth which will continue to adversely affect the business of ports operations, the Group considers Chinese productivity (the "Made in China" logo) to still command distinguishable comparative advantage due to the abundance of cost-effective production factors including labour, skills and land, and increasingly improving infrastructure establishments, thereby assuring the affordability alongside with quality, or price-competitiveness, of China's exported products. In addition, these products are, in the main, daily necessities. Accordingly, China's port sector will continue to benefit from the continuing development of China's economy and foreign trade.

In 2008, throughput volumes of domestic trade handled by ports in China continued to grow satisfactorily. In the face of foreign trade growth slowing down during the year, the Chinese government announced a series of economic stimulus policies to encourage and invigorate domestic consumption demand. Data published by the Ministry of Transport of the PRC revealed that the growth in ports throughput for domestic trade has been significantly higher than that for foreign trade. Business volume conducted at domestic ports has cast an important contribution to China's overall growth in throughput. The vast and extensive hinterland in Mainland China suggests that an expanding domestic consumption demand will support the movement of cargoes in the domestic market. The Group therefore believes that the growth prospects for domestic trade-related ports business are likely to remain satisfactory.

Simultaneous as the Group will focus its efforts to enhance its competitiveness in foreign trade-related container handling operations, it will seek to dynamically develop the domestic trade-related container handling market. Moreover, it will continue to capture investment opportunities for resources-based bulk ports. The continuing development of China's economy and the accompanying and growing economic scale has to be fueled by secured supply of resources-based bulk commodities. Import demand for these type of bulk commodities will, the Group believes, sustainably support its bulk handling operations for a long long time.

The significant contraction in global demand as 2009 enters has presented the export-reliant Chinese economy with challenges that are unseen of before. The fast-track growth experienced by China's ports business for almost consecutively 20 years will inevitably reverse and 2009 might reflect the sector's first year of negative growth. In the face of such unprecedented challenges, the Group will, on the one hand, intensify its business development efforts so as to secure business stability and, on the other hand, forge refined management control for cost reduction, continuing operational improvements and enhancing efficiencies derived from asset utilization, aiming ultimately towards profits elevation. In addition, the Group will closely monitor all external environments or changes in business territories in order to ensure that it could promptly and proactively respond with appropriate and flexible measures to mitigate or eliminate any negative impact or impacts that might affect the Group's business.

Advantages gained over the years by the Group in terms of shoreline resources, network layout, scale effect, management ability and customer service quality have gradually surfaced and the Group will strive to maintain its position as China's largest ports operator. At present, the Group's ports portfolios pan out at China's economically developed regions. The industrial and operational experiences accumulated by the Group will help to elevate the Group's overall operational and management qualities. The conservative investment strategies and prudent financial policies adopted and practised by the Group, together with a relatively low debt gearing ratio and sufficient cash on hand means that the Group is not only able to withstand the impact of a slowdown in foreign trade growth on its ports operations, but also able to make use of this opportunity to further streamline the operational processes at its ports thus achieving incremental cost saving. The Group is confident that, with market confidence recovering and global economy reviving after the crisis, the Group's business will grow again on a sustainable basis.

Investor relations

The Group has consistently placed great emphasis on investor relations and is fully committed to maintaining a high level of transparency in terms of prompt release to the investment community of relevant corporate information from corporate activities, operation data, to matters of financial interests. Through various communications channels such as media, networks, road-shows and site visits, the Group has effected, and will continue to effect, useful dialogues with the investment market. The Group regards the need to maintain frequent and effective communications with investors as an important routine, through which it aims to gain increasingly level of confidence of the investment community.

Credit rating

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

Appreciation

2008 has been a year of the extraordinary for the Group when its ports operations continued to display growth with a record-high throughput handled in excess of 50 million TEUs amid a drastic slowdown in the global economy. This performance has not only further consolidated the Group's leading position in the port industry of the PRC, but also marked a new milestone in the development progress of the Group's ports business. Taking this opportunity I would like to express my sincere appreciation to all our shareholders and business partners for their support for and their trust in the Group. I would also like to send my heartfelt gratitude to all directors and staff members of the Group for their hard work and excellent performance. In the coming year which will likely carry features of uncertainty and turbulence, I look forward to working with all of you, in the same way as we have been, towards striving for our common goals of corporate advancement and sustainable profitability.

Dr. Fu Yuning
Chairman

Hong Kong, 20 April 2009


MSC MADELEINE

Management Discussion and Analysis

Business review

The year 2008 saw exceptional complexity for both domestic and international economic environment. Catalysed by Lehman Brothers' bankruptcy in September 2008, the U.S. subprime crisis rapidly evolved into a financial turmoil of a global scale that is unseen of. Such turbulence began to deeply hurt the real economy of the world, as reflected in the significant weakening of consumption demand in and hence imports by major developed economies in Europe and America leading, in turn, to contraction in international trade volume. Impacted by the prevailing global economy as well as the transformation of China's economic structure and its development pattern, China's growth rate of aggregate import and export trade decreased by 5.7 percentage points over that of 2007, in particular negative growth emerged in China's import and export trade for the fourth quarter. In 2008, China saw different magnitudes of decline in growth rates for its exports to major trade partners. Whilst, under the circumstance, the Group's business has unavoidably been affected, the volume of container throughput handled by the Group continued to grow and for the first time exceeded 50 million TEUs for the year.

In enhancing its competitiveness in the face of prevailing changes in the market environment and rivalry surrounding, the Group has stepped up the efforts in adjusting and integrating its resources with a view to ensuring resources were so allocated as to result in an improved effectiveness and utilization efficiency. During the year, efforts towards joint market-development programmes, ancillary facility establishment within the Western Shenzhen Port Zone, operation support, technology sharing and environmental protection have all been reinforced and would, it is expected, elevate the Group's overall operational capability.

For the year ended 31 December 2008, the profit attributable to shareholders of the Company amounted to HK$3,706 million, representing a year-on-year increase of 4.5%. Of this amount, recurrent profit amounted to HK$3,312 million, representing a decrease of 2.7%. The Group's core segment of ports operations recorded an EBITDA of HK$6,322 million, representing a year-on-year increase of 22.4%. The share of EBITDA from this segment relative to the Group's total in 2008 increased to 84.2% from 77.2% last year.

In 2008, revenue of the Group (including discontinued operations) amounted to HK$6,831 million (an increase of 6.3% year-on-year), of which HK$4,103 million was contributed by the Group's core ports operations (which represented an increase of 23.7% over that of last year).

Ports operations

During the year under review, EBIT derived from the Group's ports operations amounted to HK$4,680 million, representing an increase of 19.1% year-on-year. The share of EBIT from this segment relative to the Group's total also rose to 82.6% from 75.1% of last year.

In 2008, the port projects in which the Group is interested handled a total container throughput volume of 50.48 million TEUs, an increase of 7% over the same figure for last year. Of this volume, those handled by the Group's ports in Mainland China reached 43.58 million TEUs, an increase of 9% year-on-year. Western Shenzhen Port Zone handled 11.58 million TEUs, representing a year-on-year increase of 5% which was higher than the average for Shenzhen alongside an increase in the Group's share in Shenzhen. Shanghai International Port (Group) Co., Ltd. ("SIPG") recorded a container throughput total of 28.01 million TEUs, an increase of 7% year-on-year whereas Ningbo Daxie China Merchants International Terminals Company Limited ("Ningbo Daxie Port") recorded a throughput of 1.09 million TEUs, representing a substantial increase of 56% over that a year ago. Tianjin Five Continents International Container Terminal Co., Ltd. handled 1.94 million TEUs, or a slight decrease of 2% from that of last year. Zhangzhou China Merchants Port Company Limited ("Zhangzhou Port") recorded a throughput of 0.36 million TEUs, an increase of approximately 51%. China Merchants International Container Terminal (Qingdao) Co., Ltd. recorded a throughput of 0.36 million TEUs. The Group's ports in Hong Kong recorded a throughput of 6.9 million TEUs, a slight decrease of 2% year-on-year.

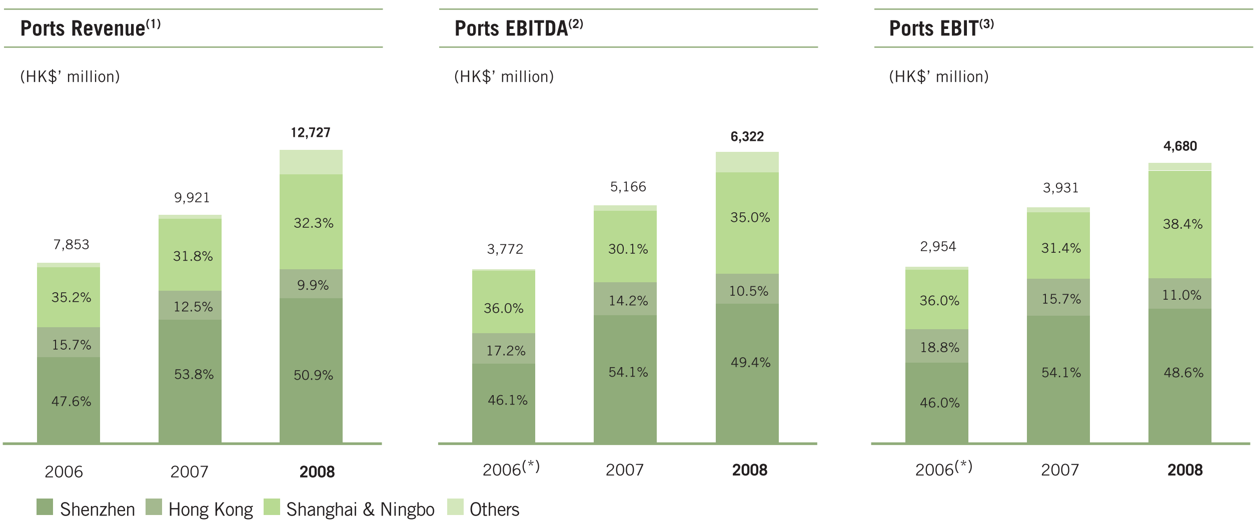
Container throughput of the Group's port operations (by location)

	2008 ('000 TEU)	2007 ('000 TEU)	Year-on-year change
Western Shenzhen	**11,582**	11,034	5.0%
Hong Kong	**6,898**	7,002	-1.5%
Yangtze River Delta	**29,096**	26,850	8.4%
Bohai Rim	**2,299**	1,989	15.6%
Southeastern Coastal	**362**	240	50.8%
Southwestern Coastal	**240**	—	n/a

The Group's ports handled 211 million tons of bulk cargoes in 2008, representing a year-on-year increase of 32%. The increase was mainly derived from the contribution of bulk cargoes handled from Zhanjiang Port (Group) Co., Ltd. ("ZPG"), in which the Group invested in December 2007. During the year, Western Shenzhen Port Zone handled 33.21 million tons of bulk cargoes, basically the same level as in the previous year. Zhangzhou Port handled 5.83 million tons of bulk cargoes, an increase of 14% year-on-year. SIPG handled 116 million tons of bulk cargoes, and ZPG handled 56.06 million tons of bulk cargoes.

In 2008, under its plan to strengthen the capabilities of its homebase at Western Shenzhen, the Group has completed the development of No.8 berth at Shekou container terminals and of warehouse phases 3 and 4 of the warehouse facilities at China Merchants Maritime & Logistics Shenzhen Ltd. In addition to having persuaded the Shenzhen Municipal Government to address the problems encountered by large vessels navigating through the Tonggu Channel, the Group has successfully launched a scheduled "sea-rail linked" freight trains service connecting Western Shenzhen Port Zone and Changsha thereby extending the reach-out of Western Shenzhen ports to Hunan via a smooth inter-modal connectivity. Approval for the

Financial information by locations of the Group's Ports Operations



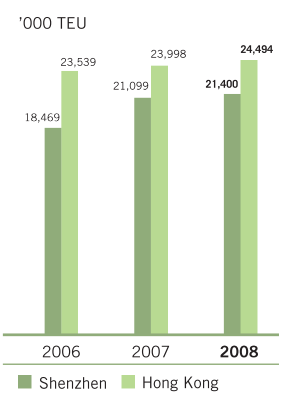
1. *Include revenue of the Company, its subsidiaries and share of revenue of its associates and jointly controlled entities.*
2. *Earnings before net interest expenses, taxation, depreciation and amortisation, unallocated income less expenses and minority interest, ("Defined Earnings") for the Company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

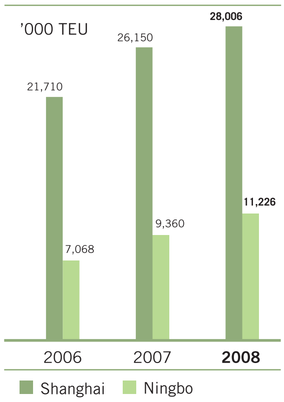
establishment of Shenzhen Qianhaiwan into a duly licensed Bonded Port Zone was granted during the year. Coupled with the acquisition of a majority stake in a cold storage project at Shekou (China Merchants Cold Chain Logistics (China) Company Limited) to handle frozen imports via containers, the Group has also obtained the due qualification for inspecting (and endorsing) frozen imports of meat and aqua produce at the cold storage. These measures combined are expected to significantly improve the operational capabilities and the related ancillary logistics environment at the Group's Western Shenzhen Port Zone, and to reinforce the operation base from which the Group's ports source support, thereby further expanding the ability of the Group's ports in offering a comprehensive range of integrated logistics services.

In 2008, the Group for a sum of HK$924 million acquired 5.4% equity interests in Ningbo Port. In addition, the Group continued its pursuance, in co-operation with two other partners, the proposed development of a new container terminal facility at Port Zone C of Ningbo Daxie. The investments in the above-mentioned two projects combined would not only deepen the Group's involvement in Ningbo's port market but also help to further anchor the Group's port layout in the Yangtze River Delta.

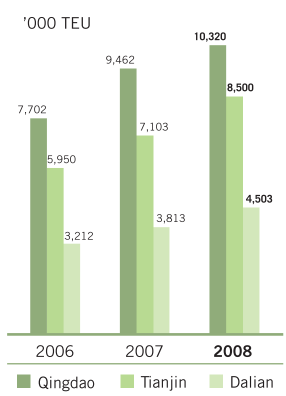
Container throughput in Shenzhen and Hong Kong 2006–2008



Container throughput in Shanghai and Ningbo 2006–2008



Container throughput in Qingdao, Tianjin and Dalian 2006–2008



In September 2008, the Group formally signed a joint venture agreement with its partner in Vietnam for the development and operation of a deepwater port located at Sao Mai-Ben Dinh. This in essence marked the Group's first meaningful move towards expanding overseas. On 22 October 2008, in the presence of Wen Jiabao, Premier of the PRC, and Nguyen Tan Dung, Prime Minister of Vietnam, China Merchants Group, a substantial shareholder of the Company, entered into a framework co-operation agreement with Petro Vietnam in relation to a number of projects including Sao Mai-Ben Dinh port in Vietnam. The Group will participate in the investment and development of the port project.

Ports-related operations

During the year, EBIT from the Group's ports-related operations amounted to HK$585 million, representing a decrease of 31.4% compared to that of the last year.

The severe impact caused by the global economic slowdown on the maritime market has led to a sharp contraction in the demand for new containers in the second half of 2008, which has in turn caused CIMC Group's container sales to drop. CIMC Group's container sales in 2008 amounted to 1.56 million TEUs, a decrease of 26% when compared to that of last year. With weakened demand from European and U.S. markets, CIMC Group also recorded unsatisfactory sales of transportation vehicles sales in the year with a total sales of 110,000 units, basically the same level as the last year.

During the year, the Group agreed to dispose of its 64% equity interests in Hempel-Hai Hong, another step taken to further streamline the Group's asset structure gravitating towards the ports sector. The transaction was completed in January 2009.

Other business

During the year, the Group completed the disposal of its equity interests in Hong Kong Western Harbour Tunnel project companies. Having modified in recent years its various asset holding structures, the Group has completely disposed of its toll roads portfolio.

Liquidity and treasury policies

As at 31 December 2008, the Group had approximately HK$2,806 million in cash, 37.8% of which was denominated in Hong Kong dollars, 43.8% in United States dollars, 17.6% in Renminbi and 0.8% in other currencies.

The Group mainly derived its funding sources from both its operating activities related to ports and ports-related businesses, and investment returns from associates and jointly controlled entities. Together these two sources contributed more than HK$3,717 million in total. On 18 June 2008, the Group issued US$300 million and US$200 million guaranteed listed notes maturing in 2013 and 2018 respectively. The net proceeds of the listed notes was US$494 million. The net proceeds was used for general corporate purposes by the Group, including the repayment of existing indebtedness.

During the year, the Group's capital expenditure amounted to HK$2,232 million. While investment expenditure has been expanding, the Group continues to adhere to a prudent financial policy and maintain a sound financial position through the keeping of adequate level of cash to meet its daily operating requirements. In addition, as a significant portion of the Group's bank loans were medium- to long- term borrowings while the Group supported by adequate undrawn bilateral facilities does not anticipate any difficulty in refinancing its short-term loans, the pressure for repaying the short-term loans is limited.

Share capital and financial resources

As at 31 December 2008, the Company had 2,423,435,842 shares in issue. During the year, the Company issued 2,076,000 new shares upon the exercise of share options and received HK$39 million as a result. Other than the above-mentioned newly issued shares, the Company issued 15,248,642 shares under the Company's scrip dividend scheme.

As at 31 December 2008, the Group's net gearing ratio (Net interest-bearing debts divided by net assets attributable to the Company's shareholders) was approximately 37.2%, an increase of approximately 3.3 percentage points over last year.

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 year.

As at 31 December 2008, the Group's outstanding interest-bearing debts, all unsecured, were analyzed as below:

	2008 HK$' million	2007 HK$' million
Floating-rate bank borrowings which are repayable:		
Within 1 year	**1,175**	2,294
Between 1 and 2 years	**896**	835
Between 2 and 5 years	**1,582**	1,726
Not wholly repayable within 5 years	**79**	650
	3,732	5,505
Fixed-rate listed notes payables are repayable:		
In 2013	**2,307**	—
In 2015	**3,857**	3,880
In 2018	**1,525**	—
	7,689	3,880
Loans from the ultimate holding company	**2,649**	939

The interest bearing debts are denominated in the following currencies:

	2008				2007			
	Bank loans HK$' million	**Listed notes payable HK$' million**	**Loans from the ultimate holding company HK$' million**	**Total HK$' million**	Bank loans HK$' million	Listed notes payable HK$' million	Loans from the ultimate holding company HK$' million	Total HK$' million
Hong Kong dollar & United States dollar	**3,081**	**7,689**	**—**	**10,770**	3,861	3,880	—	7,741
Renminbi	**651**	**—**	**2,649**	**3,300**	1,644	—	939	2,583
	3,732	**7,689**	**2,649**	**14,070**	5,505	3,880	939	10,324

Assets charge

As at 31 December 2008, the Group did not have any charge over its assets.

Employees and remuneration

As at 31 December 2008, the Company and its subsidiaries employed 5,055 full time staff, of which 64 worked in Hong Kong, 3 overseas and the remaining 4,988 were in the PRC. The remuneration paid for the full year amounted to HK$660 million, representing 12.9% 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 their performance, 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

The global financial crisis induced by the sub-prime crisis in the U.S. has cast a severe impact on the real economy of the world, causing a dramatic slowdown in the global economic growth. The International Monetary Fund recently projects that the global economy could decline 0.5% to 1% in 2009, the first decline to be had in the last 60 years with certain developed economies expected to be in serious recession. Up to the time of writing this report, there is little evidence to reflect that the financial crisis is receding and the economy is recovering. Outlook for China's foreign trade in 2009 remains highly uncertain.

As regards domestic China, the Chinese Government will adopt a series of macroeconomic control measures to stimulate China's economic development and maintain economic growth with a view to addressing the prevailing financial crisis. These measures include the announced RMB4 trillion state investment package, the vitalization plan for ten major industries, support for the development of key sectors, and an adequately loosened monetary policy. The Group believes that China will play an important role in revitalizing the global economy. For China's foreign trade, the Ministry of Commerce of the PRC will apply supportive measures involving the use of financial, tax and monetary policies, exploring new markets, improving product mix structures, promoting service trade, and expanding imports. These measures aim to ensure external demand is stabilized with which to support and to sustain domestic employment and earnings streams of labourers, in turn to stimulate domestic consumption. In addition, through these measures more opportunities are expected to be created, thereby ensuring the stability of China's foreign trade. The Group therefore believes that the port industry in China will continue to benefit from the development of foreign trade.

Alongside the steady development of the container business and the increasing domestic demand, the Group expects the container handling market servicing domestic trade to also command significant growth potential. Statistics published by China Ports & Harbors Association reveal that the domestic trade-related container throughput increased 13 times from 2.21 million TEUs in 2001 to over 30 million TEUs in 2008. The share of domestic trade-related containers in China's total container throughput rose from 8% to over 24% during the same period. The large-scale investments in fixed assets initiated by the Chinese government aimed at stimulating the domestic economy will cause domestic trade to more flourish, which trend will be correspondingly reflected in the throughputs of ports.

At the same time as it continues to develop its ports operations to service foreign trade, the Group will actively explore opportunities that capture domestic trade-related potential. The Group maintains a leading position in handling domestic trade-related containers in Shenzhen whereas growth gained in other coastal ports has been satisfactory. The Group believes that the domestic trade-related container business will support the Group's business growth for a long time.

In addition, the capabilities offered by Shenzhen Qianhaiwan Bonded Port Zone are expected to attract more customers from not only the Pearl River Delta but also the hinterlands of Southwest and Central China to utilize the facilities available at the ports in Western Shenzhen. These capabilities will also help enhance the integrated functions of the Western Shenzhen Port Zone, thereby further elevating the overall competitiveness of the ports and vitalising the proximity's development. Therefore, the Group will benefit directly from the establishment of the Qianhaiwan Bonded Port Zone.

In the coming year, the Group will intensify its efforts in market research with a view to formulating succinctly relevant market strategies. It will step up efforts to explore the domestic trade-related container market and expand the hinterland coverage through the South China Shuttle service and the sea-rail inter-modal transport connectivity in Southern China. The Group will also expand the international trans-shipment business by leveraging on the incentive policies that come with the establishment of the bonded port zones. Moreover, it will continue to seek to further improve qualities of its internal management and customer service as well as to improve the software and hardware environment for the operation of its ports. Meanwhile, the Group will closely monitor changes in the external environment and build up a risk assessment system based on its analysis and knowledge of the overall situation, and take measures - such as implementing refined management control, streamlining its operational processes so as to reduce costs and reducing cutting non-operation expenses - all aimed towards improving the profitability of the Group.

In addition, the Group will continue to adopt a cautious and prudent approach to control within reasons its investment scale whilst managing the pace of development of its key projects. It will proactively follow the trend of the international maritime and ports market with a view to capturing investment opportunities with strategic importance.

The Group is confident that, upon the implementation of the macroeconomic control measures by the Chinese Government and the collective launch by the world in battling against the prevailing economic crisis, and combined with the industrial management experience the Group has accumulated over the years in ports operation and its prudent operating strategy, the Group is able to withstand the impact of foreign trade growth slowing down on the industry in which it operates. With the recovery of market confidence and the economic revival after the crisis, the Group's business will maintain its stability and it will be able to capture better economic benefits and investment returns for shareholders.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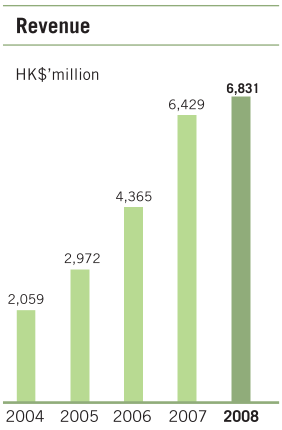
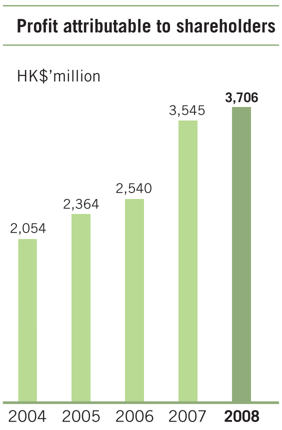
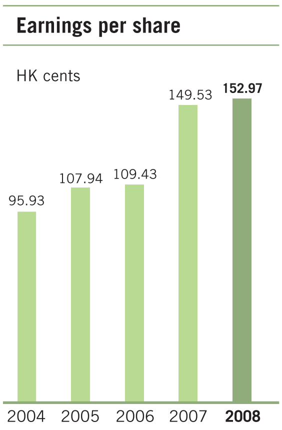
CORNELIUS MÆRSK
KALUNDBORG

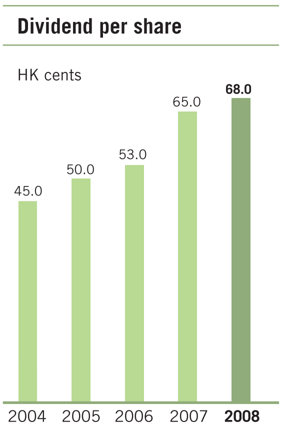
FIVE-YEAR FINANCIAL SUMMARY

	2008 HK$'million	2007 HK$'million	2006 HK$'million	Restated 2005 HK$'million	Restated 2004 HK$'million
RESULTS					
Revenue	**6,831**	6,429	4,365	2,972	2,059
Profit before taxation	**4,315**	4,037	2,992	2,587	1,753
Profit for the year	**4,026**	3,895	2,893	2,533	2,117
Minority interest	**320**	350	353	169	63
Profit attributable to shareholders	**3,706**	3,545	2,540	2,364	2,054
ASSETS AND LIABILITIES					
Non-current assets	**45,278**	41,790	32,058	24,442	14,223
Net current (liabilities)/assets	**(1,687)**	(5,756)	(1,970)	1,132	2,467
Total assets less current liabilities	**43,591**	36,034	30,088	25,574	16,690
Non-current liabilities	**10,877**	7,559	6,645	7,947	1,932
Minority interest	**2,434**	1,633	2,522	1,468	1,230
Capital and reserves attributable to the shareholders of the Company	**30,280**	26,842	20,921	16,159	13,528
RETURN TO SHAREHOLDERS					
Earnings per share					
– Basic (HK cents)	**152.97**	149.53	109.43	107.94	95.93
– Diluted (HK cents)	**152.43**	148.62	109.07	107.45	95.58
Dividend per share (HK cents)	**68.00**	65.00	53.00	50.00	45.00









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 2008. 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 2008.

Code Provision A.2.1

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 three 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 facilitate 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
Yu Liming
Hu Jianhua
Wang Hong
To Wing Sing

Independent Non-executive Directors

Tsang Kam Lan
Kut Ying Hay
Lee Yip Wah Peter
Li Kwok Heem John
Li Ka Fai David

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

Name of Director	Number of board meetings attended in 2008	Attendance rate
Fu Yuning	3/4	75%
Li Yinquan	4/4	100%
Hu Zheng	0/4	0%
Meng Xi	4/4	100%
Su Xingang	1/4	25%
Yu Liming	2/4	50%
Hu Jianhua	4/4	100%
Wang Hong	4/4	100%
To Wing Sing	4/4	100%
Tsang Kam Lan	4/4	100%
Kut Ying Hay	3/4	75%
Lee Yip Wah Peter	4/4	100%
Li Kwok Heem John	3/4	75%
Li Ka Fai David	2/4	50%

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 regular 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 or before 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 amended, 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 Managing Director to ensure continuity.

Appointment and Re-election of Directors

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.

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. In considering the appointment of a Director, the Board will take into account the professional qualifications, experience in relevant industries, management expertise and the potential contribution of such Director to advance the overseas expansion plan 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 2008. The attendance of each member is set out as follows:

Name of member	Number of meetings attended in 2008	Attendance rate
Fu Yuning (Chairman of the Remuneration Committee)	0*/1	0%
Tsang Kam Lan	1/1	100%
Kut Ying Hay	1/1	100%
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. Hu Jianhua on behalf of Dr. Fu Yuning.

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 36 to 39 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 2008, 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 Independent Auditor's Report on page 49.

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. Two 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 2008	Attendance rate
Tsang Kam Lan (Chairman of the Audit Committee)	2/2	100%
Kut Ying Hay	2/2	100%
Lee Yip Wah Peter	2/2	100%
Li Kwok Heem John	2/2	100%
Li Ka Fai David	1/2	50%

During the meetings held in 2008, the Audit Committee had performed the following work:

(i) reviewed the financial reports for the year ended 31 December 2007 and for the six months ended 30 June 2008;

(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 2007;

(v) reviewed and recommended for approval by the Board the 2008 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, and senior management and the committee must meet, at least once a year, with the Company's auditor; 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 staff responsible for the accounting and financial reporting function, compliance officer or auditor;

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 including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget;

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.

Auditor's Remuneration

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

Services rendered	Fees paid/payable HK$'million
Audit services	12
Non-audit services (Tax advisory, compliance services and other services)	2
Total	14

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, operational and project construction risks. Exposure to credit and guarantee risks is monitored by the Group's officer in charge of credit control together with the Credit Control Department, Assets and Liabilities Management Department, and the operating and other risks management units. Exposure to risks of market change, business strategies and information system relating to the Group's business is monitored by the Group's officer in charge of business management together with the Business Management Department and Information

Management Department and the operating units. Exposure to risks of operation and change of operation environment is monitored by the Group's officer in charge of business management together with the Business Management Department. Exposure to risks of the Group's project construction and equipment procurement is monitored by the Group's officer in charge of project management together with the Project Management Department. 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, investing, operational and 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 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 which sets out relevant information of the proposed resolutions is distributed to all shareholders at least 20 clear business days before the annual general meeting. For the 2008 annual general meeting of the Company held on 23 May 2008 , 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 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 2009 annual general meeting of the Company will be held at the Ball Room, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong at 9:30 a.m. on Tuesday, 2 June 2009.

Directors and Senior Management

Directors

Dr. Fu Yuning

aged 52, 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. He is 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, the Chairman of China International Marine Containers (Group) Limited, its shares are listed on the Shenzhen Stock Exchange, and Non-executive Director of China Merchants Bank Co., Ltd, its shares are listed on the Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited. On 4 July 2008, he resigned as the Chairman and Executive Director of China Merchants China Direct Investments Limited, its shares listed on The Stock Exchange of Hong Kong Limited. 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 54, 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. On 4 July 2008, he was appointed as the Chairman and Executive Director of China Merchants China Direct Investments Limited, its shares listed on The Stock Exchange of Hong Kong Limited. Besides, 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 Stock Exchange of Hong Kong Limited. He was appointed to the Board of Directors on 20 June 2001.

Hu Zheng

aged 53, is the Vice President of China Merchants Group, concurrently serving as Chairman of China Merchants Logistics Holding Co., Ltd., Officer of Management Committee of China Merchants Zhangzhou Development Zone and Vice Chairman of China Merchants Zhangzhou Development Zone Co., Ltd.. Moreover, he is vice Chairman of The Hong Kong Chinese Enterprises Association, China Association of Purchasing and Logistics and China Association of Communications Enterprises Management. 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, General Legal Counsel of China Merchants Group and No. 1 Deputy General Manager of China Merchants Shekou Industrial Zone Company Limited. He was appointed to the Board of Directors on 29 June 2004.

Meng Xi

aged 53, 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, management information system and strategic planning. He was appointed to the Board of Directors on 20 June 2001.

Su Xingang

aged 50, is the Vice President and 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.

Yu Liming

aged 46, is the Vice Chief Economist 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.

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) and fellow member of Institution of Civil Engineering Surveyors of the United Kingdom (FInstCES) respectively. He was appointed to the Board of Directors on 25 May 2007.

Wang Hong

aged 46, is the Deputy Managing Director, Chief Operational Officer of the Company and a Director of China Merchants Holdings (Hong Kong) Company Limited and the Vice-Chairman of Shanghai International Port (Group) Company Limited. He is also a Director of China International Marine Containers (Group) Co., Ltd., its shares listed on Shenzhen Stock Exchange. 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 also was the Chairman of China Merchants Holdings (Pacific) Limited, its shares listed on Singapore Exchange Limited. Mr. Wang has extensive experience in shipping industry, international trading, financing and accounting, human resource management. He was appointed to the Board of Directors on 11 May 2005.

To Wing Sing

aged 59, 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 38 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 77, 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 as Independent Non-executive Director on 6 June 1992.

Kut Ying Hay

aged 54, 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 is an Independent Non-executive Director of China Merchants China Direct Investments Limited, its shares listed on The Stock Exchange of Hong Kong Limited. He was appointed to the Board of Directors as Independent Non-executive Director on 6 June 1992.

Lee Yip Wah Peter

aged 67, is a practising solicitor and a China appointed attesting officer. He is also a Non-executive Director of Yu Ming Investments Limited, an Independent Non-Executive Director of Sinotrans Shipping Limited. Both the said companies are listed on The Stock Exchange of Hong Kong Limited. He was appointed to the Board of Directors as Independent Non-executive Director on 20 June 2001.

Li Kwok Heem John

aged 53, 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 the United Christian Hospital, a member of the Board of the Hospital Governing Committee of Pamela Youde Nethersole Eastern Hospital and Alice Ho Mui Ling Nethersole 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 as Independent Non-executive Director on 8 October 2004.

Li Ka Fai David

aged 54, is currently the deputy managing partner of Li, Tang, Chen & Co. Certified Public Accountants (Practising). 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 Stock Exchange of Hong Kong Limited. Mr. Li is an Independent Non-executive Director and member of audit committee of CATIC International Holdings Limited. He was also an Independent Non-executive Director and Chairman of audit committee of Wanji Pharmaceutical Holdings Limited (now known as Nubrands Group Holdings Limited, a company listed on The Stock Exchange of Hong Kong Limited) in 2002-2005. He was appointed to the Board of Directors as Independent Non-executive Director on 1 June 2007.

Senior Management

Wong Sin Yue Cynthia

aged 57, is a Deputy General Manager of the Company, responsible for finance. She also holds the office of Independent Non-executive Director in 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 also was a Non-executive Director of China Merchants Holdings (Pacific) Limited, its shares listed on Singapore Exchange Limited. She holds a Master of Business Administration Degree from the University of East Asia in Macau.

Liu Yunshu

aged 44, 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 Vice Chairman of Shenzhen Ports Association.

Ni Lulun

aged 48, joined the Company in 2005 as the Deputy General Manager 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 Huilai

aged 46, 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 Huadong 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 Chief Executive Officer of China Merchants International Container Terminal Co., Ltd, Ningbo Daxie.

Zhang Rizhong

aged 40, joined the Company in 2005 and is the Financial Controller of the Company, responsible for finance. He holds a Master of Business Administration degree 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 17 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 Alvin Beilin

aged 58, 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 the Company'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 37 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 earned 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 2008.

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 41 to 43 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 51.

The Board had declared an interim dividend of 28 HK cents per share, totalling HK$675 million, which was paid on 2 October 2008.

The Directors have resolved to recommend the payment of a final scrip dividend of 40 HK cents per share, totalling HK$969 million for the year ended 31 December 2008 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 (2007: scrip dividend of 45 HK cents per share by way of issue of new shares equivalent with cash alternative), payable on or around 17 July 2009 to the shareholders whose names appear on the Register of Members of the Company as at the date of the 2009 Annual General Meeting (the "Scrip Dividend Scheme").

Subject to the approval by shareholders in the 2009 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 16 June 2009. 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 17 July 2009.

Reserves

Details of the movements in reserves of the Group and the Company during the year are set out in note 30 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 29 to the financial statements.

Distributable reserves

Distributable reserves of the Company as at 31 December 2008, as defined under section 79B of the Hong Kong Companies Ordinance, amounted to HK$3,001 million (2007: HK$3,137 million).

Guaranteed notes

On 18 June 2008, the Group issued two tranches of guaranted listed notes, namely the US$300 million, 6.125% guaranteed listed notes maturing in 2013 and US$200 million, 7.125% guaranteed listed notes maturing in 2018. The net proceeds received from the issue of the listed notes was US$494 million. The net proceeds was used for general corporate purposes by the Group, including the repayment of existing indebtedness. Details of the guaranteed listed notes of the Group and the Company are set out in note 31(d) to the financial statements.

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 21.

Purchase, sale or redemption of shares

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

Directors

The Directors in 2008 were:

Executive Directors:

Dr. Fu Yuning *(Chairman & Managing Director)*
Mr. Li Yinquan
Mr. Hu Zheng
Mr. Meng Xi
Mr. Su Xingang
Mr. Yu Liming
Mr. Hu Jianhua
Mr. Wang Hong
Mr. To Wing Sing

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

In accordance with Article 91 of the Company's Articles of Association, Dr. Fu Yuning, Mr. Hu Zheng, Mr. Meng Xi, Mr. Yu Liming and Mr. Kut Ying Hay 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 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 (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 2008
Dr. Fu Yuning	Beneficial owner	Personal interest	539,029	400,000	0.0387%
Mr. Li Yinquan	Beneficial owner	Personal interest	—	450,000	0.0186%
Mr. Hu Zheng	Beneficial owner	Personal interest	—	700,000	0.0289%
Mr. Meng Xi	Beneficial owner	Personal interest	—	200,000	0.0083%
Mr. Su Xingang	Beneficial owner	Personal interest	—	350,000	0.0144%
Mr. Yu Liming	Beneficial owner	Personal interest	350,000	500,000	0.0351%
Mr. Wang Hong	Beneficial owner	Personal interest	506,989	150,000	0.0271%
Mr. To Wing Sing	Beneficial owner	Personal interest	130,000	100,000	0.0095%
Mr. Lee Yip Wah Peter	Beneficial owner	Personal interest	141,120	—	0.0058%
Mr. Li Kwok Heem John	Interest of spouse	Family interest	1,413,409	—	0.0583%
			3,080,547	2,850,000	0.2447%

Save as disclosed above and based on the register maintained by the Company under section 352 of the SFO, as at 31 December 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 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 which enables 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 ending on 19 December 2011.

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

As at 20 April 2009, the total number of shares which may be issued pursuant to the exercise of options granted under the Share Option Scheme was 31,124,000 shares.

As at 20 April 2009, the total number of shares available for issue under the Share Option Scheme was 131,548,238 shares, which represented approximately 5.43% of the total issued share capital of the Company as at the same date.

Details of the share options outstanding at 31 December 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 year	Options exercised during the year	Options lapsed/ cancelled during the year	Other changes during the year	Options held as at 31 December 2008
Directors								
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. Yu Liming	27 October 2004	11.08	350,000	—	(350,000)	—	—	—
	25 May 2006	23.03	500,000	—	—	—	—	500,000
Mr. Wang Hong	25 May 2006	23.03	150,000	—	—	—	—	150,000
Mr. To Wing Sing	25 May 2006	23.03	100,000	—	—	—	—	100,000
			3,200,000	—	(350,000)	—	—	2,850,000
Continuous contract employees								
(I) The Group	11 October 2002	4.985	50,000	—	(50,000)	—	—	—
	27 October 2004	11.08	1,730,000	—	(200,000)	—	—	1,530,000
	25 May 2006	23.03	14,714,000	—	(1,012,000)	—	—	13,702,000
	21 June 2006	20.91	150,000	—	—	—	—	150,000
(II) The CMHK	11 October 2002	4.985	100,000	—	—	—	—	100,000
Group	27 October 2004	11.08	1,100,000	—	(42,000)	—	—	1,058,000
	25 May 2006	23.03	12,156,000	—	(422,000)	—	—	11,734,000
			30,000,000	—	(1,726,000)	—	—	28,274,000
			33,200,000	—	(2,076,000)	—	—	31,124,000

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$34.81.

2. No share options were granted during the year.

Substantial shareholders

As at 31 December 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	Capacity	Ordinary Shares held	Percentage of total issued Shares
China Merchants Group Limited	Interest of Controlled Corporation	1,341,958,976(1,2,3)	55.37%
China Merchants Steam Navigation Company Limited	Interest of Controlled Corporation	1,338,958,976(2)	55.25%
China Merchants Holdings (Hong Kong) Company Limited	Interest of Controlled Corporation	1,338,958,976(2)	55.25%
China Merchants Union (BVI) Limited	Beneficial Owner	1,181,882,531(2)	48.77%
	Interest of Controlled Corporation	126,434,436(2)	5.22%
Super Talent Group Limited	Beneficial Owner	124,314,569(2)	5.13%
Davis Selected Advisers, L.P. (d/b/a: Davis Advisors)	Investment Manager	145,910,554	6.02%

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 1,341,958,976 shares, which represents the aggregate of 1,338,958,976 shares deemed to be held by China Merchants Steam Navigation Company Limited (see Note 2 below) and 3,000,000 shares deemed to be held by China Merchants Shekou Industrial Zone Company Limited (see Note 3 below).

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 1,338,958,976 shares which are deemed to be held by China Merchants Holdings (Hong Kong) Company Limited. Such shares represent the aggregate of 1,181,882,531 shares beneficially held by China Merchants Union (BVI) Limited, 124,314,569 shares beneficially held by Super Talent Group Limited, 2,119,867 shares beneficially held by Orienture International Financing Limited, 13,783,310 shares beneficially held by Cm Development Limited and 16,858,699 shares beneficially held by Best Winner Investment Limited.

   As each of Super Talent Group Limited and Orienture International Financing Limited is wholly-owned by China Merchants Union (BVI) Limited, China Merchants Union (BVI) Limited is also deemed to be interested in 126,434,436 shares which represent the aggregate of 124,314,569 shares beneficially held by Super Talent Group Limited and 2,119,867 shares beneficially held by Orienture International Financing Limited.

   In addition, 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 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 the 3,000,000 shares which are deemed to be held by Top Chief Company Limited. Such shares represent the 3,000,000 shares beneficially held by Orienture Holdings Company Limited.

Short Positions

Nil

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

Connected transactions

During the year ended 31 December 2008, 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 21 May 2008, CMH International (China) Investment Co., Ltd. ("CMCIL"), a direct wholly-owned subsidiary of the Company, entered into a supplemental JV contract with Shenzhen Chiwan Wharf Holdings Ltd. ("Shenzhen Chiwan") in relation to the increase in the total investment and registered capital of China Merchants Maritime & Logistics (Shenzhen) Ltd. ("CMML"), a 60%-owned indirect subsidiary of the Company. Pursuant to the supplemental JV contract, the total investment and registered capital of CMML increased from RMB500 million to RMB800 million, and from RMB300 million to RMB400 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. As the additional registered capital was contributed by CMCIL and Shenzhen Chiwan in proportion to their respective equity interests in the JV Company, CMML continues to be owned as to 60% by CMCIL and 40% by Shenzhen Chiwan. In response to the growing demand for logistics services, the Directors of the Company believe that the increase in capital in CMML is in line with the Group's strategy and will also integrate and unify the Group's port resources and logistics services in the western area of Shenzhen. Shenzhen Chiwan is a connected person of the Company as it is a substantial shareholder of several subsidiaries of the Company.

(b) On 15 November 2008, the Company, Hoi Hung HHH (BVI) Limited ("Hoi Hung", an indirect wholly-owned subsidiary of the Company) and Hempel A/S entered into a share purchase agreement pursuant to which Hoi Hung agreed to sell to Hempel A/S 678,400 ordinary shares in Hempel-Hai Hong (China) Limited ("Hempel-Hai Hong"), representing 64% of its issued share capital, and assign to Hempel A/S certain trademarks. The total consideration for the sale of the shares, the assignment of the trademarks and the grant of all other rights to Hempel A/S is HK$1,146,496,000. As Hempel A/S is a substantial shareholder of Hempel-Hai Hong, which in turn is a subsidiary of the Company, Hempel A/S is a connected person of the Company. The disposal of the interests in Hempel-Hai Hong allows the Company to focus the resources of the Group on port and port-related business. The transaction contemplated under the share purchase agreement was completed on 5 January 2009, after which the Group does not hold any share in Hempel-Hai Hong and as such, Hempel A/S is no longer a connected person of the Company.

(c) Details of the continuing connected transactions of the Group for the year ended 31 December 2008 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 Sales of paint products charged by the Group Sourcing services charged to the Group	(i), (ii) (i), (iii) (i), (iv)	(91,896) 188,971 —
China Merchants Holdings (Hong Kong) Company Limited ("CMHK")	Rental of certain properties in Hong Kong charged by the Group	(v)	21,644
Hong Kong Ming Wah Shipping Company Limited ("Ming Wah")	Rental of a property in Hong Kong charged by the Group	(v)	9,766
China Merchants Shekou Industrial Zone Company Limited ("CMSIZ")	Rental of a piece of land in Nanshan charged to the Group	(vi)	(9,127)
Shenzhen Nanyou (Group) Company Limited ("Shenzhen Nanyou")	Rental of a piece of land in Nanshan charged to the Group	(vii)	(1,822)
Shenzhen Nanyou	Rental of a piece of land in Nanshan charged to the Group	(viii)	(2,985)
CMSIZ	Rental of a piece of land in Shekou charged to the Group	(ix)	(2,042)
Shenzhen Chiwan Logistics Limited ("SCL")	Port-zone container horizontal transportation and related services charged to the Group	(x)	(19,126)
CMSIZ	Rental of 23 parcels of land in Shekou charged to the Group	(xi)	(31,984)
CMSIZ	Rental of a parcel of land in Shekou charged to the Group	(xii)	(288)
Euroasia Dockyard Enterprise and Development Limited ("Euroasia")	Rental of properties at Tsing Yi Terminal charged to the Group	(xiii)	(16,904)
Hoi Tung Marine Machinery Suppliers Limited ("Hoi Tung")	Rental of warehouse charged to the Group and cargo management service fee charged to the Group	(xiv)	(2,448)
Yiu Lian Dockyards Limited ("Yiu Lian")	Ship berthing service fee charged to the Group	(xv)	(4,158)
China Merchants Shekou Industrial Zone Property Company Limited ("CMSIZ1 ")	Rental of properties charged to the Group	(xvi)	(3,788)
Shenzhen Mawan Port Services Co., Ltd. and Shenzhen Mawan Terminals Co., Ltd. (together, the "Mawan Companies")	Rental of two parcels of land in Nanshan charged by the Group	(xvii)	(8,947)

Notes:

(i) Prior to 5 January 2009, Hempel A/S was 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 was a connected person of the Company. However, as described in paragraph (b) of this section, Hempel A/S is no longer a connected person of the Company after the completion of the sale of the Group's interest in Hempel-Hai Hong on 5 January 2009.

(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. The use of Hai Hong Industry and Hempel's intellectual property enabled Hempel-Hai Hong to carry on its business without independently incurring costs and expense in developing such intellectual property. Hai Hong Industry (Shenzhen) Co. Ltd. was a wholly-owned subsidiary of the Group and Hempel Hai-Hong was a joint venture company 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. As described in paragraph (b) of this section, after the completion of the sale of the Group's interest in Hempel-Hai Hong on 5 January 2009, the Group no longer holds any interest in Hempel-Hai Hong and Hempel A/S is no longer a connected person of the Company.

(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. As described in paragraph (b) of this section, after the completion of the sale of the Group's interest in Hempel-Hai Hong on 5 January 2009, the Group no longer holds any interest in Hempel-Hai Hong and Hempel A/S is no longer a connected person of the Company.

(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. As described in paragraph (b) of this section, after the completion of the sale of the Group's interest in Hempel-Hai Hong on 5 January 2009, the Group no longer holds any interest in Hempel-Hai Hong and Hempel A/S is no longer a connected person of the Company.

(v) Universal Sheen Investment Limited ("Universal Sheen"), a wholly-owned subsidiary of the Company, agreed on 25 April 2008 to renew the transactions contemplated under certain expired tenancy agreements by entering into three tenancy renewal agreements, with CMHK and Ming Wah, each of them is a wholly-owned subsidiary of CMG, the ultimate holding company of the Company. Under the tenancy renewal agreements, Universal Sheen agreed to continue the leases of certain office space for a term of three years commencing on 1 February 2008 (subject to early termination by mutual agreement of the parties). According to the tenancy renewal agreements, the monthly rentals of the two properties leased to CMHK are HK$1,646,976 and HK$185,312, respectively. The monthly rental of the property leased to Ming Wah is HK$826,720. Prior to the entering into of the tenancy renewal agreements, the rental received from CMHK for the two properties amounted to HK$1,338,168 and HK$150,566, respectively, and the rental received from Ming Wah for the property amounted to HK$671,710 for the one-month period ended 31 January 2008 based on the expired tenancy agreements. The Directors believe that the tenancy under the tenancy renewal agreements will generate steady, recurrent and satisfactory rental income for the Company.

(vi) On 30 April 2008, CMSIZ entered into a lease agreement with CMML to lease a piece of land in Shenzhen Qianhaiwan Logistics Park, Nanshan District, Shenzhen, with a total area of 121,330.70 square meters. The lease agreement is for a term of 20 months commencing on 1 May 2008 and ending on 31 December 2009. Rental is charged at RMB100.80 per square meter per annum. The Directors are of the view that the transaction contemplated under the lease agreement is in line with the Group's strategy to expand in port and port-related business and will strengthen the Group's position in Shenzhen. CMSIZ is an indirect wholly-owned subsidiary of CMG. Accordingly, CMSIZ is a connected person of the Company.

(vii) On 30 April 2008, Shenzhen Nanyou entered into a lease agreement with CMML to lease a piece of land in Shenzhen Qianhaiwan Logistics Park, Nanshan District, Shenzhen with a total area of 18,332.30 square meters. The lease agreement will expire on 31 December 2010. Rental is charged at RMB88.80 per square meter per annum. The Directors are of the view that the transaction contemplated under the lease agreement is in line with the Group's strategy to expand in port and port-related business and will strengthen the Group's position in Shenzhen. Shenzhen Nanyou is a 76%-owned subsidiary of CMG. Accordingly, Shenzhen Nanyou is a connected person of the Company.

(viii) On 30 April 2008, Shenzhen Nanyou entered into a lease agreement with Shenzhen Mawan Wharf Co., Ltd., a non wholly-owned indirect subsidiary of the Company, to lease a piece of land in Shenzhen Qianhaiwan Logistics Park, Nanshan District, Shenzhen with a total area of 43,996.60 square meters. The lease agreement has expired on 31 December 2008. Rental was charged at RMB72 per square meter per annum. The Directors are of the view that the transaction contemplated under the lease agreement is in line with the Group's strategy to expand in port and port-related business and will strengthen the Group's position in Shenzhen. Shenzhen Nanyou is a 76%-owned subsidiary of CMG. Accordingly, Shenzhen Nanyou is a connected person of the Company.

(ix) On 23 February 1990, CMSIZ entered into a lease agreement with South-China Cold Storage & Ice Co., Ltd. (now renamed as China Merchants International Cold China (Shenzhen) Company Limited) ("South China") for a term of 25 years, commencing from 1 May 1990, to lease a piece of land in Shekou Industrial Zone. Rental is charged at RMB91 per square meter per annum for the period from 1 January 2008 to 31 December 2010. Rental under the lease agreement is subject to adjustment every three years. The Directors are of the view that the transaction contemplated under the lease agreement is in line with the Group's strategy to expand in port and port-related business. On 31 March 2008, Asia Zone Investment Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Winsor Properties (China) Limited and First-Time Investment Limited (the "Winsor Sale and Purchase Agreement") for the acquisition of 70% of the issued share capital of and assignment of 70% of the shareholders' loans in Winsor Health Godown Limited. South China is an indirect wholly-owned subsidiary of Winsor Health Godown Limited. Upon completion of the sale and purchase agreement on 30 April 2008, South China becomes an indirect non wholly-owned subsidiary of the Company. CMSIZ is an indirect wholly-owned subsidiary of CMG. Accordingly, the lease agreement constitutes a continuing connected transaction for the Company from the date of completion of the Winsor Sale and Purchase Agreement.

(x) Shenzhen Mawan Port Services Co., Ltd. and Shenzhen Mawan Terminals Co., Ltd. (together, the "Mawan Companies"), each of them being an indirect subsidiary of the Company, entered into a contractor agreement with SCL on 21 May 2008 pursuant to which the Mawan Companies appointed SCL as a contractor in relation to the provision by SCL of various port-zone container horizontal transportation services and other related services to the Mawan Companies for a term commencing from 1 January 2008 to 31 December 2008 for a service fee of RMB3,002,300 for the period from 1 January 2008 to 20 May 2008 and at an average market unit price of RMB15.50 per TEU for the period from 21 May 2008 to 31 December 2008. The Directors are of the view that the Group can benefit from SCL's expertise in container horizontal transportation and the contractor agreement will result in cost savings for the operations of the Mawan Companies. 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.

(xi) China Merchants Port Services (Shenzhen) Company Limited ("SCMPS") entered into nine lease agreements with CMSIZ on 24 July 2008 pursuant to which SCMPS agreed to lease

23 parcels of land in the Shekou Industrial Park and certain property assets from CMSIZ, with a term commencing on 1 August 2008. Six of the lease agreements will expire on 31 December 2009 and the remaining three lease agreements will expire on 31 December 2010. Total rental to be charged by CMSIZ under the nine lease agreements for the period from 1 August 2008 to 31 December 2010 is RMB99,385,228. The Directors are of the view that the transactions contemplated under the lease agreements are in line with the Group's strategy to expand in port and port-related business, in particular, in providing warehouse services. CMSIZ is an indirect wholly-owned subsidiary of CMG. Accordingly, CMSIZ is a connected person of the Company.

(xii) SCMPS entered into a lease agreement with CMSIZ on 18 August 2008 pursuant to which SCMPS agreed to lease a parcel of land in the Shekou Industrial Park for the period from 1 September 2008 to 31 December 2010 at a total rental charge of RMB1,802,316. The Directors are of the view that the transaction contemplated under the lease agreement is in line with the Group's strategy to expand in port and port-related business. CMSIZ is an indirect wholly-owned subsidiary of CMG. Accordingly, CMSIZ is a connected person of the Company.

(xiii) China Merchants Container Services Limited ("CMCS"), an indirect wholly owned subsidiary of the Company, 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 the Tsing Yi Terminal. Pursuant to a supplemental agreement entered into on 1 November 2004, the rental agreement has been extended for 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. The Directors are of the view that the transaction contemplated under the rental agreement is in line with the Group's strategy to expand in port and port-related business. As Euroasia is an indirect wholly-owned subsidiary of CMG, it is a connected person of the Company.

(xiv) 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 1 year commencing on 1 November 2005 and was extended for a term of 1 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. As described in paragraph (b) of this section, after the completion of the sale of the Group's interest in Hempel-Hai Hong on 5 January 2009, the Group no longer holds any interest in Hempel-Hai Hong.

(xv) 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 1 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. As Yiu Lian is an indirect wholly-owned subsidiary of CMG, it is a connected person of the Company.

(xvi) On 20 May 1989, Shekou Container Terminals Limited ("SCT1") entered into a lease agreement with 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. The land leased under the lease agreement is crucial to the operation of SCT1 as all its port facilities and equipment are currently affixed to it. Upon completion of the third stage of the restructuring pursuant to a rationalisation agreement entered into between the Company and Modern Terminals Limited on 14 December 2006, SCT1 became a 75%-owned subsidiary of the Company. CMSIZ1 is an indirect wholly-owned subsidiary of CMG and is therefore a connected person of the Company.

(xvii) On 20 December 2007, CMML entered into a leasing agreement with the Mawan Companies, pursuant to which CMML agreed to lease 2 parcels of land in Shenzhen

Qianhaiwan Logistics Park, Nanshan District, Shenzhen to the Mawan Companies for a term of 18 months commencing on 1 January 2008 and ending on 30 June 2009. The rental payable by the Mawan Companies is RMB5,480,196 for the year ended 31 December 2008 and RMB2,740,098 for the six months ending 30 June 2009. The Directors are of the view that the transaction contemplated under the leasing agreement is in line with the Group's strategy to expand in port and port-related business, in particular, in its container related logistics services. Shenzhen Chiwan is a connected person of the Company as it is a substantial shareholder of several subsidiaries of the Group. The Mawan Companies, as associates of Shenzhen Chiwan, are connected persons of the Company.

(d) The Independent Non-executive Directors have reviewed the continuing connected transactions set out in paragraph (c) 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 (c) of this section, the aggregate royalty fee charged to the Group has not exceeded HK$126,000,000, the annual cap for the year ended 31 December 2008;

(ii) in respect of the sale of paint products to Hempel A/S, which is referred to in note (iii) to paragraph (c) of this section, the aggregate amount of sales has not exceeded HK$250,000,000, the annual cap for the year ended 31 December 2008;

(iii) in respect of the sourcing services provided by Hempel A/S, which is referred to in note (iv) of paragraph (c) of this section, the aggregate amount of services fees has not exceeded HK$8,000,000, the annual cap for the year ended 31 December 2008;

(iv) in respect of the lease by Universal Sheen to CMHK and Ming Wah of certain properties in Hong Kong, details of which are set out in note (v) to paragraph (c) of this section, each of the rental received for the one-month period ended 31 January 2008 based on the expired tenancy agreements and aggregate rental received for the 11-month period ended 31 December 2008 based on the tenancy renewal agreements has not exceeded the relevant cap for the one-month period ended 31 January 2008 of HK$2,160,444 and the relevant cap for the 11-month period ended 31 December 2008 of HK$29,249,088, respectively;

(v) in respect of the lease by CMSIZ to CMML of a piece of land in Nanshan, details of which are set out in note (vi) to paragraph (c) of this section, the aggregate rental has not exceeded RMB8,153,423, the cap for the 8-month period ended 31 December 2008;

(vi) in respect of the lease by Shenzhen Nanyou to CMML of a piece of land in Nanshan, details of which are set out in note (vii) to paragraph (c) of this section, the aggregate rental has not exceeded RMB1,627,908, the annual cap for the year ended 31 December 2008;

(vii) in respect of the lease by Shenzhen Nanyou to Shenzhen Mawan Wharf Co., Ltd. of a piece of land in Nanshan, details of which are set out in note (viii) to paragraph (c) of this section, the aggregate rental has not exceeded RMB3,167,755, the annual cap for the year ended 31 December 2008;

(viii) in respect of the lease by CMSIZ to South China of a piece of land in Shekou, details of which are set out in note (ix) to paragraph (c) of this section, the aggregate rental has not exceeded RMB1,823,720, the annual cap for the year ended 31 December 2008;

(ix) in respect of the provision of port-zone container horizontal transport services and other related services, details of which are set out in note (x) to paragraph (c) of this section, the aggregate amount of service fees has not exceeded RMB27 million, the annual cap for the year ended 31 December 2008;

(x) in respect of the lease by CMSIZ to SCMPS of 23 parcels of land in Shekou, details of which are set out in note (xi) to paragraph (c) of this section, the aggregate rental has not exceeded RMB28,571,645, the cap for the 5-month period ended 31 December 2008;

(xi) in respect of the lease by CMSIZ to SCMPS of a parcel of land in Shekou, details of which are set out in note (xii) to paragraph (c) of this section, the aggregate rental has not exceeded RMB257,474, the cap for the 4-month period ended 31 December 2008;

(xii) 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, details of which are set out in note (xiii) to paragraph (c) of this section, the aggregate rental has not exceeded HK$16,905,000, the cap for the 10-month period ended 31 October 2008;

(xiii) in respect of the rentals of warehouse and the cargo management services provided by Hoi Tung, details of which are set out in note (xiv) to paragraph (c) of this section, the aggregate amount of rentals and services fees has not exceeded HK$2,900,000, the annual cap for the year ended 31 December 2008;

(xiv) in respect of the ship berthing services provided by Yiu Lian, details of which are set out in note (xv) to paragraph (c) of this section, the aggregate amount of service fees has not exceeded HK$6,912,000, the annual cap for the year ended 31 December 2008;

(xv) in respect of the lease by CMSIZ1 to the Group, details of which are set out in note (xvi) to paragraph (c) of this section, the aggregate rental has not exceeded HK$3,787,570, the annual cap for the year ended 31 December 2008; and

(xvi) in respect of the lease by the Group to the Mawan Companies, details of which are set out in note (xvii) to paragraph (c) of this section, the aggregate rental has not exceeded RMB7,992,000, the annual cap for the year ended 31 December 2008.

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

(i) have received the approval of the Company's Board of Directors;

(ii) selected transactions regarding the sales of paint products by the Group were in accordance with the pricing policies of the Group;

(iii) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and

(iv) where applicable, have not exceeded the caps as disclosed in previous announcements.

Management contracts

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

Major customers and suppliers

The aggregate amount of sales and purchases attributable to the Group's five largest customers and suppliers represented less than 30% of the Group's total sales and purchases in 2008, 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 40 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, 20 April 2009

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 51 to 145, which comprise the consolidated and company balance sheets as at 31 December 2008, 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 2008 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, 20 April 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Note	2008 HK$'million	2007 HK$'million
Continuing operations			
Revenue	5	**4,135**	3,345
Cost of sales	8	**(2,163)**	(1,644)
Gross profit		**1,972**	1,701
Other gains, net	7	**497**	188
Other income	7	**48**	21
Administrative expenses	8	**(582)**	(467)
Operating profit		**1,935**	1,443
Finance income	11	**43**	31
Finance costs	11	**(627)**	(566)
Finance costs - net	11	**(584)**	(535)
Share of profits less losses of			
Associates	22	**2,565**	2,645
Jointly controlled entities	23	**98**	60
Profit before taxation		**4,014**	3,613
Taxation	12	**(220)**	(174)
Profit for the year from continuing operations		**3,794**	3,439
Discontinued operations			
Profit for the year from discontinued operations	13	**232**	456
Profit for the year		**4,026**	3,895
Attributable to:			
Shareholders of the Company			
- continuing operations		**3,558**	3,214
- discontinued operations		**148**	331
		3,706	3,545
Minority interest			
- continuing operations		**236**	225
- discontinued operations		**84**	125
		320	350
Profit for the year		**4,026**	3,895
Dividends	15	**1,644**	1,563
Earnings per share for profit attributable to the shareholders of the Company	16		
From continuing operations			
- basic (HK cents)		**146.84**	135.58
- diluted (HK cents)		**146.32**	134.75
From discontinued operations			
- basic (HK cents)		**6.13**	13.95
- diluted (HK cents)		**6.11**	13.87

Consolidated Balance Sheet

As at 31 December 2008

	Note	2008 HK$'million	2007 HK$'million
ASSETS			
Non-current assets			
Goodwill	17	**2,513**	3,750
Property, plant and equipment	18	**12,921**	11,201
Investment properties	19	**744**	692
Leasehold land and land use rights	20	**7,426**	6,605
Interests in associates	22	**17,392**	16,204
Interests in jointly controlled entities	23	**2,646**	2,368
Other financial assets	24	**1,609**	500
Prepayment	25	**—**	434
Deferred tax assets	32	**27**	36
		45,278	41,790
Current assets			
Inventories	26	**41**	324
Debtors, deposits and prepayments	27	**684**	1,895
Tax recoverable		**—**	1
Cash and cash equivalents	28	**2,806**	1,230
		3,531	3,450
Assets of disposal groups classified as held for sale	13	**1,684**	446
		5,215	3,896
Total assets		**50,493**	45,686

	Note	2008 HK$'million	2007 HK$'million
EQUITY			
Capital and reserves attributable to the shareholders of the Company			
Share capital	29	**242**	241
Reserves	30	**29,069**	25,518
Proposed dividend	30	**969**	1,083
		30,280	26,842
Minority interest		**2,434**	1,633
Total equity		**32,714**	28,475
LIABILITIES			
Non-current liabilities			
Other financial liabilities	31	**10,246**	7,091
Deferred tax liabilities	32	**631**	468
		10,877	7,559
Current liabilities			
Creditors and accruals	33	**2,355**	2,470
Loans from the ultimate holding company	34	**2,649**	939
Other financial liabilities	31	**1,237**	6,206
Taxation payable		**19**	37
		6,260	9,652
Liabilities of disposal group classified as held for sale	13	**642**	—
		6,902	9,652
Total liabilities		**17,779**	17,211
Total equity and liabilities		**50,493**	45,686
Net current liabilities		**(1,687)**	(5,756)
Total assets less current liabilities		**43,591**	36,034

Dr. Fu Yuning
Director

Mr. Hu Jianhua
Director

Balance Sheet

As at 31 December 2008

	Note	2008 HK$'million	2007 HK$'million
ASSETS			
Non-current assets			
Property, plant and equipment	18	**1**	1
Interests in subsidiaries	21	**26,778**	29,960
Interest in an associate	22	**325**	325
Interest in a jointly controlled entity	23	**3**	3
		27,107	30,289
Current assets			
Debtors, deposits and prepayments	27	**12**	53
Advances to a subsidiary	21	**—**	2,461
Cash and cash equivalents	28	**1,685**	143
		1,697	2,657
Assets of disposal groups classified as held for sale	13	**—**	199
		1,697	2,856
Total assets		**28,804**	33,145
EQUITY			
Capital and reserves attributable to the shareholders of the Company			
Share capital	29	**242**	241
Reserves	30(c)	**18,748**	18,405
Proposed dividend	30(c)	**969**	1,083
Total equity		**19,959**	19,729
LIABILITIES			
Non-current liabilities			
Other financial liabilities	31	**309**	—
Advances from subsidiaries	21	**7,896**	5,041
		8,205	5,041
Current liabilities			
Creditors and accruals	33	**640**	346
Advances from subsidiaries	21	**—**	3,169
Other financial liabilities	31	**—**	4,860
		640	8,375
Total liabilities		**8,845**	13,416
Total equity and liabilities		**28,804**	33,145
Net current assets/(liabilities)		**1,057**	(5,519)
Total assets less current liabilities		**28,164**	24,770

Dr. Fu Yuning
Director

Mr. Hu Jianhua
Director

Consolidated Statement of Recognised Income and Expense

For the year ended 31 December 2008

	Note	2008 HK$'million	2007 HK$'million
Share of investment revaluation reserves of associates	22(a)	**(946)**	1,137
Realisation of reserves upon disposal of a subsidiary		**—**	(9)
Realisation of reserve upon disposal of an available-for-sale financial asset	13(b)	**(269)**	—
Share of net actuarial (losses)/gains on defined benefit plan of associates and a jointly controlled entity	22(a), 23(a)	**(102)**	16
Exchange differences from translation of financial statements of subsidiaries, associates and jointly controlled entities		**1,527**	1,418
(Decrease)/increase in fair value of available-for-sale financial assets	24(b)	**(5)**	273
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		**—**	83
Gain on partial disposal of subsidiaries to a minority shareholder	37	**1,034**	—
Net income recognised directly in equity		**1,239**	2,901
Profit for the year		**4,026**	3,895
Total recognised income for the year		**5,265**	6,796
Attributable to:			
- Shareholders of the Company		**4,830**	6,276
- Minority interest		**435**	520
		5,265	6,796

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Note	2008 HK$'million	2007 HK$'million
Cash flows from operating activities			
Net cash inflow from operations	35(a)	**2,463**	1,946
Hong Kong profits tax paid		**(4)**	(4)
PRC corporate income tax paid		**(127)**	(104)
Overseas income tax paid		**—**	(8)
Dividends received from associates and jointly controlled entities		**1,385**	1,226
Net cash generated from operating activities		**3,717**	3,056
Cash flows from investing activities			
Interest income received		**43**	37
Proceeds from disposal of property, plant and equipment and land use rights		**16**	57
Proceeds from disposal of available-for-sale financial assets		**460**	—
Proceeds from disposal of an associate		**—**	3
Proceeds from disposal of jointly controlled entities		**—**	101
Proceeds from disposal of subsidiaries, net of cash disposed	35(d)	**65**	2,414
Loans repaid by an associate, jointly controlled entities and an investee		**55**	276
Income received from held-to-maturity investments		**2**	10
Purchase of property, plant and equipment and land use rights		**(1,990)**	(2,137)
Purchase of subsidiaries, net of cash acquired	35(b)	**(17)**	616
Purchase of additional interest in subsidiaries and land use rights, net of cash acquired	35(c)	**—**	(510)
Acquisitions of interests in associates and jointly controlled entities		**(540)**	(2,025)
Acquisitions of investments in other financial assets		**(1,115)**	(3)
Net cash used in investing activities		**(3,021)**	(1,161)
Net cash inflow before financing activities carried forward		**696**	1,895

	Note	2008 HK$'million	2007 HK$'million
Net cash inflow before financing activities brought forward		696	1,895
Cash flows from financing activities			
Net proceeds from exercise of share options		39	318
Net proceeds from new listed notes payable		3,859	—
Proceeds from new financial liabilities		6,989	11,641
Loans from the ultimate holding company		1,680	—
Capital contributions from minority shareholders of subsidiaries		48	43
Dividends paid		(1,431)	(1,154)
Dividends paid to minority shareholders of subsidiaries		(339)	(151)
Interest paid		(640)	(411)
Repayment of other financial liabilities		(8,994)	(11,767)
Net cash generated from/(used in) financing activities		1,211	(1,481)
Increase in cash and cash equivalents		1,907	414
Cash and cash equivalents at 1 January		1,230	781
Effect of foreign exchange rate changes		34	35
		3,171	1,230
Cash and cash equivalents of disposal groups classified as held for sale	13	(365)	—
Cash and cash equivalents at 31 December		2,806	1,230

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 2008, China Merchants Group Limited ("CMG"), directly or indirectly, held 55.82% 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 Hong Kong dollars, unless otherwise stated. These consolidated financial statements have been approved for issue by the Directors on 20 April 2009.

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) Interpretations, amendment to existing Standards effective in 2008

In 2008, the Group adopted the following interpretations and amendment to existing Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which became effective for accounting periods beginning on or after 1 January 2008.

- The HKAS 39, 'Financial instruments: Recognition and measurement', amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to HKFRS 7, 'Financial instruments: Disclosures', introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. This amendment does not have any impact on the Group's financial statements, as the Group has not reclassified any financial assets.

- 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 adoption of this interpretation does not have any significant impact on the Group's financial statements.

- 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 adoption of this interpretation does not have any significant impact on the Group's financial statements.

- 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 adoption of this interpretation does not have any significant impact on the Group's financial statements.

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

(ii) Standards, amendments to Standards and interpretations to existing Standards 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' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply HKAS 1 (Revised) from 1 January 2009.

- 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 adopt HKAS 27 (Revised) prospectively from 1 January 2010.

- HKFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions. As such these features would need to be included in the grant date fair value for transactions with employees and other providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply HKFRS 2 (Amendment) from 1 January 2009, but it is not expected to have a material impact on the Group's financial statements.

- HKFRS 3 (Revised) 'Business combinations' continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) from 1 January 2010 prospectively.

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

(ii) Standards, amendments to Standards and interpretations to existing Standards that have been issued but are not yet effective in 2008 and have not been early adopted by the Group (Continued)

- 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 and it is anticipated that the number of reporting segments, as well as the manner in which the segments are reported, may change to bring in line with the internal reporting provided to the chief operating decision-maker.

(iii) New Standards, amendments to Standards and interpretations have been issued but are not effective for 2008 and have not been early adopted by the Group

The following new Standards, amendments to Standards and interpretations have been issued but are not effective for 2008 and have not been early adopted by the Group. The expected impacts are still being assessed in details by management but it is expected that the adoptions of these new Standards, amendments to Standards and interpretations should not have significant impacts to the Group.

		Effective for annual periods beginning on or after
HKAS 23 (Revised)	Borrowing Costs	1 January 2009
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations arising on Liquidation	1 January 2009
HKAS 39 (Amendment)	Eligible Hedged Items	1 July 2009
HKFRS 1 and HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 July 2009
HK(IFRIC)-Int 13	Customer Loyalty Programmes	1 July 2008
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate	1 January 2009
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation	1 October 2008
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners	1 July 2009
HK(IFRIC)-Int 18	Transfer of Assets from Customers	1 July 2009

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

(iv) HKICPA's improvements to HKFRS published in October 2008

HKICPA's improvements to HKFRS have been published in October 2008 but are not effective for period beginning on 1 January 2008 and have not been early adopted by the Group. Amendments have been made to the following Standards according to the improvements:

		Effective for annual periods beginning on or after
HKAS 1 (Amendment)	Presentation of Financial Statements	1 January 2009
HKAS 2	Inventories	1 January 2009
HKAS 7	Cash Flow Statements	1 January 2009
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2009
HKAS 10	Events after the Balance Sheet Date	1 January 2009
HKAS 16	Property, Plant and Equipment	1 January 2009
HKAS 18	Revenue	1 January 2009
HKAS 19	Employee Benefits	1 January 2009
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance	1 January 2009
HKAS 23 (Amendment)	Borrowing Costs	1 January 2009
HKAS 27 (Amendment)	Consolidated and Separate Financial Statements	1 January 2009
HKAS 28	Investments in Associates	1 January 2009
HKAS 29	Financial Reporting in Hyperinflationary Economies	1 January 2009
HKAS 31	Interests in Joint Ventures	1 January 2009
HKAS 32	Financial Instruments: Presentation	1 January 2009
HKAS 34	Interim Financial Reporting	1 January 2009
HKAS 36	Impairment of assets	1 January 2009
HKAS 38	Intangible assets	1 January 2009
HKAS 39	Financial Instruments: Recognition and Measurement	1 January 2009
HKAS 40	Investment Property	1 January 2009
HKAS 41	Agriculture	1 January 2009
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations	1 July 2009
HKFRS 7	Financial Instruments: Disclosures	1 January 2009

The Group is in the process of assessment of the impact of the amendments to the Group and considers that the adoption would have no significant impacts to the Group.

2 Summary of significant accounting policies (Continued)

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries as at 31 December.

(i) Subsidiaries

Subsidiaries are all entities over which the Group has power to govern the financial and operating policies generally accompanying a shareholding 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 consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary in the consolidated financial statements 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.

(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. For disposals to minority interests, differences between any proceeds received and the relevant share of minority interests are also recorded in equity.

2 Summary of significant accounting policies (Continued)

(b) Consolidation (Continued)

(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 identified on acquisition net of any accumulated impairment loss (note 2(g)).

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated 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.

2 Summary of significant accounting policies (Continued)

(b) Consolidation (Continued)

(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 identified on acquisition net of any accumulated impairment loss (note 2(g)).

The Group's share of its jointly controlled entities post-acquisition profits or losses is recognised in the consolidated 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.

Dilution gains and losses in jointly controlled entities are recognised in the consolidated income statement.

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.

2 Summary of significant accounting policies (Continued)

(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 consolidated 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 consolidated income statement, and other changes in carrying amount are recognised in translation reserve.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised 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.

2 Summary of significant accounting policies (Continued)

(d) Foreign currency translation (Continued)

(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 consolidated 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 other than a subsidiary for which control is retained is partially disposed of or sold, exchange differences that were recorded in translation reserve are recognised in the consolidated 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 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 consolidated 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	5 to 10 years
Leasehold improvements	5 to 20 years

No depreciation is provided on 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 disposals are determined by comparing the proceeds with the carrying amount and are recognised within other gains, net in the consolidated income statement.

2 Summary of significant accounting policies (Continued)

(f) Investment properties

Investment property, principally comprising land and office, buildings is held for long-term rental yields and that is not occupied by the Group.

Investment property is measured initially at its cost, including related transaction costs. 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 consolidated 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 identified according to operating segment.

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

Assets that have an indefinite useful life 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 (cash-generating units). Non-financial assets other than goodwill that suffered from 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 financial assets, 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 financial assets 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 also categorised 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 advances to associates in the balance sheet.

(iii) Held-to-maturity financial assets

Held-to-maturity financial assets 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. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale financial assets. 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; which 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.

2 Summary of significant accounting policies (Continued)

(i) Financial assets (Continued)

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 consolidated 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 financial assets 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 consolidated income statement within 'other 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 consolidated income statement as part of other income when the Group's right to receive payments is established.

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 consolidated income statement; 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 consolidated 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 consolidated income statement. Dividends on available-for-sale equity instruments are recognised in the consolidated 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 consolidated income statement - is removed from investment revaluation reserve and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. Impairment testing of debtors and deposits is described in note 2(k) to the financial statements.

2 Summary of significant accounting policies (Continued)

(j) Inventories

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). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(k) Debtors and deposits

Debtors and deposits 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 and deposits 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 consolidated 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 consolidated 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 when their carrying amounts is to be recovered principally through a sale transaction and a sale is considered highly probable. They are 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.

2 Summary of significant accounting policies (Continued)

(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 consolidated income statement over the period of the other financial liabilities using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

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.

(q) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

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. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, 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.

2 **Summary of significant accounting policies** (Continued)

(r) Employee benefits

(i) 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.

The Group also participates in the employee retirement benefits plan of the respective municipal government in various places in 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 consolidated 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.

2 Summary of significant accounting policies (Continued)

(r) Employee benefits (Continued)

(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

Revenue 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.

2 Summary of significant accounting policies (Continued)

(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.

(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 (net of any incentives received from the lessor) including up-front payment of the leasehold land and land use rights, are expensed in the consolidated 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 authorised 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 foreign 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 operate in Mainland China and most of their transactions are denominated in either Renminbi, Hong Kong dollar or United States dollar. The Group is exposed to foreign exchange risk primarily through sales and purchases, capital expenditure and expenses 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 Hong Kong dollar against Renminbi and United States dollar.

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, capital expenditure and expenses transactions as the management considers that the present exposure to foreign exchange risk is insignificant.

The Group also regularly monitors 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.

77% of the Group's borrowings (including loans from the ultimate holding company) as at 31 December 2008 (2007: 75%) are denominated in Hong Kong dollar and United States dollar while the remaining are denominated in Renminbi. Majority of the Group's ports operating subsidiaries draw loans in their functional currencies to finance their funding requirements and no significant foreign exchange risk is expected to arise from these borrowings. The Group utilised its United States dollar denominated listed notes payable to finance its capital investments and working capital.

At 31 December 2008, if Renminbi had strengthened/weakened by 5% (2007: 10%) against Hong Kong dollar and United States dollar with all other variables held constant, profit for the year would have been approximately HK$11 million lower/higher (2007: HK$30 million) mainly as a result of decrease/increase in net foreign exchange gains 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.

3 **Financial risk management** (Continued)

(a) Financial risk factors (Continued)

(i) **Market risk** (Continued)

Foreign exchange risk (Continued)

At 31 December 2008, if United States dollar had strengthened/weakened by 1% (2007: 1%) against Hong Kong dollar and Renminbi with all other variables held constant, profit for the year would have been approximately HK$73 million lower/higher (2007: HK$35 million) mainly as a result of decrease/increase in net foreign exchange gains 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 listed notes payables and the loans borrowed from ultimate holding company, 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.

Other than bank deposits and held-to-maturity investments as at 31 December 2008, 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.

At 31 December 2008, if interest rates on borrowings had been 10 basis points (2007:10 basis points) higher/lower with all other variables held constant, post-tax profit for the year would have been HK$4 million (2007: HK$5 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

3 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(ii) Credit risk

Credit risk arises if a customer or other counterparty fails to meet its contractual obligations. 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 ports operations and ports-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.

The Group believes that adequate provision for doubtful debts has been made in the consolidated financial statements. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in their impairment assessments.

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. 71.5% (2007: 93.6%) of cash are deposited in State-controlled banking enterprises as of 31 December 2008. Management considers that the credit risk associated with the deposits with banks and financial institutes is low.

(iii) Liquidity risk

The ongoing global liquidity crisis which commenced in the mid of 2008 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and, at times, higher interbank lending rates and very high volatility in stock markets.

Management believes that they are taking all the necessary measures to maintain sufficient liquidity reserve to support sustainability and growth of the Group's business in the current circumstances. Currently, the Group finances its working capital requirements through a combination of funds generated from operations and bank borrowings.

Management prepares rolling forecasts of the Group's liquidity reserve which comprise undrawn borrowing facilities (note 31(f)) and cash and cash equivalents (note 28) 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 (excluding liabilities of disposal group classified as held for sale) into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 1 year		Between 1 and 2 years		Between 2 and 5 years		Over 5 years		Total	
Group	2008 HK$' million	2007 HK$' million	2008 HK$' million	2007 HK$' million	2008 HK$' million	2007 HK$' million	2008 HK$' million	2007 HK$' million	2008 HK$' million	2007 HK$' million
Other financial liabilities	1,733	2,582	1,427	1,313	5,308	2,559	6,320	5,085	14,788	11,539
Trade payables	70	615	—	—	—	—	—	—	70	615
Loans from the ultimate holding company	2,649	939	—	—	—	—	—	—	2,649	939
Amount due to an intermediate holding company	4	3	—	—	—	—	—	—	4	3
Amounts due to fellow subsidiaries	332	380	—	—	—	—	—	—	332	380
Amounts due to associates	6	2	—	—	—	—	—	—	6	2
Amounts due to jointly controlled entities	1	—	—	—	—	—	—	—	1	—
	4,795	4,521	1,427	1,313	5,308	2,559	6,320	5,085	17,850	13,478

	Within 1 year		Between 1 and 2 years		Between 2 and 5 years		Over 5 years		Total	
Company	2008 HK$' million	2007 HK$' million	2008 HK$' million	2007 HK$' million	2008 HK$' million	2007 HK$' million	2008 HK$' million	2007 HK$' million	2008 HK$' million	2007 HK$' million
Other financial liabilities	7	1,016	7	—	315	—	—	—	329	1,016
Amounts due to fellow subsidiaries	176	320	—	—	—	—	—	—	176	320
	183	1,336	7	—	315	—	—	—	505	1,336

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 prepares 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 net gearing ratio. This ratio is calculated as net interest bearing debts divided by net assets attributable to the Company's shareholders.

During the year, the Group's strategy was to maintain a desired level of net gearing ratio due to which the Group's credit ratings had been reaffirmed at Baa2 by Moody's Asia Pacific Limited and BBB by Standard and Poor's. The net gearing ratios at 31 December 2008 and 2007 were as follows:

	2008 HK$'million	2007 HK$'million
Interest bearing other financial liabilities (note 31)	**11,421**	9,385
Loans from the ultimate holding company (note 34)	**2,649**	939
Total interest bearing debts	**14,070**	10,324
Less: cash and cash equivalents (note 28)	**(2,806)**	(1,230)
Net interest bearing debts	**11,264**	9,094
Net assets attributable to the Company's shareholders	**30,280**	26,842
Net gearing ratio	**37.2%**	33.9%

(c) Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, debtors and deposits and financial liabilities including creditors, 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 the listed note payables were disclosed at their quoted market prices. The fair values of non-current financial liabilities are disclosed in note 31 to the financial statements.

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.

(a) 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.

(b) Impairment of property, plant and equipment

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or market valuations. These calculations require the use of judgments and estimates.

Management judgment is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. The growth rates and discount rates used for value-in-use calculations are 4% to 5% and 10.08% to 14.27% respectively. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial position and results of operations. Property, plant and equipment is not impaired where the discount rates and growth rates used differ by 10% from management estimates.

(c) Impairment of investments in associates and jointly controlled entities

Investments in associates and jointly controlled entities are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations. These calculations require the use of management judgements and estimates.

5 Revenue

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

	2008 HK$'million	2007 HK$'million
Continuing operations		
Ports service and transportation income, container service and container yard management income	4,103	3,318
Gross rental income from investment properties	32	27
	4,135	3,345
Discontinued operations		
Sale of paints and related goods	2,696	2,913
Sale of development properties	—	171
	2,696	3,084
Total	6,831	6,429

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 toll road operation and property development and investment.

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. Details of the Group's businesses operated in Hong Kong and Mainland China are as follows:

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

There are no material sales or other transactions between the geographical segments.

During the year, the Group agreed to dispose of its interests in paint manufacturing operation in Mainland China and Hong Kong. The Group's interests in toll road operation in Mainland China and property development operation in New Zealand were disposed in prior year. These segments had 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	
	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	**4,103**	3,318	**7,709**	6,354	**915**	249	**12,727**	9,921
Ports-related operations	**—**	—	**12,712**	11,182	**—**	—	**12,712**	11,182
Other operations								
Property investment	**32**	27	**—**	—	**—**	—	**32**	27
	4,135	3,345	**20,421**	17,536	**915**	249	**25,471**	21,130
Discontinued operations								
Ports-related operations	**2,696**	2,913	**—**	—	**—**	—	**2,696**	2,913
Other operations								
Toll road	**—**	—	**—**	—	**—**	210	**—**	210
Property development	**—**	171	**—**	—	**—**	—	**—**	171
	2,696	3,084	**—**	—	**—**	210	**2,696**	3,294
Total	**6,831**	6,429	**20,421**	17,536	**915**	459	**28,167**	24,424

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 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
Continuing operations								
Ports operations	**1,621**	1,436	**2,186**	1,902	**98**	60	**3,905**	3,398
Ports-related operations	**—**	—	**379**	743	**—**	—	**379**	743
Other operations								
Property investment	**123**	149	**—**	—	**—**	—	**123**	149
Toll road	**280**	—	**—**	—	**—**	—	**280**	—
Others	**3**	—	**—**	—	**—**	—	**3**	—
	406	149	**—**	—	**—**	—	**406**	149
	2,027	1,585	**2,565**	2,645	**98**	60	**4,690**	4,290
Unallocated income less expenses							**(92)**	(142)
Finance income							**43**	31
Finance costs							**(627)**	(566)
Taxation							**(220)**	(174)
Profit for the year from continuing operations							**3,794**	3,439
Discontinued operations								
Ports-related operations	**305**	283	**—**	—	**—**	—	**305**	283
Other operations								
Toll road	**—**	17	**—**	—	**—**	119	**—**	136
Property development	**—**	13	**—**	—	**—**	—	**—**	13
	305	313	**—**	—	**—**	119	**305**	432
	2,332	1,898	**2,565**	2,645	**98**	179		
Gain on disposal of discontinued operations							**—**	77
Finance income							**2**	8
Finance costs							**(6)**	(16)
Taxation							**(69)**	(45)
Profit for the year from discontinued operations							**232**	456
Profit for the year							**4,026**	3,895

6 **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	
	2008 HK$' million	2007 HK$' million	**2008 HK$' million**	2007 HK$' million	**2008 HK$' million**	2007 HK$' million	**2008 HK$' million**	2007 HK$' million	**2008 HK$' million**	2007 HK$' million
Ports operations	**25,838**	23,561	**13,266**	12,174	**2,646**	2,368	**(6,706)**	(8,945)	**35,044**	29,158
Ports-related operations	**—**	1,742	**4,126**	4,030	**—**	—	**—**	(929)	**4,126**	4,843
Other operations										
Property investment	**751**	700	**—**	—	**—**	—	**(5)**	(5)	**746**	695
Others	**198**	19	**—**	—	**—**	—	**—**	—	**198**	19
	949	719	**—**	—	**—**	—	**(5)**	(5)	**944**	714
	26,787	26,022	**17,392**	16,204	**2,646**	2,368	**(6,711)**	(9,879)	**40,114**	34,715
Disposal groups classified as held for sale										
Ports-related operations	**1,684**	—	**—**	—	**—**	—	**(642)**	—	**1,042**	—
Other operations										
Toll road	**—**	446	**—**	—	**—**	—	**—**	—	**—**	446
	1,684	446	**—**	—	**—**	—	**(642)**	—	**1,042**	446
	28,471	26,468	**17,392**	16,204	**2,646**	2,368	**(7,353)**	(9,879)	**41,156**	35,161
Unallocated assets									**1,957**	609
Unallocated liabilities									**(9,776)**	(6,827)
Tax recoverable									**—**	1
Taxation payable									**(19)**	(37)
Deferred tax assets									**27**	36
Deferred tax liabilities									**(631)**	(468)
									32,714	28,475

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 segments is as follows:

	Capital expenditure		Depreciation and amortisation	
	2008 HK$'million	2007 HK$'million	**2008 HK$'million**	2007 HK$'million
Continuing operations				
Ports operations	**2,214**	7,895	**750**	618
Ports-related operations	**—**	40	**—**	—
Other operations				
Property investment	**—**	7	**7**	7
Others	**—**	—	**1**	1
	2,214	7,942	**758**	626
Discontinued operations				
Ports-related operations	**18**	—	**14**	13
	2,232	7,942	**772**	639

6 Segment information (Continued)

(b) Secondary reporting format - geographical segments

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

	Revenue		Segment results	
	2008 **HK$'million**	2007 HK$'million	**2008** **HK$'million**	2007 HK$'million
Continuing operations				
Hong Kong	**217**	247	**393**	170
Mainland China	**3,918**	3,098	**1,634**	1,415
			2,027	1,585
Unallocated income less expenses			**(92)**	(142)
Revenue/operating profit from continuing operations	**4,135**	3,345	**1,935**	1,443
Discontinued operations				
Hong Kong	**126**	160	**14**	16
Mainland China	**2,381**	2,433	**269**	253
New Zealand	**—**	171	**—**	13
Others	**189**	320	**22**	31
Revenue/operating profit from discontinued operations	**2,696**	3,084	**305**	313
Revenue/operating profit	**6,831**	6,429	**2,240**	1,756

6 **Segment information** (Continued)

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

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

	Segment assets		Capital expenditure	
	2008 **HK$'million**	2007 HK$'million	**2008** **HK$'million**	2007 HK$'million
Hong Kong	**848**	567	**11**	14
Mainland China	**25,939**	25,455	**2,203**	7,928
	26,787	26,022	**2,214**	7,942
Disposal groups classified as held for sale				
Hong Kong	**275**	446	**—**	—
Mainland China	**1,409**	—	**18**	—
	1,684	446	**18**	—
	28,471	26,468	**2,232**	7,942

7 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
Other gains, net						
Increase in fair value of investment properties (note 19)	**68**	132	**—**	—	**68**	132
(Loss)/gain on disposal of property, plant and equipment and land use rights	**—**	10	**(1)**	—	**(1)**	10
Gain on disposal of an available-for-sale financial asset (note 13(b))	**11**	—	**—**	—	**11**	—
Realisation of investment revaluation reserve upon disposal of an available-for-sale financial asset (note 13(b))	**269**	—	**—**	—	**269**	—
Gain on disposal of a subsidiary	**33**	—	**—**	—	**33**	—
Gain on deemed disposal of partial interest in a jointly controlled entity (note 23(e))	**15**	—	**—**	—	**15**	—
Gains on disposal of jointly controlled entities	**—**	—	**—**	13	**—**	13
Net foreign exchange gains/(losses)	**101**	46	**(21)**	7	**80**	53
	497	188	**(22)**	20	**475**	208
Other income						
Income from held-to-maturity investments	**1**	1	**—**	4	**1**	5
Dividend income	**21**	13	**—**	—	**21**	13
Others	**26**	7	**6**	6	**32**	13
	48	21	**6**	10	**54**	31

8 Expenses by nature

	Continuing operations		Discontinued operations		Total	
	2008 HK$'million	2007 HK$'million	**2008 HK$'million**	2007 HK$'million	**2008 HK$'million**	2007 HK$'million
Changes in finished goods	**—**	—	**19**	—	**19**	—
Cost of raw materials and consumables used	**—**	—	**1,964**	2,223	**1,964**	2,223
Cost of development properties sold	**—**	—	**—**	140	**—**	140
Staff costs (including Directors' emoluments) (note 9)	**547**	521	**113**	120	**660**	641
Depreciation of property, plant and equipment	**627**	499	**13**	12	**640**	511
Amortisation of leasehold land and land use rights	**131**	127	**1**	1	**132**	128
Auditor's remuneration	**13**	13	**2**	2	**15**	15
Operating lease rentals in respect of						
- land and buildings	**112**	86	**10**	12	**122**	98
- plant and machinery	**29**	25	**—**	1	**29**	26
Other expenses	**1,286**	840	**253**	290	**1,539**	1,130
Total cost of sales, distribution costs and administrative expenses	**2,745**	2,111	**2,375**	2,801	**5,120**	4,912

9 Staff costs (including Directors' emoluments)

	Continuing operations		Discontinued operations		Total	
	2008 HK$'million	2007 HK$'million	**2008 HK$'million**	2007 HK$'million	**2008 HK$'million**	2007 HK$'million
Wages and salaries	**489**	403	**105**	110	**594**	513
Retirement benefit scheme contributions (Note)	**58**	44	**8**	7	**66**	51
Share-based payments (note 30(b))	**—**	74	**—**	3	**—**	77
	547	521	**113**	120	**660**	641

Note:

The amount of forfeiture utilised during 2008 was HK$126,000 (2007: HK$49,000). There is no available balance as at 31 December 2008 (2007: HK$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$'million	2008 Total HK$'million	2007 Total HK$'million
Fu Yuning	—	—	—	—	—	—	1.47
Zhao Huxiang (i)	—	—	—	—	—	—	0.28
Li Yinquan	—	—	—	—	—	—	0.73
Hu Zheng	—	—	—	—	—	—	0.73
Meng Xi	—	—	—	—	—	—	0.73
Su Xingang	—	—	—	—	—	—	0.64
Yu Liming	—	—	—	—	—	—	0.92
Hu Jianhua	—	0.60	0.63	—	0.06	1.29	0.82
Wang Hong	—	0.63	0.63	—	0.06	1.32	2.44
To Wing Sing	—	1.45	0.56	—	0.15	2.16	3.06
Tsang Kam Lan	0.16	—	—	—	—	0.16	0.12
Kut Ying Hay	0.16	—	—	—	—	0.16	0.12
Lee Yip Wah Peter	0.16	—	—	—	—	0.16	0.12
Li Kwok Heem John	0.16	—	—	—	—	0.16	0.12
Li Ka Fai David	0.16	—	—	—	—	0.16	0.12
Total for the year 2008	0.80	2.68	1.82	—	0.27	5.57	
Total for the year 2007	0.60	2.29	1.72	7.61	0.20		12.42

No Director waived emoluments in respect of the years ended 31 December 2008 and 2007.

Note:

(i) Resigned on 25 May 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, one (2007: 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 four (2007: three) individuals were as follows:

	2008 HK$'million	2007 HK$'million
Salaries, other allowances and benefit-in-kinds	6	4
Performance related incentive payments	1	2
Share-based payments	3	1
	10	7

The emoluments fell within the following bands:

	Number of individuals 2008	Number of individuals 2007
HK$1,500,001 - HK$2,000,000	—	1
HK$2,000,001 - HK$2,500,000	3	—
HK$2,500,001 - HK$3,000,000	—	1
HK$3,000,001 - HK$3,500,000	1	1
	4	3

11 Finance income and costs

	Continuing operations		Discontinued operations		Total	
	2008 HK$'million	2007 HK$'million	**2008 HK$'million**	2007 HK$'million	**2008 HK$'million**	2007 HK$'million
Interest expense on:						
Bank borrowings, wholly repayable within five years	**(213)**	(228)	**(6)**	(12)	**(219)**	(240)
Bank borrowings, not wholly repayable within five years	**—**	(17)	**—**	—	**—**	(17)
Listed notes payable, wholly repayable within five years	**(79)**	—	**—**	—	**(79)**	—
Listed notes payable, not wholly repayable within five years	**(273)**	(212)	**—**	—	**(273)**	(212)
Amounts due to minority shareholders of subsidiaries	**—**	—	**—**	(4)	**—**	(4)
Loans from the ultimate holding company	**(75)**	(4)	**—**	—	**(75)**	(4)
Other financial liabilities	**(36)**	(152)	**—**	—	**(36)**	(152)
Total borrowing costs incurred	**(676)**	(613)	**(6)**	(16)	**(682)**	(629)
Less: amount capitalised in assets under construction	**49**	47	**—**	—	**49**	47
Finance cost	**(627)**	(566)	**(6)**	(16)	**(633)**	(582)
Interest income from:						
Bank deposits	**42**	29	**2**	8	**44**	37
Available-for-sale financial assets	**1**	2	**—**	—	**1**	2
Finance income	**43**	31	**2**	8	**45**	39
Finance costs - net	**(584)**	(535)	**(4)**	(8)	**(588)**	(543)

Capitalisation rate of 4.698% (2007: 5.678%) 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 16.5% (2007: 17.5%) on the estimated assessable profit for the year.

The Group's operations in Mainland China are subject to the corporate income tax of the People's Republic of China ("PRC Corporate Income tax"). The PRC corporate income tax rate for foreign invested enterprises established in PRC is 18%, 20%, 22% and 24% in 2008, 2009, 2010 and 2011 respectively. 25% standard rate will be applied from year 2012 onwards. The Group's certain subsidiaries were exempted from the PRC corporate income tax in the first five profit making years and followed by a 50% reduction in the PRC corporate income tax for the next five years thereafter, commencing from the earlier of the first profitable year after offsetting all unexpired tax losses carried forward from the previous years or 1 January 2008. 10% withholding income tax is also imposed on dividends relating to profits earned in year 2008 and onwards to foreign investors starting from 1 January 2008. For investors incorporated in Hong Kong and Singapore, 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	
	2008 HK$'million	2007 HK$'million	**2008 HK$'million**	2007 HK$'million	**2008 HK$'million**	2007 HK$'million
Hong Kong profits tax						
Current year	**—**	3	**2**	5	**2**	8
Under/(over) provision in prior years	**—**	—	**1**	(1)	**1**	(1)
PRC corporate income tax						
Current year	**70**	54	**68**	33	**138**	87
Under provision in prior years	**—**	35	**—**	—	**—**	35
Overseas taxation						
Current year	**—**	—	**—**	9	**—**	9
Deferred taxation (note 32)						
Charged/(credited) for the year	**150**	(11)	**5**	(1)	**155**	(12)
Effect of change in tax rate	**—**	93	**(7)**	—	**(7)**	93
	220	174	**69**	45	**289**	219

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:

	2008 HK$'million	2007 HK$'million
Profit before taxation (excluding share of profits of associates and jointly controlled entities)		
Continuing operations	**1,351**	908
Discontinued operations	**301**	305
	1,652	1,213
Expected tax calculated at the weighted average applicable tax rate	**303**	173
Income not subject to taxation	**(344)**	(223)
Expenses not deductible for taxation purposes	**129**	122
Tax losses for which no deferred income tax asset was recognised	**34**	20
Under provision in prior years	**1**	34
Withholding tax on unremitted earnings of subsidiaries, associates and jointly controlled entities in Mainland China	**173**	—
Effect of change in tax rate	**(7)**	93
Taxation charge	**289**	219

The weighted average applicable tax rate was 18.3% (2007: 14.3%). The increase is mainly caused by the increase in PRC corporate income tax rates.

13 Discontinued operations and disposal groups classified as held for sale

(a) Discontinued operations

On 15 November 2008, the Group entered into an agreement to sell its entire equity interest in Hempel-Hai Hong (China) Limited ("Hempel-Hai Hong"), a subsidiary of the Group, to the minority shareholder of Hempel-Hai Hong. Hempel-Hai Hong mainly engaged in sale of paints and related goods. The assets and liabilities related to Hempel-Hai Hong have been presented as held for sale as at 31 December 2008. The transaction was completed on 5 January 2009.

On 11 July 2007, the Group 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 mainly engaged in toll road operation and property development.

The aggregate results and cash flows of the discontinued operations of Hempel-Hai Hong and CMHP included in the consolidated income statement and the consolidated cash flow statement for the year ended 31 December 2008 and 2007 are set out below.

	Note	**2008** **HK$'million**	2007 HK$'million
Revenue	5	**2,696**	3,084
Costs of sales	8	**(1,983)**	(2,363)
Gross profit		**713**	721
Other (losses)/gains, net	7	**(22)**	20
Other income	7	**6**	10
Distribution costs	8	**(345)**	(327)
Administrative expenses	8	**(47)**	(111)
Operating profit		**305**	313
Finance income	11	**2**	8
Finance costs	11	**(6)**	(16)
Finance costs, net		**(4)**	(8)
Share of profits of jointly controlled entities	23	**—**	119
Profit before taxation		**301**	424
Taxation	12	**(69)**	(45)
Profit after taxation		**232**	379
Gain on disposal of discontinued operations		**—**	77
Profit for the year from discontinued operations		**232**	456

13 Discontinued operations and disposal groups classified as held for sale (Continued)

(a) Discontinued operations (Continued)

	Note	**2008** **HK$'million**	2007 HK$'million
Attributable to:			
Shareholders of the Company		**148**	331
Minority interest		**84**	125
		232	456
Net cash inflow from operating activities		**380**	—
Net cash (outflow)/inflow from investing activities		**(16)**	113
Net cash (outflow)/inflow from financing activities		**(169)**	203
Net cash inflow from discontinued operations		**195**	316

13 Discontinued operations and disposal groups classified as held for sale (Continued)

(b) Disposal groups classified as held for sale

	Group		Company	
	2008	2007	**2008**	2007
	HK$'million	HK$'million	**HK$'million**	HK$'million
Assets of disposal groups classified as held for sale				
Land use rights	**34**	—	**—**	—
Property, plant and equipment	**95**	—	**—**	—
Deferred tax assets	**13**	—	**—**	—
Inventories	**264**	—	**—**	—
Trade and other receivables	**878**	—	**—**	—
Cash and cash equivalents	**365**	—	**—**	—
Other financial assets (note)	**—**	446	**—**	199
Other current assets	**35**	—	**—**	—
	1,684	446	**—**	199
Liabilities of disposal group classified as held for sale				
Creditors and accruals	**528**	—	**—**	—
Other financial liabilities	**75**	—	**—**	—
Amount due to a fellow subsidiary	**3**	—	**—**	—
Taxation payable	**27**	—	**—**	—
Other current liabilities	**9**	—	**—**	—
	642	—	**—**	—
Reserves recognised directly in equity relating to disposal groups classified as held for sale				
Capital reserve	**52**	—	**—**	—
Translation reserve	**19**	—	**—**	—
	71	—	**—**	—

Note:

On 21 February 2008, the Group entered into an agreement with a third party to dispose of its interest in a subsidiary which major asset was 13% equity interest of Hong Kong Western Harbour Tunnel, an available-for-sale financial asset, at a cash consideration of HK$460 million and had classified the investment as asset held for sale as at 31 December 2007. The transaction was completed on 8 August 2008. The gain of disposal of HK$280 million (including realisation of investment revaluation reserve of HK$269 million) has been recognised in the consolidated income statement during the year.

14 Profit attributable to shareholders

Profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK$1,622 million (2007: HK$2,918 million).

15 Dividends

	2008 HK$'million	2007 HK$'million
Interim, paid, of 28 HK cents (2007: 20 HK cents) per share	675	480
Final, proposed, of 40 HK cents (2007: 45 HK cents) per share	969	1,083
	1,644	1,563

At a meeting held on 20 April 2009, the Directors proposed a final dividend of 40 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.

The amount of proposed final dividend for 2008 was based on 2,423,435,842 (2007: 2,406,413,200) shares in issue as at 20 April 2009.

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 2008			
Profit attributable to shareholders of the Company (HK$'million)	3,558	148	3,706
Weighted average number of ordinary shares in issue	2,422,620,642	2,422,620,642	2,422,620,642
Basic earnings per share (HK cents)	146.84	6.13	152.97
For the year ended 31 December 2007			
Profit attributable to shareholders of the Company (HK$'million)	3,214	331	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)	135.58	13.95	149.53

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 2008			
Profit attributable to shareholders of the Company (HK$'million)	**3,558**	**148**	**3,706**
Weighted average number of ordinary shares in issue	**2,422,620,642**	**2,422,620,642**	**2,422,620,642**
Adjustment for share options	**8,703,306**	**8,703,306**	**8,703,306**
Weighted average number of ordinary shares for diluted earnings per share	**2,431,323,948**	**2,431,323,948**	**2,431,323,948**
Diluted earnings per share (HK cents)	**146.32**	**6.11**	**152.43**
For the year ended 31 December 2007			
Profit attributable to shareholders of the Company (HK$'million)	3,214	331	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)	134.75	13.87	148.62

17 Goodwill

	2008 HK$'million	2007 HK$'million
Carrying value as at 1 January	**3,750**	281
Partial disposal of subsidiaries (note 37)	**(1,239)**	—
Acquisition of subsidiaries (note 38)	**2**	3,469
Carrying value as at 31 December	**2,513**	3,750

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:

	2008 HK$'million	2007 HK$'million
Hong Kong	**52**	52
Mainland China	**2,461**	3,698
	2,513	3,750

17 **Goodwill** (Continued)

The recoverable amount of a CGU 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:

	2008	2007
Growth rate (i)	**4%**	5%
Discount rate (ii)	**10.08%**	12.35%

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 2008, there is no impairment of any of its CGUs or group of CGUs containing goodwill with indefinite useful lives (2007: nil).

18 Property, plant and equipment

	Group						Company
	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 2008	172	5,480	3,605	232	1,712	11,201	1
Exchange adjustments	6	238	144	13	72	473	—
Acquisition of a subsidiary	1	34	4	1	—	40	—
Additions	3	122	18	13	1,803	1,959	—
Disposals	—	(8)	(8)	(1)	—	(17)	—
Transfer	87	1,018	540	4	(1,649)	—	—
Transfer to assets of disposal groups classified as held for sale (note 13)	(31)	—	(55)	(1)	(8)	(95)	—
Depreciation	(12)	(264)	(335)	(29)	—	(640)	—
Net book value at 31 December 2008	226	6,620	3,913	232	1,930	12,921	1
At 31 December 2008							
Cost	308	7,745	5,325	365	1,930	15,673	7
Accumulated depreciation and impairment	(82)	(1,125)	(1,412)	(133)	—	(2,752)	(6)
Net book value	226	6,620	3,913	232	1,930	12,921	1
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

18 **Property, plant and equipment** (Continued)

Notes:

(a) Included in assets under construction was interest capitalised of approximately HK$48 million (2007: HK$58 million).

(b) At 31 December 2007, plant, machinery, furniture and equipment with net book value of HK$31 million were pledged as security for the Group's bank borrowings of HK$2 million.

(c) Others comprise vessels and ships, motor vehicles and leasehold improvements with net book values of HK$169 million (2007: HK$172 million), HK$30 million (2007: HK$29 million) and HK$33 million (2007: HK$31 million) respectively as at 31 December 2008.

(d) Depreciation expenses charged for the year are analysed as follows:

	Continuing operations		Discontinued operations		Total	
	2008 **HK$'million**	2007 HK$'million	**2008** **HK$'million**	2007 HK$'million	**2008** **HK$'million**	2007 HK$'million
Cost of sales	**601**	458	**8**	6	**609**	464
Administrative expenses	**26**	41	**4**	5	**30**	46
Distribution costs	**—**	—	**1**	1	**1**	1
	627	499	**13**	12	**640**	511

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

	Group			
	Buildings		Harbour works and buildings and dockyard	
	2008 **HK$'million**	2007 HK$'million	**2008** **HK$'million**	2007 HK$'million
Buildings in Hong Kong, held on leases of between 10 to 50 years	**58**	59	**—**	—
Buildings outside Hong Kong, held on leases of between 10 to 50 years	**168**	113	**6,620**	5,480
	226	172	**6,620**	5,480

19 Investment properties

	2008 HK$'million	2007 HK$'million
Carrying value at 1 January	**692**	603
Disposal of a subsidiary	**(16)**	—
Increase in fair value (note 7)	**68**	132
Transfer to property, plant and equipment	**—**	(5)
Transfer to leasehold land	**—**	(38)
Carrying value at 31 December	**744**	692

Notes:

(a) The investment properties were revalued at 31 December 2008 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 Yongxin Ruihe Asset Evaluation 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:

	2008 HK$'million	2007 HK$'million
Hong Kong	**738**	670
Mainland China	**6**	22
	744	692

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

	2008 HK$'million	2007 HK$'million
Rental income	**32**	27
Direct operating expense arising from investment properties	**(1)**	(1)
	31	26

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:

	2008 HK$'million	2007 HK$'million
Net book value at 1 January	**6,605**	3,104
Exchange adjustments	**296**	231
Acquisitions of subsidiaries	**—**	1,009
Additions	**231**	154
Disposal	**—**	(11)
Transfer from investment properties	**—**	38
Transfer from prepayment	**460**	2,208
Transfer to assets of disposal groups classified as held for sale (note 13)	**(34)**	—
Amortisation	**(132)**	(128)
Net book value at 31 December	**7,426**	6,605

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:

	2008 HK$'million	2007 HK$'million
Hong Kong	**149**	153
Mainland China	**7,277**	6,452
	7,426	6,605

21 Interests in subsidiaries

	Company	
	2008 HK$'million	2007 HK$'million
Unlisted shares, at cost	**8,570**	12,643
Advances to subsidiaries - non-current portion (note (a))		
- interest free	**17,508**	17,253
- interest bearing	**700**	64
	26,778	29,960
Advance to a subsidiary - current portion (note (b))	**—**	2,461
Advances from subsidiaries		
- current portion (note (c))	**—**	3,169
- non-current portion (note (d))	**7,896**	5,041
	7,896	8,210

Notes:

(a) The advances to subsidiaries of HK$17,508 million (2007:HK$17,253 million) are unsecured, interest-free and will not be repayable within one year and are considered as equity in nature. The amount of HK$700 million (2007: HK$64 million) is unsecured, interest bearing at an effective interest rate of 0.79% to 1.19% per annum (2007: 3.78% to 4.95% per annum) and will not be repayable within one year.

(b) As at 31 December 2007, the advance to a subsidiary is unsecured, interest bearing at an effective interest rate of 4.95% per annum and repayable within one year.

(c) As at 31 December 2007, 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 2008 are set out in note 41 to the financial statements.

22 Interests in associates

	Group		Company	
	2008 **HK$'million**	2007 HK$'million	**2008** **HK$'million**	2007 HK$'million
Listed shares, at cost				
Shares listed in the Mainland China	**—**	—	**325**	325
Share of net assets of (note (a)):				
Listed associates	**13,122**	12,256	**—**	—
Unlisted associates	**3,701**	3,574	**—**	—
	16,823	15,830	**325**	325
Goodwill (note (b)):				
Listed associates	**429**	188	**—**	—
Unlisted associates	**140**	140	**—**	—
	569	328	**—**	—
Advances to associates (note (c))	**—**	46	**—**	—
	17,392	16,204	**325**	325
Market value of listed shares	**23,683**	62,964	**757**	2,607

22 Interests in associates (Continued)

Notes:

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

	2008 HK$'million	2007 HK$'million
Carrying value as at 1 January	**15,830**	12,335
Exchange adjustments	**574**	671
Acquisitions	**308**	44
Capital contribution	**—**	107
Disposals	**—**	(3)
Share of profits less losses	**2,565**	2,645
Share of investment revaluation reserves	**(946)**	1,137
Share of net actuarial (losses)/gains on defined benefit pension scheme of associates	**(129)**	16
Dividends received and receivable	**(1,379)**	(1,122)
Carrying value as at 31 December	**16,823**	15,830

(b) Movement of goodwill during the year:

	2008 HK$'million	2007 HK$'million
Carrying value as at 1 January	**328**	243
Exchange adjustments	**9**	5
Acquisition	**232**	80
Carrying value as at 31 December	**569**	328

(c) As at 31 December 2007, the advances to associates were unsecured, interest free and repayable on demand.

22 Interests in associates (Continued)

Notes: (Continued)

(d) The Group's share of revenue, net interest expenses, depreciation and amortisation, profit for the year, assets and liabilities of China International Marine Containers (Group) Co., Ltd. ("CIMC"), Shanghai International Port (Group) Co., Ltd. ("SIPG") and other associates which are included in the consolidated income statement and consolidated balance sheet using equity method are as follows:

	2008				2007			
	CIMC HK$'million	**SIPG HK$'million**	**Other ports operation HK$'million**	**Total HK$'million**	CIMC HK$'million	SIPG HK$'million	Other ports operation HK$'million	Total HK$'million
Revenue	**12,712**	**3,937**	**3,772**	**20,421**	11,182	3,048	3,306	17,536
Net interest expenses	**(141)**	**(91)**	**(132)**	**(364)**	(70)	(97)	(131)	(298)
Depreciation and amortisation	**(183)**	**(366)**	**(353)**	**(902)**	(121)	(285)	(307)	(713)
Profit for the year	**379**	**1,377**	**809**	**2,565**	743	979	923	2,645
Non-current assets	**4,426**	**11,712**	**9,319**	**25,457**	2,899	10,931	8,506	22,336
Current assets	**5,296**	**4,728**	**2,731**	**12,755**	7,216	3,370	2,542	13,128
Current liabilities	**(3,489)**	**(4,077)**	**(3,203)**	**(10,769)**	(4,394)	(4,621)	(3,472)	(12,487)
Non-current liabilities and minority interest	**(2,457)**	**(3,017)**	**(5,146)**	**(10,620)**	(1,804)	(1,341)	(4,002)	(7,147)
Net assets	**3,776**	**9,346**	**3,701**	**16,823**	3,917	8,339	3,574	15,830

(e) Particulars of the Group's principal associates at 31 December 2008 are set out in note 42 to the financial statements.

23 Interests in jointly controlled entities

	Group		**Company**	
	2008 HK$'million	2007 HK$'million	**2008 HK$'million**	2007 HK$'million
Unlisted investment, at cost	**—**	—	**3**	3
Share of net assets of jointly controlled entities (note (a))	**2,596**	2,316	**—**	—
Goodwill (note (b))	**50**	52	**—**	—
	2,646	2,368	**3**	3

23 Interests in jointly controlled entities (Continued)

Notes:

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

	2008 HK$'million	2007 HK$'million
Carrying value as at 1 January	2,316	3,354
Exchange adjustments	146	108
Acquisition	—	1,655
Capital contribution	—	87
Reclassification as subsidiaries (note 35(b))	—	(1,074)
Disposals (note 35(d))	—	(1,892)
Share of profits less losses		
- continuing operations	98	60
- discontinued operations	—	119
Share of net actuarial gains on defined benefit pension scheme of a jointly controlled entity	27	—
Gain on deemed disposal of partial interest in a jointly controlled entity (note (e))	15	—
Dividends received and receivable	(6)	(101)
Carrying value as at 31 December	2,596	2,316

(b) Movement of goodwill during the year:

	2008 HK$'million	2007 HK$'million
Carrying value as at 1 January	52	403
Exchange adjustments	4	—
Acquisition	—	52
Deemed disposal of partial interest in a jointly controlled entity (note (e))	(6)	—
Reclassification as subsidiaries	—	(403)
Carrying value as at 31 December	50	52

23 Interests in jointly controlled entities (Continued)

Notes: (Continued)

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

	2008 HK$'million	2007 HK$'million
Revenue	915	459
Net interest expenses	(76)	(9)
Depreciation and amortisation	(172)	(133)
Profit for the year	98	179
Non-current assets	4,996	4,658
Current assets	543	448
Current liabilities	(820)	(1,135)
Non-current liabilities and minority interest	(2,123)	(1,655)
Net assets	2,596	2,316

(d) Particulars of the Company's and the Group's jointly controlled entities at 31 December 2008 are set out in note 43 to the financial statements.

(e) 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 its enlarged capital, to certain third party investors. As a result, the Group's interest in ZPG has been diluted from 45% to 40.2916% and resulted in a gain on deemed disposal of HK$15 million.

24 Other financial assets

	2008 HK$'million	2007 HK$'million
Held-to-maturity investments (note (a))	5	7
Available-for-sale financial assets (note (b))	1,604	493
	1,609	500

24 Other financial assets (Continued)

Notes:

(a) Held-to-maturity investments

	2008 HK$'million	2007 HK$'million
Unlisted investments in Mainland China	**5**	7

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

(b) Available-for-sale financial assets

	2008 HK$'million	2007 HK$'million
Listed equity investments in Mainland China	**154**	15
Unlisted equity investments in Mainland China	**1,450**	478
	1,604	493

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

	2008 HK$'million	2007 HK$'million
Carrying value as at 1 January	**493**	867
Exchange difference	**1**	2
Additions	**1,115**	3
Repayment of advances	**—**	(208)
Interest income	**—**	2
Net change in fair value transferred to equity (note 30(b))	**(5)**	273
Carrying value as at 31 December	**1,604**	939
Reclassification to assets of disposal groups classified as held for sale (note 13)	**—**	(446)
	1,604	493

Available-for-sale financial assets are denominated in Renminbi.

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

25 Prepayment

As at 31 December 2007, the prepayment of HK$434 million represented prepayment for seven parcels of land located in Shenzhen, PRC. During the year, the prepayment has been transferred to land use rights.

26 Inventories

	2008 HK$'million	2007 HK$'million
Raw materials	20	185
Finished goods	—	120
Spare parts and consumables	21	19
	41	324

27 Debtors, deposits and prepayments

	Group		Company	
	2008 HK$'million	2007 HK$'million	2008 HK$'million	2007 HK$'million
Trade debtors	469	1,785	—	—
Less: provision for impairment of receivables (note (a))	(36)	(117)	—	—
Trade debtors, net (note (b))	433	1,668	—	—
Amounts due from fellow subsidiaries (note (d))	7	49	3	—
Amounts due from associates (note (d))	3	3	—	—
Amounts due from jointly controlled entities (note (d))	24	—	—	—
	467	1,720	3	—
Other debtors, deposits and prepayments	217	175	9	53
	684	1,895	12	53

27 Debtors, deposits and prepayments (Continued)

Notes:

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

	2008 HK$'million	2007 HK$'million
At 1 January	117	88
Provision for impairment of receivables	42	30
Reversal of provision	(37)	(1)
Disposal of subsidiaries	(11)	—
Reclassification to assets of disposal groups classified as held for sale	(75)	—
At 31 December	36	117

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 did not hold any collateral as security.

(b) Bill receivables of HK$17 million (2007: HK$16 million) were included in trade debtors as at 31 December 2008.

27 Debtors, deposits and prepayments (Continued)

Notes: (Continued)

(c) 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:

	2008 **HK$'million**	2007 HK$'million
Not yet due	**142**	587
1 - 30 days	**163**	366
31 - 60 days	**69**	291
61 - 120 days	**47**	238
Over 120 days	**12**	186
	433	1,668

As at 31 December 2008, trade debtors of HK$279 million (2007: HK$895 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:

	2008 **HK$'million**	2007 HK$'million
1 to 30 days	**163**	366
31 to 60 days	**69**	291
61 to 90 days	**30**	145
91 to 120 days	**17**	93
	279	895

Trade debtors overdue of HK$48 million (2007: HK$303 million) were impaired. The amount of provision was HK$36 million as at 31 December 2008 (2007: HK$117 million). The individually impaired receivable mainly related to customers which were 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.

27 Debtors, deposits and prepayments (Continued)

Notes: (Continued)

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

	Group		Company	
	2008 HK$'million	2007 HK$'million	**2008 HK$'million**	2007 HK$'million
Hong Kong dollar	**103**	626	**3**	—
Renminbi	**353**	266	**—**	—
United States dollar	**11**	806	**—**	—
Other currencies	**—**	22	**—**	—
	467	1,720	**3**	—

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

28 Cash and cash equivalents

	Group		Company	
	2008 HK$'million	2007 HK$'million	**2008 HK$'million**	2007 HK$'million
Cash at bank and in hand	**1,061**	928	**206**	143
Time deposits with initial maturity of less than three months	**1,745**	302	**1,479**	—
	2,806	1,230	**1,685**	143

The weighted average effective interest rate on time deposits during the year was approximately 1.12% (2007: 3.50%) per annum. These deposits had an average maturity period of 24 days (2007: 7 days).

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

	Group		Company	
	2008 HK$'million	2007 HK$'million	**2008 HK$'million**	2007 HK$'million
Hong Kong dollar	**1,061**	327	**516**	143
Renminbi	**493**	653	**—**	—
United States dollar	**1,228**	250	**1,145**	—
Other currencies	**24**	—	**24**	—
	2,806	1,230	**1,685**	143

The maximum exposure credit risk is HK$2,806 million (2007: HK$1,230 million).

29 Share capital

	Company			
	Number of shares		Share capital	
	2008	2007	**2008** HK$'million	2007 HK$'million
Ordinary shares of HK$0.1 each				
Authorised:				
At 1 January and 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	**2,406,111,200**	2,333,280,168	**241**	233
Issue of shares on exercise of share options (note (a))	**2,076,000**	17,543,000	**—**	2
Issue of scrip dividend shares (note (b))	**15,248,642**	4,300,032	**1**	1
Issue of shares for purchase of additional interests of subsidiaries and land use rights	**—**	50,988,000	**—**	5
At 31 December	**2,423,435,842**	2,406,111,200	**242**	241

Notes:

(a) During the year, 2,076,000 (2007: 17,543,000) shares were issued on exercise of share options, with proceeds of HK$39 million (2007: HK$318 million).

The weighted average share price at the time of exercise was HK$34.82 (2007: HK$43.23) per share. The related transaction cost of HK$0.1 million (2007: HK$0.4 million) has been deducted from the proceeds received.

During the year, no ordinary shares were repurchased.

29 Share capital (Continued)

Notes: (Continued)

(b) 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
2007 final dividend	4 July 2008	3,758,457	—	121	121
2008 interim dividend	**26 November 2008**	**11,490,185**	**1**	**205**	**206**
2008 Total		**15,248,642**	**1**	**326**	**327**
2007 Total		4,300,032	1	166	167

(c) Share options

Under the share option scheme ("the Share Option Scheme") adopted through shareholders' resolutions passed on 20 December 2001 and 27 August 2002, the Company's directors may, at their discretion, grant to any director or employee of the Company, the intermediate holding company of the Company or any of its subsidiaries or associates at a price of not less than the higher of (i) the closing price of shares as stated in the daily quotation sheet of the Stock Exchange on the date of the offer of grant; or (ii) the average closing price of shares as stated in the daily quotation sheets of the Stock Exchange for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the share. The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes adopted must not in aggregate exceed 30% of the share capital of the Company in issue from time to time. Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2008		2007	
	Weighted average exercise price HK$	**Number of share options**	Weighted average exercise price HK$	Number of share options
At 1 January	**21.68**	**33,200,000**	20.44	50,743,000
Exercised	**19.19**	**(2,076,000)**	18.10	(17,543,000)
At 31 December	**21.83**	**31,124,000**	21.68	33,200,000

All share options were exercisable as at 31 December 2008.

29 Share capital (Continued)

Notes: (Continued)

(c) Share options (Continued)

Share options outstanding at 31 December 2008 have the following expiry dates and exercise prices:

Year of expiry	Exercise price HK$	Share options 2008 Number of share options	Share options 2007 Number of share options
2012	4.985	**100,000**	150,000
2014	11.08	**2,938,000**	3,530,000
2016	23.03	**27,936,000**	29,370,000
2016	20.91	**150,000**	150,000
		31,124,000	33,200,000

30 Reserves

(a) Consolidated statement of changes in equity

	Attributable to the shareholders of the Company				Minority interest	Total
	Share capital HK$'million	Share premium HK$'million	(note 30(b)) 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	—	—	(946)	—	—	(946)
Realisation of reserves upon disposal of subsidiaries (note 35(d))	—	—	(16)	16	—	—
Realisation of reserve upon disposal of an available-for-sale financial asset (note 13(b))	—	—	(269)	—	—	(269)
Share of net actuarial losses on defined benefit plan of associates and a jointly controlled entity	—	—	—	(102)	—	(102)
Exchange differences from translation of financial statements of subsidiaries, associates and jointly controlled entities	—	—	1,412	—	115	1,527
Decrease in fair value of available -for-sale financial assets	—	—	(5)	—	—	(5)
Gain on partial disposal of subsidiaries (note 37)	—	—	1,034	—	—	1,034
Net income/(loss) recognised directly in equity	—	—	1,210	(86)	115	1,239
Profit for the year	—	—	—	3,706	320	4,026
Total recognised income for the year	—	—	1,210	3,620	435	5,265
Issue of shares on exercise of share options, net of share issue expenses of HK$0.1 million	—	39	—	—	—	39
Issue of shares in lieu of dividends	1	326	—	—	—	327
Capital contributions by minority shareholders of subsidiaries	—	—	—	—	48	48
Transfer to reserves	—	—	116	(116)	—	—
Acquisition of a subsidiary (note 35(b))	—	—	—	—	28	28
Partial disposal of subsidiaries (note 37)	—	—	—	—	651	651
Dividends paid	—	—	—	(1,758)	(361)	(2,119)
At 31 December 2008	242	14,186	5,117	10,735	2,434	32,714
Representing:						
Reserves				9,766		
Proposed dividend				969		
At 31 December 2008				10,735		

30 **Reserves** (Continued)

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

	Attributable to the shareholders of the Company				Minority interest	Total
	Share capital	Share premium	(note 30(b)) Other reserves	Retained earnings		
	HK$'million	HK$'million	HK$'million	HK$'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	—	—	1,137	—	—	1,137
Realisation of reserves upon disposal of a subsidiary (note 35(d))	—	—	(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 35(b))	—	—	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	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 35(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		

30 **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 2008	190	(1,542)	2,073	1,768	1,302	3,791
Share of reserves of associates	—	—	(946)	—	—	(946)
Realisation of reserves upon disposal of subsidiaries	—	—	—	(12)	(4)	(16)
Realisation of reserve upon disposal of an available-for-sale financial asset (note 13(b))	—	—	(269)	—	—	(269)
Exchange adjustments	—	—	—	1,412	—	1,412
Decrease in fair value of available-for-sale financial assets (note 24(b))	—	—	(5)	—	—	(5)
Gain on partial disposal of subsidiaries (note 37)	—	1,034	—	—	—	1,034
Transfer from retained earnings	—	—	—	—	116	116
At 31 December 2008	190	(508)	853	3,168	1,414	5,117
At 1 January 2007	117	(142)	597	687	1,146	2,405
Share of reserves of associates	—	—	1,137	—	—	1,137
Realisation of reserves upon disposal of a subsidiary	(4)	—	—	(166)	(28)	(198)
Realisation of reserves upon disposal of an associate	—	—	—	(1)	(1)	(2)
Exchange adjustments	—	—	—	1,248	—	1,248
Increase in fair value of available-for-sale financial assets (note 24(b))	—	—	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 35(b))	—	—	83	—	—	83
Purchase of additional interests of subsidiaries	—	(1,400)	—	—	—	(1,400)
Share-based payments (note 9)	77	—	—	—	—	77
Transfer from retained earnings	—	—	—	—	185	185
At 31 December 2007	190	(1,542)	2,073	1,768	1,302	3,791

Notes:

(i) Included in capital reserves 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.

30 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 2008	13,821	190	2,340	3,137	19,488
Issue of shares on exercise of share options, net of share issue expenses of HK$0.1 million	39	—	—	—	39
Profit for the year	—	—	—	1,622	1,622
Dividends paid (note 29(b))	326	—	—	(1,758)	(1,432)
At 31 December 2008	14,186	190	2,340	3,001	19,717
Representing:					
Reserves				2,032	
Proposed dividend				969	
				3,001	
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 29(b))	166	—	—	(1,321)	(1,155)
Issue of shares for acquisition of subsidiaries and land use rights	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	

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.

31 Other financial liabilities

	Group		Company	
	2008 HK$'million	2007 HK$'million	**2008 HK$'million**	2007 HK$'million
Unsecured short-term bank loans	**573**	1,945	**—**	1,010
Long-term bank loans, wholly repayable within five years				
- unsecured	**3,080**	2,908	**309**	—
- secured (note (a))	**—**	2	**—**	—
Unsecured long-term bank loans, not wholly repayable within five years	**79**	650	**—**	—
	3,732	5,505	**309**	1,010
Loan from a minority shareholder of a subsidiary (note (c))	**62**	62	**—**	—
Listed notes payable (note (d))				
- US$300 million, 6.125% guaranteed listed notes maturing in 2013	**2,307**	—	**—**	—
- US$500 million, 5.375% guaranteed listed notes maturing in 2015	**3,857**	3,880	**—**	—
- US$200 million, 7.125% guaranteed listed notes maturing in 2018	**1,525**	—	**—**	—
Other financial liability (note (e))	**—**	3,850	**—**	3,850
Total	**11,483**	13,297	**309**	4,860
Less: amounts due within one year included under current liabilities	**(1,237)**	(6,206)	**—**	(4,860)
Non-current portion	**10,246**	7,091	**309**	—

Notes:

(a) As at 31 December 2007, bank loans of HK$2 million were secured by property, plant and equipment with net book value HK$31 million.

(b) Bank borrowings drawn and listed notes issued by subsidiaries of the Group of HK$8,989 million (2007: HK$5,221 million) were secured by corporate guarantees provided by the Company.

(c) Loan from a minority shareholder of a subsidiary is unsecured, interest free and are repayable on demand.

31 Other financial liabilities (Continued)

Notes: (Continued)

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

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

	31 December 2008	31 December 2007
US$300 million, 6.125% guaranteed listed notes maturing in 2013	6.33%	—
US$500 million, 5.375% guaranteed listed notes maturing in 2015	5.47%	5.47%
US$200 million, 7.125% guaranteed listed notes maturing in 2018	7.36%	—

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

(f) As at 31 December 2008, the Group has undrawn bank loan facilities amounting to HK$10,541 million (2007: HK$5,752 million).

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

	Bank borrowings		Listed notes payable		Loan from a minority shareholder of a subsidiary		Other financial liability		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	2008 HK$'million	2007 HK$'million
Within 1 year	1,175	2,294	—	—	62	62	—	3,850	1,237	6,206
Between 1 and 2 years	896	835	—	—	—	—	—	—	896	835
Between 2 and 5 years	1,582	1,726	2,307	—	—	—	—	—	3,889	1,726
Wholly repayable within 5 years	3,653	4,855	2,307	—	62	62	—	3,850	6,022	8,767
Not wholly repayable within 5 years	79	650	5,382	3,880	—	—	—	—	5,461	4,530
	3,732	5,505	7,689	3,880	62	62	—	3,850	11,483	13,297

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

	Group		Company	
	2008	2007	2008	2007
Hong Kong dollar	1.45% to 3.08%	3.90% to 5.74%	—	3.90% to 5.72%
Renminbi	4.78% to 7.47%	5.48% to 6.97%	—	—
United States dollar	2.08% to 2.18%	—	2.18%	—

31 Other financial liabilities (Continued)

Notes: (Continued)

(i) The fair values of bank borrowings not wholly repayable within one year and the listed notes payable were HK$2,427 million (2007: HK$2,644 million) and HK$7,183 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 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 2008.

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

	Group		Company	
	2008 HK$'million	2007 HK$'million	**2008 HK$'million**	2007 HK$'million
Hong Kong dollar	**2,640**	7,578	**—**	4,860
Renminbi	**651**	1,644	**—**	—
United States dollar	**8,192**	4,075	**309**	—
	11,483	13,297	**309**	4,860

32 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 net movement in the deferred tax assets and liabilities is as follows:

	2008 HK$'million	2007 HK$'million
At 1 January	**(432)**	(221)
Exchange adjustments	**(9)**	(13)
Acquisition of subsidiaries	**(1)**	(100)
Disposal of subsidiaries	**(1)**	—
Reclassification to assets of disposal groups classified as held for sale (note 13)	**(13)**	—
Effect of change in tax rate	**7**	(110)
(Charged)/credited to consolidated income statement (note 12)	**(155)**	12
At 31 December	**(604)**	(432)

Deferred income tax assets are recognised for tax loss carried forward 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$338 million (2007: HK$188 million) to carry forward against future taxable income. The unrecognised tax losses of HK$16 million (2007: HK$16 million) can be carried forward indefinitely. The remaining HK$322 million (2007: HK$172 million) expires in the following years:

	2008 HK$'million	2007 HK$'million
2008	**—**	5
2009	**3**	3
2010	**2**	4
2011	**61**	54
2012	**111**	106
2013	**145**	—
	322	172

32 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	Withholding tax relating to unremitted earnings		Accelerated tax depreciation allowance		Total	
	2008 HK$'million	2007 HK$'million	**2008 HK$'million**	2007 HK$'million	**2008 HK$'million**	2007 HK$'million
At 1 January	**—**	—	**(468)**	(243)	**(468)**	(243)
Exchange adjustment	**(2)**	—	**(3)**	(13)	**(5)**	(13)
Acquisition of subsidiaries	**—**	—	**(1)**	(104)	**(1)**	(104)
Reclassification to liabilities of disposal group classified as held for sale	**13**	—	**—**	—	**13**	—
Effect of change in tax rate	**—**	—	**—**	(110)	**—**	(110)
Credited/(charged) to consolidated income statement	**(173)**	—	**3**	2	**(170)**	2
At 31 December	**(162)**	—	**(469)**	(468)	**(631)**	(468)

Deferred tax assets	Provision for doubtful debts and inventories		Others		Total	
	2008 HK$'million	2007 HK$'million	**2008 HK$'million**	2007 HK$'million	**2008 HK$'million**	2007 HK$'million
At 1 January	**11**	10	**25**	12	**36**	22
Exchange adjustment	**—**	—	**(4)**	—	**(4)**	—
Acquisition of subsidiaries (note 35(b))	**—**	—	**—**	4	**—**	4
Disposal of subsidiaries (note 35(d))	**—**	—	**(1)**	—	**(1)**	—
Reclassification to assets of disposal group classified as held for sale	**(26)**	—	**—**	—	**(26)**	—
Effect of change in tax rate	**7**	—	**—**	—	**7**	—
Credited to consolidated income statement	**9**	1	**6**	9	**15**	10
At 31 December	**1**	11	**26**	25	**27**	36

33 Creditors and accruals

	Group		Company	
	2008 HK$'million	2007 HK$'million	**2008 HK$'million**	2007 HK$'million
Trade creditors (note (a))	**70**	615	**—**	—
Amount due to an intermediate holding company (note (b))	**4**	3	**—**	—
Amounts due to fellow subsidiaries (note (b))	**332**	380	**176**	320
Amounts due to associates (note (b))	**6**	2	**—**	—
Amounts due to jointly controlled entities (note (b))	**1**	—	**—**	—
	413	1,000	**176**	320
Other payables and accruals	**1,942**	1,470	**464**	26
	2,355	2,470	**640**	346

Notes:

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

	2008 HK$'million	2007 HK$'million
0 - 30 days	**54**	550
31 - 60 days	**6**	49
61 - 120 days	**4**	11
Over 120 days	**6**	5
	70	615

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

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

	Group		Company	
	2008 HK$'million	2007 HK$'million	**2008 HK$'million**	2007 HK$'million
Hong Kong dollar	**211**	563	**176**	320
Renminbi	**202**	287	**—**	—
United States dollar	**—**	137	**—**	—
Other currencies	**—**	13	**—**	—
	413	1,000	**176**	320

34 Loans from the ultimate holding company

The loans from the ultimate holding company are unsecured, interest bearing at annual rates of 4.83% to 5.2% (2007: 5.2%).

Loans amounted to HK$1,742 million are repayable in 2009.

For remaining loans amounting to HK$907 million, they are repayable in 2010 to 2017 and in accordance with the stipulated loan agreements, the ultimate holding company can demand for repayment with one month notice and the directors have classified these loans in current liabilities accordingly.

35 Consolidated cash flow statement

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

	2008 HK$'million	2007 HK$'million
Operating profit		
- continuing operations	**1,935**	1,443
- discontinued operations	**305**	313
	2,240	1,756
Adjustments for:		
Depreciation and amortisation	**772**	639
Net gains on disposal of associates and jointly controlled entities	**—**	(13)
Gain on disposal of subsidiaries	**(33)**	—
Loss/(gain) on disposal of property, plant and equipment and land use rights	**1**	(10)
Income received from held-to-maturity investments	**(1)**	(5)
Increase in fair value of investment properties	**(68)**	(132)
Gain on disposal of asset held for sale	**(280)**	—
Gain on deemed disposal of partial interest in a jointly controlled entity	**(15)**	—
Share-based payments	**—**	77
Operating profit before working capital changes	**2,616**	2,312
Decrease/(increase) in inventories	**19**	(196)
Decrease/(increase) in debtors, deposits and prepayments	**322**	(670)
(Decrease)/increase in creditors and accruals	**(494)**	500
Net cash inflow from operations	**2,463**	1,946

35 **Consolidated cash flow statement** (Continued)

(b) Purchase of subsidiaries

	2008 HK$'million	2007 HK$'million
The fair value of assets acquired and liabilities assumed:		
Property, plant and equipment	**40**	1,307
Leasehold land and land use rights	—	787
Other non-current assets	—	277
Deferred tax assets	—	4
Inventories	—	13
Debtors, deposits and prepayments	**7**	232
Bank balances and cash	**50**	862
Creditors and accruals	**(2)**	(379)
Other financial liabilities	—	(739)
Taxation payable	**(1)**	—
Deferred tax liabilities	**(1)**	(67)
Minority interest	**(28)**	—
	65	2,297
Change in fair value credited to assets revaluation reserve	—	(83)
Interest in an associate/jointly controlled entities previously accounted for	—	(1,074)
	65	1,140
Goodwill arose from acquisition	**2**	3,066
	67	4,206
Representing:		
Cash consideration	**66**	238
Direct costs incurred	**1**	8
Other financial liability incurred	—	3,960
	67	4,206

35 **Consolidated cash flow statement** (Continued)

(b) Purchase of subsidiaries (Continued)

	2008 **HK$'million**	2007 HK$'million
Analysis of cash flows on purchase of subsidiaries:		
Cash consideration paid	**(67)**	(246)
Bank balances and cash in hand acquired	**50**	862
Net cash (outflow)/inflow on purchase of subsidiaries	**(17)**	616

The subsidiaries acquired utilised nil (2007: HK$257 million) and nil (2007: HK$595 million) for investing and financing activities respectively for the year ended 31 December 2008. The subsidiaries also contributed to the Group's net operating cash flows of HK$2 million (2007: HK$99 million) for the year ended 31 December 2008.

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

	2008 **HK$'million**	2007 HK$'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	—	(510)

35 Consolidated cash flow statement (Continued)

(d) Disposal of subsidiaries

	2008 HK$'million	2007 HK$'million
Net assets disposed		
Property, plant and equipment	—	17
Investment property	16	—
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)
Deferred tax assets	1	—
	17	2,549
Other financial assets	—	44
Development properties for sale	—	511
Debtors, deposits and prepayment	15	61
Cash and cash equivalents	—	536
Other financial liabilities	—	(89)
Creditors and accruals	—	(173)
Taxation payable	—	(8)
Minority interest	—	(549)
	32	2,882
Realisation of reserves upon disposal of a subsidiary	—	(9)
	32	2,873
Cash consideration	65	2,950
Gain on disposal of subsidiaries	33	77
Analysis of cash flows on disposal of subsidiaries		
Cash consideration	65	2,950
Cash and cash equivalents disposed	—	(536)
Net cash inflow on disposal of subsidiaries	65	2,414

36 Commitments

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

	2008 HK$'million	2007 HK$'million
Authorised but not contracted	**201**	2,748
Contracted but not provided for	**1,649**	1,582
	1,850	4,330

(b) Capital commitments for investments

	2008 HK$'million	2007 HK$'million
Contracted but not provided for		
Investments	**—**	1
Port projects	**612**	144
	612	145

(c) Commitments under operating leases

At 31 December 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:

	2008 HK$'million	2007 HK$'million
Within one year	**103**	97
In the second to fifth year inclusive	**41**	48
After the fifth year	**45**	52
	189	197

(d) Future operating lease receivables

At 31 December 2008, the Group had future aggregate lease receivables under non-cancellable operating leases for land and buildings as follows:

	2008 HK$'million	2007 HK$'million
Within one year	**60**	14
In the second to fifth year inclusive	**52**	—
	112	14

37 Partial disposal of subsidiaries

In 2007, the Group restructured its ports interests in Shekou, PRC. Under the restructuring, the Group granted a put option to Modern Terminals 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 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.

38 Business combination

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

Details of the net assets acquired are as follows:

	2008 HK$'million
Purchase consideration	
- Cash paid	66
- Direct cost	1
Total consideration	67
Fair value of net identifiable assets of CMCCL	(65)
Goodwill	2

39 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 2008 indicated below:

(a) Balances and transactions with the CMG Group

	Note	**2008 HK$'million**	2007 HK$'million
Sales of goods to	(i)		
- associates		**480**	973
- a fellow subsidiary		**8**	9
Rental income from	(ii)		
- an intermediate holding company		**22**	17
- a fellow subsidiary		**10**	9
Rental expenses paid to fellow subsidiaries	(ii)	**79**	72
Service fees paid to			
- fellow subsidiaries	(iii)	**6**	7
- a jointly controlled entity	(iv)	**3**	2
Interest expenses and upfront fee paid to the ultimate holding company	(v)	**97**	9

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) 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.

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

(v) Interest expenses were charged at interest rate as specified in note 34 to the financial statements on the outstanding amount due to the ultimate holding company.

The balances with entities within the CMG Group as at 31 December 2008 are disclosed in notes 27 and 33 to the financial statements.

39 Related party transactions (Continued)

(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$678 million (2007: HK$993 million).

As at 31 December 2008, cash deposited in State-controlled banking enterprises amounted to HK$2,005 million (2007: HK$1,151 million). During the year ended 31 December 2008, interest income from State-controlled banking enterprises amounted to HK$19 million (2007: HK$25 million).

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

	Note	2008 HK$'million	2007 HK$'million
Sales of goods	(i)	189	184
Rental income	(ii)	3	3
Royalty paid	(iii)	92	101
Service expense	(iv)	19	21
Interest expense	(v)	—	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) 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.

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

The balances with minority shareholder of a subsidiary are disclosed in note 31 to the financial statements.

(d) Key management compensation

	2008 HK$'million	2007 HK$'million
Salaries and other short-term employee benefits	13	12
Share-based payments	—	8
	13	20

40 Subsequent events

On 5 January 2009, the Group disposed of all of its 64% equity interest in Hempel-Hai Hong for a cash consideration of HK$1,146 million and the gain on disposal was approximately HK$492 million.

41 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	
China Merchants Container Services Limited	Hong Kong	HK$500,000	—	100.00%	Provision of container terminal services and port transportation
China Merchants International Container Terminal (Qingdao) Co., Ltd. #	PRC	US$206,300,000	—	100.00%	Provision of container terminal services and ports transportation
China Merchants (CIMC) Holdings Limited	Hong Kong	HK$2	100.00%	—	Investment holding and securities trading
China Merchants Port Services (Shenzhen) Company Limited #	PRC	RMB550,000,000	—	100.00%	Provision of terminal services and ports transportation
China Merchants International Terminals (Ningbo) Limited [1]	British Virgin Islands	US$1	100.00%	—	Investment holding
China Merchants International Terminal (Qingdao) Company Ltd. ^	PRC	US$12,000,000	—	90.10%	Port, container terminal and logistic business

41 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
China Merchants Maritime & Logistics (Shenzhen) Ltd. #	PRC	RMB400,000,000	—	60.00%	Provision of container related logistics services
CMH International (China) Investment Co., Ltd. # 1	PRC	US$30,000,000	100.00%	—	Investment holding
Hempel-Hai Hong (China) Limited	Hong Kong	HK$106,000,000	—	64.00%	Sales of paint products
Hempel-Haihong (Guangzhou) Ltd. #	PRC	US$21,000,000	—	64.00%	Manufacture and sales of paint products
Hempel-Hai Hong (Kunshan) Ltd. #	PRC	HK$40,000,000	—	64.00%	Manufacture and sales of paint products
Hempel-Hai Hong Coatings (Shenzhen) Co., Ltd. #	PRC	HK$40,000,000	—	64.00%	Manufacture and sales of paint products
Hempel-Hai Hong (Yantai) Ltd. #	PRC	HK$20,000,000	—	64.00%	Manufacture and sales of paint products
Hempel Coatings (Shenzhen) Company Limited #	PRC	HK$20,000,000	—	64.00%	Manufacture and sales of paint products
Mega Shekou Container Terminals Limited	British Virgin Islands	US$100	—	80.00%	Investment holding
Shenzhen Mawan Port Service Co., Ltd.^	PRC	RMB200,000,000	—	70.00%	Operation of berth No. 5 in Mawan, Shenzhen, PRC
Shenzhen Mawan Wharf Co., Ltd.^	PRC	RMB200,000,000	—	70.00%	Operation of berth No. 0 in Mawan, Shenzhen, PRC

41 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		Principal activities
			Directly	Indirectly	
Shenzhen Mawan Terminals Co., Ltd.^	PRC	RMB335,000,000	—	70.00%	Operation of berths No. 6 & No. 7 in Mawan, Shenzhen, PRC
Shenzhen Hauxing Harbor Development Company Ltd. ^1	PRC	US$15,151,500	—	67.00%	Ports and container terminal business
Shenzhen Huxing Tug Service Co., Ltd ^1	PRC	RMB2,000,000	—	55.00%	Provision of tugboat services
Shenzhen Haiqin Engineering Supervision & Management Co., Ltd.^1	PRC	RMB3,000,000	—	55.00%	Provision of services on ports construction
She Kou Container Terminals Ltd. #	PRC	HK$618,201,150	—	80.00%	Operation of berth No. 1 & 2 in Shekou, PRC
Shekou Container Terminals (Phase II) Company Limited #	PRC	RMB608,549,000	—	80.00%	Operation of berth No. 3 & 4 in Shekou, PRC
Shekou Container Terminals (Phase III) Company Limited #	PRC	RMB1,276,000,000	—	80.00%	Operation of berth No. 5 to No.8 in Shekou, PRC
Universal Sheen Investment Limited	Hong Kong	HK$100	100.00%	—	Property holding

41 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
Zhangzhou China Merchants Port Co., Ltd ^	PRC	RMB1,000,000,000	—	60.00%	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	—	70.00%	Provision of tugboat services in the Zhangzhou Economic Development Zone, Fujian Province, PRC
China Merchants International Cold Chain (Shenzhen) Company Limited (formerly known as "South-China Cold Storage & Ice Co., Ltd.") ^1	PRC	US$5,000,000	—	70.00%	Operation of reefer warehouse in Shenzhen, PRC
安通捷碼頭倉儲服務（深圳）有限公司 #1	PRC	HK$100,000,000	—	100.00%	Holding of a piece of land in Shekou, PRC
安速捷碼頭倉儲服務（深圳）有限公司 #1	PRC	HK$100,000,000	—	100.00%	Holding of a piece of land in Shekou, PRC
安運捷碼頭倉儲服務（深圳）有限公司 #1	PRC	HK$30,000,000	—	80.00%	Holding of certain pieces of land in Shekou, PRC
Xia Men Bay China Merchants Terminals Co., Ltd. ^1	PRC	RMB80,000,000	—	60.00%	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

42 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 Terminal Company Limited[1]	Hong Kong	—	20.00%	Airfreight
China International Marine Containers (Group) Co., Ltd. (B shares listed in the Mainland China)[1]	PRC	6.77%	18.05%	Design, manufacture and sales of dry freight containers and refrigerated containers
China Nanshan Development (Group) Inc. ^[1]	PRC	—	37.01%	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	—	20.00%	Ports and container terminal business
Shanghai International Port (Group) Co., Ltd. (A shares listed in the Mainland China) ^[1]	PRC	—	26.54%	Ports and container terminal business
Tianjin Haitian Bonded Logistics Co., Ltd. ^[1]	PRC	—	49.00%	Provides container terminal services and warehouse services
Shenzhen Tiehe Storage & Transportation Co., Ltd. ^[1]	PRC	—	45.00%	Provision of logistics and storage services

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

^ Sino-foreign joint ventures

43 Particulars of principal jointly controlled entities

Name of jointly controlled entity	Issued capital/ registered capital	Proportion of issued capital/ registered capital held by the Company Directly	Indirectly	Principal activities
Zhanjiang Port (Group) Co., Ltd. ^[1]	RMB4,020,690,955	—	40.29%	Ports and container terminal business
Ningbo Daxie China Merchants International Terminals Co., Ltd ^[1]	RMB1,209,090,000	—	45.00%	Ports and container terminal business
Shenzhen Cyber-Harbour Network Co., Limited^[1]	RMB5,000,000	62.50%	—	Provision of computer network services
China Merchants Svitzer (Qingdao) Towage Co., Ltd.^	RMB27,000,000	—	51.00%	Provision of tugboat services
Regional Merchants International Freight Forwarding Co Ltd ^[1]	HK$12,000,000	—	20.00%	Provision of transportation service
Regional Merchants Maritime Limited[1]	HK$8,000,000	—	20.00%	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. Yu Liming

Mr. Hu Jianhua

Mr. Wang Hong

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

00144

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 Ball Room, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Tuesday, 2 June 2009 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 2008.

2. To declare a final dividend for the year ended 31 December 2008.

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, 30 April 2009

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 27 May 2009 to 2 June 2009, 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 Rooms 1806-7, 18th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on 26 May 2009.

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. Pursuant to Rule 13.39(4) of the Listing Rules, all votes at the Annual General Meeting will be taken by poll and the Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules. The Chairman of the Meeting will therefore demand a poll for every resolution put to the vote at the Annual General Meeting pursuant to Article 58 of the Articles of Association of the Company.

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. Yu Liming, Mr. Hu Jianhua, Mr. Wang Hong 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.

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