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

2005 INTERIM REPORT

CONTENTS

CORPORATE INFORMATION

Board of Directors

Dr. Fu Yuning *(Chairman and Managing Director - appointed as Managing Director on 31 May 2005)*
Mr. Zhao Huxiang *(Vice-Chairman)*
Mr. Li Yinquan
Mr. Hu Zheng
Mr. Meng Xi
Mr. Wang Hong (appointed on 11 May 2005)
Mr. Yu Liming
Mr. To Wing Sing
Mr. Tsang Kam Lan*
Mr. Kut Ying Hay*
Mr. Lee Yip Wah Peter*
Mr. Li Kwok Heem*
Mr. Li Yi (resigned on 31 May 2005)
Mr. Koo Kou Hwa* (passed away on 21 January 2005)

* *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 Merchants Bank
China Construction Bank
Bank of China (Hong Kong) Limited
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
Industrial and Commercial Bank of China (Asia) Limited

Auditors

PricewaterhouseCoopers

Legal Adviser

Linklaters

Stock Code

0144

Registrars

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

Website

http://www.cmhico.com

OPERATIONS REVIEW

The Group has devoted its efforts to the business positioning of developing and strengthening ports business as its core business. The strategic adjustment of making ports business the core business was basically accomplished through the transfer of assets and interests in respect of oil tanker business and the optimisation of the asset structure in respect of toll road business last year. This enabled the Group to focus on the integration of ports resources, to improve the standard of operation and management of ports, and to further consolidate and extend the distribution of the ports networks and scope of related auxiliary services in the future. This business strategy also created a favourable operating environment for the coordinated development of the operations of ports under the Group's management.

For the six months ended 30 June 2005, consolidated profit after taxation and minority interests amounted to HK$1,161 million, representing an increase of 39.6% over the same period last year, of which, profit from ports and ports-related businesses amounted to HK$1,081 million, representing an increase of 59.4% over the same period last year. The profit from ports and ports-related businesses accounted for 93.1% of the Group's total profit, representing an increase of 11.6 percentage points from that of 81.5% of last year. China Merchants Holdings (Pacific) Limited ("CMHP"), a subsidiary of the Company listed in Singapore, contributed a profit of HK$70 million to the Group. CMHP is mainly engaged in the transportation infrastructure business with toll road operation as its major business.

For the first half of the year, the Group's turnover of the continuing operation was HK$1,328 million, representing an increase of 46.0% over the same period last year, of which the ports and ports-related businesses accounted for HK$1,154 million, representing an increase of 28.6% over the same period last year. For the first half of the year, the aggregate of the turnover of the Group and the turnover attributable to its associates and jointly controlled entities amounted to HK$6,851 million, representing a growth of 49.8% over the same period last year, of which the turnover from ports and ports-related businesses of its associates and jointly controlled entities accounted for HK$6,531 million, representing an increase of 47.5% over the same period last year.

PORTS AND PORTS-RELATED BUSINESSES

Consolidated profit after taxation and minority interests of the Group's ports and ports-related businesses was HK$1,081 million, which accounted for 93.1% of the total profit of the Group, representing a growth of 59.4% over the same period last year. Turnover of this segment was HK$1,154 million, and together with the turnover attributable to the Group from its associates and jointly controlled entities was HK$6,531 million, representing a growth of 28.6% and 47.5% over the same period last year, respectively.

Ports business

For the first half of the year, the Group's consolidated profit after taxation and minority interests attributable to the Group's ports business amounted to HK$594 million, representing an increase of 34.9% over the same period last year and accounting for 51.2% of total profit of the Group. For the first half of the year, the Group's ports operations achieved a turnover of HK$398 million, together with the sharing of turnover of associates and jointly controlled entities, the turnover was HK$1,795 million, representing an increase of 10.9% and 25.3% over the same period last year, respectively.

For the first half of the year, the total container throughput of the ports business of the Group amounted to 7,070,000 TEU, representing an increase of 23% compared with the same period last year, of which the container terminals in Mainland China in which the Group has invested recorded a throughput of 3,940,000 TEU, representing a growth of 24% over the same period last year. This continued to exceed the average growth rate of total container throughput in the respective regions. For the first half of the year, container throughput of the terminals in western Shenzhen invested in and managed by the Group reached 3,890,000 TEU and maintained a rapid growth. The growth over the same period last year was 24%, which was 1.5 percentage points higher than the average figure of 22.5% in Shenzhen Port for the first half of the year. The market share in the entire Shenzhen Port increased from 51.9% last year to 52.6% for the first half of the year.

Compared with the same period last year, the ports business in Hong Kong (including inland river and midstream operations) achieved satisfactory growth for the first half of the year. For the first half of the year, the increase in throughput of Kwai Tsing container terminals reached 11.1%, representing a growth of approximately 5.4 percentage points, over the same period last year. The growth in container throughput of ports business in Hong Kong invested in by the Group was also higher than the average market growth. The ports business in Hong Kong recorded a throughput of approximately 3,120,000 TEU, representing a growth of 21% over the same period last year. Modern Terminals Limited, in which the Group owned a stake, recorded a throughput of 2,490,000 TEU, representing a growth of 27% over the same period last year. This was almost 16 percentage points higher than the growth of 11.1% in total TEU throughput recorded by Kwai Tsing Terminals.

For the first half of the year, the throughput of general and bulk cargo handled by the terminals in Mainland China invested in by the Group experienced different growth rates. Currently, the Group owns terminals for processing general and bulk cargoes in Shenzhen and Xiamen Bay, Fujian

with an aggregate throughput of 18,810,000 tonnes for the first half of the year, representing an increase of 8% compared with the same period last year. The general and bulk cargo throughput of the terminals in western Shenzhen, invested in and managed by the Group, was 17,190,000 tonnes, representing an increase of approximately 8% compared with the same period last year. The terminals of the Group in Shenzhen currently account for over 95% of market share for the general and bulk cargo throughput in Shenzhen Port.

For the first half of the year, Asia Airfreight Terminal Company Limited, in which the Group owned a stake, processed 260,000 tonnes of cargo, increased by 5% over the same period last year, which was basically in line with market growth.

Ports-related businesses

The ports-related businesses of the Group mainly include container and container auxiliary service product manufacturing. For the first half of the year, consolidated profit after taxation and minority interests of the business of the Group was HK$487 million, representing an increase of 104.5% over the same period last year. Turnover of the ports-related businesses was HK$756 million, which represented the turnover of the Group's subsidiary, Hempel-Hai Hong (China) Limited, which together with the turnover attributable to the ports-related business of Group's associates and jointly controlled entities amounted to a total of HK$4,736 million, representing an increase of 40.5% and 58.1% respectively over the same period last year.

The Group is the largest shareholder of China International Marine Containers (Group) Ltd ("CIMC"), which is the largest container manufacturer in the world. For the first half of the year, CIMC sold a total of 830,000 TEU of various cargo containers, representing a 15% growth over the same period last year. CIMC currently accounts for more than 50% of the global market share and continues to rank number one globally. The semi-trailer business of CIMC also experienced fast growth, with a total of 25,000 units sold for the first half of the year, up 80% over the same period last year. The rapid development of international marine container transportation business and ports business in Mainland China was the driving force for a sustained sharp improvement in the operation effectiveness of CIMC. For the first half of the year, CIMC contributed HK$438 million to the consolidated profit of the Group.

Apart from container manufacturing business, Hempel-Hai Hong (China) Limited of the Group, one of the largest manufacturers of container paints and marine paints in Mainland China, sold a total of 41,490,000 litres of different kinds of paints, representing an increase of 26% compared with the same period last year.

OUTLOOK AND PROSPECTS

During the first half of this year, gross national product, and total imports and exports of Mainland China were RMB6,742.2 billion and US$645 billion, which increased by 9.5% and 23% respectively as compared with the same period last year. Although growth dropped as compared with the same period last year, the macro-economy continued to perform well, maintaining a relatively strong growth momentum in trade and economy. The Group is of the view that the macro-economic control measures currently implemented in Mainland China will not have a significant impact on the overall economy. The Company also believes that given the mechanism of continued market opening and competition, planned control measures on industries will promote healthy and sound development of the economy in Mainland China. The increase in total trade volume as well as consumption demand and power in Mainland China will inevitably lead to an expanding demand in the domestic market. Driven by the strong growth in foreign imports and exports, the mobility and scale of movement of goods will also continue to increase. This in turn will have a positive impact on driving the Group's ports business in Mainland China and Hong Kong.

As far as the global market of ports and shipping businesses are concerned, the container sea freight volume between Far East Asia (mainly East Asia and Southeast Asia) and Europe and the United States has become an integral part of total global container throughput. In 2004, the container throughput handled by ports in Far East accounted for 34% of the throughput handled by global ports. The container throughput handled by ports in Mainland China accounted for 51% and 17% of the throughputs handled by ports in Far East and global ports respectively. From 2002 to 2004, ports in Mainland China experienced a compound growth of approximately 31% in container throughput, much higher than that of 13% for global ports and that of 17% for ports in Far East. Sustained rapid economic development in China, strong external trade and outsourcing of manufacturing processes from Europe and the United States to Asia such as Mainland China are the driving force for the development of ports business. Against this backdrop, it is foreseeable that the operations of ports in Mainland China will develop steadily and accordingly, the operations of the Group's terminals spread over various coastal economic regions will continue to be benefited. The Group believes that the formation of a network of coastal ports will continuously strengthen the synergy for the Group's port areas, thereby further enhancing the Group's capability in ports operation.

During the first half of the year, the Group completed the capital injection procedures of a stake in Shanghai International Port (Group) Company Limited ("SIPG") and will share SIPG's profits in the second half of the year. Being the largest port city in Mainland China, Shanghai is located in the Yangtze River Delta backed by flourishing economic hinterlands. The city recorded a container throughput of 8,540,000 TEU in the first half of the year, up 26% over the same period last year. With the berths in Yangshan Port Area Phase 1 coming into operation, SIPG's ability to serve large international vessels in transit will increase significantly. The Group anticipates that SIPG will continue to maintain its fast growth to be led by the effect of incremental scale. Meanwhile, Ningbo Daxie Terminal, another specialised container terminal operated by the Group in the region, will officially come into operation in the second half of the year. This will further enhance the Group's service capabilities in the region. The Group will also deepen its cooperation with SIPG to bring the complementary advantages

enjoyed by Ningbo and Shanghai into full play, thereby achieving a win-win situation.

The Qingdao port project in which the Group invested has commenced the construction of berth facilities since June this year. It is expected that the first berth will be completed at the end of next year. In addition, the Qingdao bonded logistics zone of the Group has passed the customs preliminary inspection recently.

To enhance and strengthen the development of its core business, the Group successfully acquired an additional stake of approximately 5% in Modern Terminals Limited, Hong Kong in August this year. Being an international shipping hub, Hong Kong has excellent port auxiliary network facilities and environment as well as unmatched operating efficiency. The increased investment made by the Group in ports in Hong Kong not only generates stable and reliable profits for the Group, but also helps strengthen the business cooperation between the Group's port area in western Shenzhen and ports in Hong Kong. The Group believes that CEPA has led to increasing economic integration between Mainland China and Hong Kong. It is also anticipated that driven by the recovery of US and global economy, the economy of Hong Kong will continue to be favourable. Against this backdrop, there remains sufficient support for the development for ports business in Hong Kong.

While steadily driving its strategic layout of ports business, the Group has persistently made efforts in improving the business auxiliary network environment. The environment for going through customs at ports has been greatly improved through various measures such as the road improvement works in western Shenzhen, the implementation of the "One Card for All Terminal Gates" project, the opening of the sea freight storage logistics project and the promotion of optimised workflow for customs inspection. From now onwards, the Group will, on the basis of improving existing auxiliary environment, improve its standard of operation and management, drive the informatisation of the operating system, and strengthen the overall competitive advantage. Persisting in its service philosophy of "Customers First", the Group is committed to further improving its customer service quality so as to create its own management and service brand.

Against the backdrop of global economic recovery, the Group anticipates that the growth in ports and shipping industries will suffice to fuel the growth in ports-related business such as container manufacturing. It is fully confident in the growth in existing ports-related business of the Group. The Group will continue to drive CIMC to capture on the advantages in terms of its scale and market share, strengthen the establishment of an independent technological innovation system, consolidate the leading position in the industry, strengthen the development of operations such as the semi-trailer business and increase profit contributions. Meanwhile, it will further increase market competitiveness of the paint manufacturing business, continue to consolidate the leading position in container paint and vessel paint, and strengthen the Group's internal strategic alliance to bring the advantage of intensive operation into full play.

The toll road business operated by the Group through CMHP has benefited from the continued improvement in the transport environment in Mainland China. Accordingly, the growth in traffic has been steady. With rapid development of the economy of Mainland China and the emerging of the logistics industry, as well as increased individual consumption, the development of toll road business will be further facilitated. Besides, the continued improvement in the road network will also increase the overall effectiveness of toll road business.

With continued business structure adjustments, the implementation of investment strategic planning and the integration of internal resources in recent years, the performance of the Group's core ports business has become increasingly remarkable. The Group firmly believes that with the progress and implementation of all planned projects, a clear development strategy, high-quality resources, a professional management team and an improving management and control system, the Group will experience faster development and achieve more brilliant results, and will generate even more satisfactory investment returns for its shareholders.

INTERIM DIVIDEND

In order to reward investors' continuous support of the Group, the Board has declared an interim dividend of HK17 cents per share in scrip form for the Period, representing a dividend yield of 31.4% and an increase of 13.3% compared with the 2004 interim dividend of HK15 cents per share. The interim dividend will be payable on 21 November 2005 to shareholders whose names appear on the Register of Members of the Company on 14 October 2005, with an alternative to the shareholders to elect to receive such interim dividend (or part thereof) in cash in lieu of such allotment (the "Scrip Dividend Scheme").

A circular containing details of the Scrip Dividend Scheme together with the relevant election form will be sent to shareholders on or around 24 October 2005. The Scrip Dividend Scheme is conditional upon the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited of the listing of and permission to deal in the new shares to be issued pursuant thereto. It is expected that certificates for the new shares will be despatched to shareholders on or around 21 November 2005.

CLOSURE OF REGISTER

The Register of Members will be closed from 10 October 2005 to 14 October 2005 (both days inclusive), during which no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers and the relevant share certificates must be lodged with the Company's Share Registrar Computershare Hong Kong Investor Services Limited at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:00 p.m. on 7 October 2005.

LIQUIDITY AND TREASURY POLICIES

The amount of cash held by the Group as at 30 June 2005 amounted to HK$884 million, 30% of which was denominated in Hong Kong dollars, 30% in US dollars, 33% in RMB and 7% in other currencies.

The Group's source of funds is mainly derived from its operating activities related to ports and ports-related businesses and investment returns from associates and joint ventures, contributing more than HK$730 million in total. For the first half of the year, the Group contributed over HK$7 billion for ports investment projects out of which HK$5.7 billion was financed by bank loans. Although the scale of investment made by the Group has been expanding, the Group adopts a prudent financial policy. The Group is currently financially sound and has abundant cash to meet its daily operating requirements. Besides, as most of the bank loans currently borrowed by the Group are medium-to-long-term borrowings, the pressure for repaying the loans in short-term is limited.

SHARE CAPITAL AND FINANCIAL RESOURCES

As at 30 June 2005, the Company had issued a total of 2,172,437,464 shares. During the Period, the Company issued 3,050,000 shares upon the exercise of share options and received HK$15,518,000 pursuant to such exercise. Besides, the Company issued 27,194,490 shares under the Scrip Dividend Scheme. Other than the above-mentioned newly issued shares, the Company did not issue any new shares in the first half of the year.

As at 30 June 2005, the Group carried outstanding interest bearing bank loans and notes in the amount of HK$7,425 million, out of which HK$628 million are repayable within one year and the remaining HK$6,797 million are medium-to-long-term borrowings. HK$110 million out of the outstanding bank loans was secured by assets of a subsidiary and the remainder was all unsecured. Bank loans borrowed by the Group were increased by HK$5,657 million from the end of the interim period of last year and were mainly used for investment in new port projects. Other than the 10-year fixed income bonds of US$500 million issued by the Group in March this year, all other loans were made at floating interest rates.

Approximately 89.4% of the bank loans currently borrowed by the Group are loans denominated in Hong Kong dollars or US dollars. The remainder belong to loans denominated in RMB or local currencies borrowed by the Group's subsidiaries. As these loans could be repaid using income denominated in local currencies, the Group did not employ any financial instrument to hedge the said loans. The Group mainly holds assets in Hong Kong dollars and RMB.

As at 30 June 2005, the Group's gearing ratio (dividing interest-bearing bank loans and notes by net assets) was approximately 50.3%.

ASSETS CHARGE

As at 30 June 2005, the Company did not have any charge on its assets. However, the bank loan borrowed by a subsidiary of the Group was secured by mortgage debentures over all assets of the subsidiary with an aggregate carrying value of HK$458 million.

CONTINGENT LIABILITIES

As at 30 June 2005, the Group had given guarantees to banks for bank loans of associates and an investee in the amount of HK$9.6 million.

EMPLOYEES AND REMUNERATION

As at 30 June 2005, the Group had 2,465 full-time employees, of which 253 were working in Hong Kong, 10 were working overseas and the remainder were working in Mainland China. Employee remuneration amounted to HK$128 million for the first half of the year, representing 10.6% of the total operating expenses of the Group. The Group undertakes a review of the employee salary policy annually, with close reference to the relevant human resources market and economic situation.

The Group encourages its employees to further their studies. Apart from encouraging employees to participate in further study plans, the Group also provides internal training to staff to achieve self-development and improvement of job-related skills. In addition, to recognise contributions made by staff, the Group provides year-end bonuses based upon staff performance and a share option scheme whereby eligible employees of the Group can exercise options to acquire shares in the Company at an agreed price.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2005, the interests of the directors of the Company in the securities of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), as recorded in the register required to be kept by the Company under Section 352 of the SFO were as follows:

Name of Director	Capacity	Nature of interest	Number of shares in the Company	Number of shares in the Company subject to share options granted*	Percentage of aggregate long position in shares to the issued share capital of the Company as at 30 June 2005
Dr. Fu Yuning	Beneficial owner	Personal interest	—	3,100,000	0.14%
Mr. Zhao Huxiang	Beneficial owner	Personal interest	150,000	1,950,000	0.10%
Mr. Li Yinquan	Beneficial owner	Personal interest	—	800,000	0.04%
Mr. Hu Zheng	Beneficial owner	Personal interest	—	500,000	0.02%
Mr. Meng Xi	Beneficial owner	Personal interest	—	500,000	0.02%
Mr. Wang Hong	Beneficial owner	Personal interest	—	350,000	0.02%
Mr. Yu Liming	Beneficial owner	Personal interest	—	950,000	0.04%
Mr. To Wing Sing	Beneficial owner	Personal interest	—	600,000	0.03%
Mr. Lee Yip Wah Peter	Beneficial owner	Personal interest	132,723	—	0.006%
			282,723	**8,750,000**	**0.42%**

* *Included share options granted under the Terminated Scheme and Existing Scheme.*

Name of Director	Capacity	Nature of interest	Number of shares in CMHP	Number of shares in CMHP subject to share options granted	Percentage of of shares subject to share options to the issued share capital of CMHP as at 30 June 2005
Mr. Zhao Huxiang	Beneficial owner	Personal interest	—	400,000	0.047%

Save as disclosed above and based on the register maintained by the Company as at 30 June 2005, none of the directors or chief executive of the Company or any of their associates had any interests and short positions in the shares, underlying shares and debenture of the Company or any of its associated corporations (within the meaning of 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 "Stock Exchange"), to be notified to the Company and the Stock Exchange.

Apart from the share option schemes disclosed below, at no time during the Period was any of the Company, its subsidiaries, its fellow subsidiaries or its holding companies a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Share Option Schemes

(a) Terminated Scheme

Under the share option scheme of the Company adopted on 26 June 1992 (the "Terminated Scheme"), the Directors of the Company may, at their discretion, grant options to any director or employee of the Company or any of its subsidiaries to subscribe for shares in the Company at a price equal to the higher of the nominal value of the shares or not less than 80% of the average of the closing prices of the shares of the Company for the five(5) trading days immediately preceding the date of offer of the options. The maximum number of shares in respect of which options may be granted may not exceed 10% of the issued share capital of the Company at the time of granting of the options. Under the terms of the Terminated Scheme, a director or employee may only exercise share options granted after he or she has completed two years service with the Group.

The Terminated Scheme was terminated on 20 December 2001 ("Termination Date") without prejudice to the rights and benefits of and attached to those options granted thereunder which were outstanding as at that date. No further grants were made after the Termination Date. Following the termination, the provisions of the Terminated Scheme remained in force and effect to the extent necessary to give effect to the exercise of any option granted prior to the Termination Date.

Details of the share options outstanding as at 30 June 2005 which have been granted under the Terminated Scheme are as follows:

Name	Date of grant	Exercise price *HK$*	Options held as at 1 January 2005	Options exercised during the Period *Note*	Options cancelled during the Period	Options held as at 30 June 2005
Director						
Dr. Fu Yuning	1 March 2000	5.054	1,500,000	—	—	1,500,000
Mr. Zhao Huxiang	1 March 2000	5.054	1,100,000	—	—	1,100,000
			2,600,000	**—**	**—**	**2,600,000**
Continuous contract employees						
(I)	1 March 2000	5.054	2,000,000	—	—	2,000,000
(II)	19 September 2000	5.615	1,050,000	150,000	—	900,000
(III)	6 July 2001	5.610	700,000	350,000	—	350,000
			3,750,000	500,000	—	3,250,000
			6,350,000	**500,000**	**—**	**5,850,000**

The above outstanding share options may be exercised at any time during a period of 6 years commencing on the date of grant of the options.

Note:

The weighted average closing market price per share immediately before the dates on which the share options were exercised was HK$15.72.

(b) Existing Scheme

Under the share option scheme (the "Existing Scheme") approved by the shareholders of the Company at an extraordinary general meeting of the Company held on 20 December 2001 ("Adoption Date"), 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 ("Shares") in the Company subject to the terms and conditions stipulated therein.

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

Details of the share options outstanding as at 30 June 2005 which have been granted under the Existing Scheme are as follows:

Name	Date of grant	Exercise price *HK$*	Options held as at 1 January 2005	Options granted during the Period	Options exercised during the Period	Options cancelled during the Period	Other changes during the Period	Options held as at 30 June 2005
Director								
Dr. Fu Yuning	11 October 2002	4.985	600,000	—	—	—	—	600,000
	27 October 2004	11.08	1,000,000	—	—	—	—	1,000,000
Mr. Zhao Huxiang	11 October 2002	4.985	300,000	—	(150,000)	—	—	150,000
	27 October 2004	11.08	700,000	—	—	—	—	700,000
Mr. Li Yinquan	11 October 2002	4.985	300,000	—	—	—	—	300,000
	27 October 2004	11.08	500,000	—	—	—	—	500,000
Mr. Hu Zheng	27 October 2004	11.08	500,000	—	—	—	—	500,000
Mr. Mengxi	11 October 2002	4.985	700,000	—	(700,000)	—	—	0
	27 October 2004	11.08	500,000	—	—	—	—	500,000
Mr. Wang Hong	27 October 2004	11.08	—	—	—	—	350,000	350,000
Mr. Yu Liming	11 October 2002	4.985	450,000	—	—	—	—	450,000
	27 October 2004	11.08	500,000	—	—	—	—	500,000
Mr. To Wing Sing	27 October 2004	11.08	600,000	—	—	—	—	600,000
Mr. Li Yi	11 October 2002	4.985	900,000	—	(900,000)	—	—	0
(Resigned on 31 May 2005)	27 October 2004	11.08	1,000,000	—	—	(1,000,000)	—	0
			8,550,000	**—**	**(1,750,000)**	**(1,000,000)**	**350,000**	**6,150,000**

Name	Date of grant	Exercise price *HK$*	Options held as at 1 January 2005	Options granted during the Period	Options exercised during the Period	Options cancelled during the Period	Other changes during the Period	Options held as at 30 June 2005
Continuous contract employees								
(I) The Group	11 October 2002	4.985	2,950,000	—	(550,000)	—	—	2,400,000
	27 October 2004	11.08	14,360,000	—	—	—	—	14,360,000
(II) The CMHK Group	11 October 2002	4.985	1,600,000	—	(250,000)	—	—	1,350,000
	27 October 2004	11.08	6,400,000	—	—	—	(350,000)	6,050,000
	04 May 2005	15.31	—	200,000	—	—	—	200,000
			25,310,000	200,000	(800,000)	—	(350,000)	24,360,000
			33,860,000	**200,000**	**(2,550,000)**	**(1,000,000)**	**0**	**30,510,000**

Note:

1. *The above outstanding share options can be exercised at any time during a period of 10 years commencing on the date of grant of the options.*

2. *The closing market price of shares were HK$15.30 immediately preceding the date of grant (i.e. 3 May 2005).*

3. *The weighted average closing market price per share immediately before the date on which the share options were exercised was HK$15.72.*

4. *Mr. Wang Hong was formerly an employee of the CMHK Group and was appointed a director of the Company on 11 May 2005.*

4. *Value of Options*

The value of the options that were granted under the Existing Scheme as of 4 May 2005 is reasonably stated by the amount of HK$2.829 per option. The valuation of the Options is based on the closing price of the shares of the Company as of 4 May 2005 (the "Appraisal Date").

The methodology applied in valuing each option is the Black-Scholes option pricing model. As the Black-Scholes option pricing model applies to stocks that do not pay dividends, we made an adjustment ("First Adjustment") developed by Robert Merton to approximate the option value of a dividend-paying stock such as the Company's stock. Under this adjustment method, it is assumed that the Company's stock will generate a constant dividend yield during the remaining life of the Options.

In the calculation of the value of an option to be granted under the Existing Scheme, we have made the following assumptions:

i. *Any person entitled to the share options under the Option Scheme ("Eligible Persons") have no rights to exercise their respective Options during the period from the Grant Date to the date before vesting of the Options;*

ii. *The Eligible Persons have rights to exercise their respective Options at any time during the remaining time to maturity from the date after the Options have been vested and before the expiration of the relevant Options ("Exercisable Period");*

iii. *Transferability of the Options is not allowed;*

iv. *Due to the restriction on the transferability of the Options, the Eligible Persons tend to early exercise the Options on hand; and as concurred by the Management of the Company, it is appropriate to assume that the Eligible Persons will exercise the Options in four years after the grant of the Options (Note: Such expected time of exercise constitutes the expected tenor of the Options);*

v. *The dividend yields of the Company are assumed to be 2.94% for the Appraisal Dates; and*

vi. *Number of trading days per year is 260.*

Given the above assumptions and the inherent limitations of the Black-Scholes option pricing model, shareholders and other investors are hereby warned of the subjectivity and uncertainty of the aforementioned values of the options.

(c) China Merchants Holdings (Pacific) Limited – CMHP Terminated Scheme

The HTP Holdings Executives' Share Option Scheme (the "CMHP Terminated Scheme") was adopted by the members of CMHP at an extraordinary general meeting of CMHP held on 29 September 1995. Under the CMHP Terminated Scheme, the Directors of CMHP may, at their discretion, grant options to any director or employee of the CMHP or any of its subsidiaries (the "CMHP Group") to subscribe for shares in CMHP ("CMHP Shares"). The exercise price shall be equal to the average of the last trading prices per CMHP Share for three (3) consecutive trading days immediately preceding the date of offer of that option but in no instance shall the offer price per share be less than its par value.

The purpose of the CMHP Terminated Scheme was to provide an incentive to the employees and directors of the CMHP Group. The maximum number of CMHP shares in respect of which options may be granted may not exceed 5% of the issued share capital of CMHP at the time of granting of the options.

The CMHP Terminated Scheme was terminated on 30 May 2002 (the "CM Termination Date") without prejudice to the rights and benefits of and attached to those options granted thereunder which are outstanding as at that date. No further grants were made after the CM Termination Date. Following the termination, the provisions of the CMHP Terminated Scheme remain in force and effect to the extent necessary to give effect to the exercise of any option granted prior to the CM Termination Date.

(d) China Merchants Holdings (Pacific) Limited – CMHP 2002 Scheme

China Merchants Holdings (Pacific) Limited Share Option Scheme 2002 (the "CMHP 2002 Scheme") was approved and adopted by its members at an extraordinary general meeting held on 30 May 2002. The CMHP 2002 Scheme is administered by the CMHP Remuneration Committee, which comprises the following directors of CMHP:

Dr Lim Heng Kow (*Chairman*)
Dr Hong Hai
Mr Jiang Yan Fei

The purpose of the CMHP 2002 Scheme is to provide CMHP with a flexible means of incentivising, rewarding, remunerating, compensating and/or providing benefits to the employees of the CMHP Group.

Confirmed employees and directors of the CMHP Group and employees of associates are eligible to participate in the CMHP 2002 Scheme at the absolute discretion of the CMHP Remuneration Committee.

Directors and employees of the CMHP's parent company and its subsidiaries (other than the CMHP Group) are not allowed to participate in the CMHP 2002 Scheme. Controlling shareholders and their associates are also not eligible to participate in the CMHP 2002 Scheme.

Details of the share options outstanding as at 30 June 2005 which have been granted under the CMHP 2002 Scheme are as follows:

Name	Date of grant	Exercise price per share *S$*	Options held as at 1 January 2005	Options exercised during the Period *Note*	Options lapsed/ cancelled during the Period	Other changes during the Period	Options held as at 30 June 2005
Director							
Zhao Huxiang	10 February 2003	0.5	400,000	—	—	—	400,000
Continuous contract employees	10 February 2003	0.5	2,050,000	—	—	—	2,050,000

Note:

1. CMHP is a 72.08% owned subsidiary of the Company listed in Singapore.
2. Since 10 February 2003, CMHP has not issued any share options pursuant to the CMHP Terminated Scheme or the CMHP 2002 Scheme.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2005, 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 by the Company under section 336 of the SFO:

Long Positions

Name of Substantial Shareholder	Capacity	Number of shares held	Total interest	Total interest as percentage of issued shares
China Merchants Group Limited	Interest of Controlled Corporation	1,164,588,256	1,164,588,256 (Notes 1 & 2)	53.61%
China Merchants Steam Natvigation Company Limited	Interest of Controlled Corporation	1,142,804,256	1,142,804,256 (Notes 1 & 2)	52.60%
China Merchants Holdings (Hong Kong) Company Limited	Interest of Controlled Corporation	1,142,804,256	1,142,804,256 (Notes 1 & 2)	52.60%
China Merchants Union (BVI) Limited	Beneficial Owner	326,028,460	326,028,460 (Notes 1 & 2)	15.00%
Cheer Far Development Limited	Beneficial Owner	521,208,698	521,208,698 (Notes 1 & 2)	23.99%
Blue Sky International Investments Limited	Beneficial Owner	177,169,070	177,169,070 (Notes 1 & 2)	8.16%
Bluewater International Investments Limited	Beneficial Owner	102,094,972	102,094,972 (Notes 1 & 2)	4.70%

Notes:

1. 1,164,588,256 shares held by China Merchants Group Limited represent the aggregate of 326,028,460 shares held by China Merchants Union (BVI) Limited, 521,208,698 shares held by Cheer Far Development Limited, 102,094,972 shares held by Bluewater International Investments Limited, 177,169,070 shares held by Blue Sky International Investments Limited, 19,734,000 shares held by Orienture Holdings Company Limited, 16,303,056 shares held by Best Winner Investment Limited and 2,050,000 shares held by Orienture International Financing Limited.

2. China Merchants Group Limited is deemed to be interested in the shares held by its wholly-owned subsidiaries Best Winner Investment Limited, Orienture International Financing Limited, Orienture Holdings Company Limited, Blue Sky International Investments Limited, Bluewater International Investments Limited, Cheer Far Development Limited, China Merchants Union (BVI) Limited, China Merchants Holdings (Hong Kong) Company Limited and China Merchants Steam Navigation Company Limited.

Short Positions

Nil

Save as disclosed above, the register required to be kept by the Company under section 336 of the SFO showed that the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company as at 30 June 2005.

CORPORATE GOVERNANCE

(a) COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the Period, the Company has complied with the code provisions set out in the Code on

Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") except the following:

Code Provision A.2.1

Due to the resignation of Mr. Li Yi as an executive director and the Managing Director of the Company with effect from 31 May 2005, Dr. Fu Yuning, the Chairman of the Company, also acts as the Managing Director of the Company with effect from 31 May 2005. As explained in the announcement of the Company issued on 11 May 2005, the Board considers that as Dr. Fu has been leading and is more aware of the Company's strategic policies and development, it is in the best interests of the Company for Dr. Fu to act as the Managing Director pending the appointment of a new Managing Director to ensure continuity. The Board will in due course appoint a separate individual with appropriate qualifications to act as the Managing Director.

Code Provision A.4.1

Non-executive directors of the Company were not appointed for a specific term but were subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Articles of Association of the Company. On 22 March 2005, the Board resolved to change the terms of appointment of non-executive directors to a specific term of three years.

Code Provision A.4.2 (the last sentence)

The code provision A.4.2 (the last sentence) provides that, every director (including directors with specific terms) should be subject to retirement by rotation at least once every three years. According to Article 91 of the Articles of Association of the Company then in effect before 10 May 2005, at the annual general meeting in every year one-third of the directors for the time being or if the number is not three or a multiple of three, the number nearest to one-third shall retire from office. In addition, Article 102 of the Articles of Association in effect before 10 May 2005 provided that a managing director and a director holding any other executive office shall not be subject to retirement by rotation, which is inconsistent with the requirements under the code provision A.4.2.

To comply with the code provision A.4.2, amendments to Articles 91 and 102 of the Articles of Association of the Company were proposed and approved by shareholders at the annual general meeting of the Company held on 10 May 2005.

Code Provision E.1.2

The Chairman did not attend the annual general meeting of the Company held on 10 May 2005 because of an unexpected business commitment outside Hong Kong.

(b) COMPLIANCE WITH MODEL CODE

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

AUDIT COMMITTEE

The Audit Committee of the Company comprises all of the four independent non-executive directors. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financing reporting matters including the review of the unaudited interim report for the six months ended 30 June 2005.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

By Order of the Board
Dr. Fu Yuning
Chairman

Hong Kong, 21 September 2005

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2005

	Note	Unaudited 2005 HK$'000	2004 HK$'000
Turnover			
Company and subsidiaries		**1,327,613**	909,108
Share of associates		**5,124,968**	3,357,413
Share of jointly controlled entities		**397,950**	307,842
	4	**6,850,531**	4,574,363
Companies and subsidiaries			
Continuing operations:			
Turnover	4	**1,327,613**	909,108
Cost of sales		**(947,909)**	(648,876)
Gross profit		**379,704**	260,232
Other revenues	4	**78,556**	19,414
Other gains		**90,204**	—
Distribution costs		**(108,000)**	(86,146)
Administrative expenses		**(155,052)**	(86,728)
Operating profit	7	**285,412**	106,772
Finance costs	8	**(91,207)**	(2,530)
Share of profits less losses of			
Associates		**825,688**	497,089
Jointly controlled entities		**241,585**	204,488
Profit before taxation		**1,261,478**	805,819
Taxation	9	**(35,596)**	(21,037)
Profit for the period from continuing operations		**1,225,882**	784,782
Discontinued operation:			
Profit for the period from discontinued operation	6	**—**	82,624
Profit for the period		**1,225,882**	867,406
Attributable to:			
Shareholders of the Company		**1,160,755**	831,621
Minority interests		**65,127**	35,785
		1,225,882	867,406
Dividend	10	**369,314**	321,021
Earnings per share for profit from continuing operations attributable to the shareholders of the Company during the period			
- basic	11	**HK54.13 cents**	HK34.99 cents
- diluted	11	**HK53.77 cents**	HK34.86 cents
Earnings per share for profit from discontinued operation attributable to the shareholders of the Company during the period			
- basic	11	**—**	HK3.86 cents
- diluted	11	**—**	HK3.84 cents

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2005

	Note	**Unaudited 30 June 2005 HK$'000**	Restated 31 December 2004 HK$'000
ASSETS			
Non-current assets			
Intangible assets	12	**274,827**	172,132
Property, plant and equipment	12	**4,210,710**	3,243,335
Investment properties	12	**527,943**	437,739
Leasehold land and land use rights	12	**1,722,366**	1,732,885
Interests in associates		**9,737,793**	3,981,580
Interests in jointly controlled entities		**4,858,894**	3,989,272
Investments in infrastructure joint ventures	13	**—**	66,046
Investments in securities	13	**—**	558,170
Other financial assets	14	**802,120**	—
Other non-current assets		**2,185**	2,319
Deferred tax assets		**32,982**	39,532
		22,169,820	14,223,010
Current assets			
Inventories		**193,981**	195,537
Properties for sale		**432,312**	427,662
Debtors, deposits and prepayments	15	**1,053,376**	804,004
Tax recoverable		**4,211**	5,127
Other investments	13	**—**	45,355
Other financial assets	14	**34,014**	—
Cash and cash equivalents		**884,324**	2,071,466
		2,602,218	3,549,151
Total assets		**24,772,038**	17,772,161

CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 30 June 2005

	Note	**Unaudited 30 June 2005 HK$'000**	Restated 31 December 2004 HK$'000
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	16	**217,244**	214,219
Reserves		**14,170,331**	12,670,661
Proposed dividends	10	**369,314**	642,658
		14,756,889	13,527,538
Minority interests		**1,362,392**	1,230,598
Total equity		**16,119,281**	14,758,136
LIABILITIES			
Non-current liabilities			
Other financial liabilities	17	**6,977,613**	1,747,714
Deferred tax liabilities		**155,925**	156,420
Other non-current liabilities		**23,882**	27,977
		7,157,420	1,932,111
Current liabilities			
Creditors and accruals	18	**752,421**	709,783
Taxation payable		**20,816**	24,350
Other financial liabilities	17	**722,100**	347,781
		1,495,337	1,081,914
Total liabilities		**8,652,757**	3,014,025
Total equity and liabilities		**24,772,038**	17,772,161
Net current assets		**1,106,881**	2,467,237
Total assets less current liabilities		**23,276,701**	16,690,247

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2005

	Unaudited										
	Attributable to the Company's shareholders									Minority interests	
	Share capital	Share premium	Share-based compensation reserve	(note (a)) Capital reserve (Goodwill)	Assets/ investment revaluation reserve	Capital redemption reserve	Translation reserve	(note(b)) Statutory reserves	Retained earnings		Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2004, as previously reported	214,219	8,485,377	—	(143,695)	422	70	18,609	648,490	4,720,904	—	13,944,396
Effect of adoption of											
- HKAS 1	—	—	—	—	—	—	—	—	—	1,230,598	1,230,598
- HKAS 40	—	—	—	—	—	—	—	—	(416,858)	—	(416,858)
- HKFRS 2	—	—	3,796	—	—	—	—	—	(3,796)	—	—
At 31 December 2004, as restated	214,219	8,485,377	3,796	(143,695)	422	70	18,609	648,490	4,300,250	1,230,598	14,758,136
Effect of adoption of											
- HKAS 32 and HKAS 39	—	—	—	—	—	—	—	—	156,005	—	156,005
- HKFRS 3	—	—	—	—	—	—	—	—	131,894	—	131,894
At 1 January 2005	214,219	8,485,377	3,796	(143,695)	422	70	18,609	648,490	4,588,149	1,230,598	15,046,035
Exchange differences from translation of financial statements of subsidiaries, associates and jointly controlled entities not recognised in the condensed consolidated income statement	—	—	—	—	—	—	(14,416)	—	—	21	(14,395)
Change in fair value of other financial assets	—	—	—	—	14,789	—	—	—	—	—	14,789
Net gains not recognised in the condensed consolidated income statement	—	—	—	—	14,789	—	(14,416)	—	—	21	394
Profit for the period	—	—	—	—	—	—	—	—	1,160,755	65,127	1,225,882
Total recognised gains	—	—	—	—	14,789	—	(14,416)	—	1,160,755	65,148	1,226,276
Issue of shares on exercise of share options, net of issue expenses of HK$64,000	305	15,149	—	—	—	—	—	—	—	—	15,454
Employee share option benefit	—	—	18,807	—	—	—	—	—	—	—	18,807
Transfer to reserves	—	—	—	—	—	—	—	79,072	(79,072)	(3,892)	(3,892)
Dividend	2,720	386,706	—	—	—	—	—	—	(643,363)	(22,144)	(276,081)
Capital injection by minority shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	92,682	92,682
At 30 June 2005	217,244	8,887,232	22,603	(143,695)	15,211	70	4,193	727,562	5,026,469	1,362,392	16,119,281

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2004

	Unaudited									
	Attributable to the Company's shareholders								Minority interests	
	Share capital	Share premium	(note (a)) Capital reserve (Goodwill)	Assets/ investment revaluation reserve	Capital redemption reserve	Translation reserve	(note(b)) Statutory reserves	Retained earnings		Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2003, as previously reported	214,014	8,475,300	(141,762)	422	70	6,286	192,082	4,061,942	—	12,808,354
Effect of adoption of HKAS 1	—	—	—	—	—	—	—	—	802,156	802,156
At 31 December 2003 and 1 January 2004, as restated	214,014	8,475,300	(141,762)	422	70	6,286	192,082	4,061,942	802,156	13,610,510
Exchange differences from translation of financial statements of subsidiaries, associates and jointly controlled entities not recognised in the condensed consolidated income statement	—	—	—	—	—	13,702	—	—	1,378	15,080
Net gains not recognised in the condensed consolidated income statement	—	—	—	—	—	13,702	—	—	1,378	15,080
Profit for the period	—	—	—	—	—	—	—	831,621	35,785	867,406
Total recognised gains	—	—	—	—	—	13,702	—	831,621	37,163	882,486
Issue of shares on exercise of share options, net of share issue expenses of HK$17,000	85	4,138	—	—	—	—	—	—	—	4,223
Transfer to reserves	—	—	—	—	—	—	7,487	(7,487)	—	—
Dividend	—	—	—	—	—	—	—	(620,641)	—	(620,641)
At 30 June 2004	214,099	8,479,438	(141,762)	422	70	19,988	199,569	4,265,435	839,319	13,876,578

Notes:

(a) Included in capital reserve is an amount of HK$2,339,985,000 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 not a realised profit and is a non-distributable reserve.

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

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2005

	Unaudited	
	2005	2004
	HK$'000	HK$'000
Net cash inflow from operating activities	**33,146**	114,086
Net cash used in investing activities	**(6,635,293)**	(777,937)
Net cash inflow from financing activities	**5,433,482**	117,692
Decrease in cash and cash equivalents	**(1,168,665)**	(546,159)
Cash and cash equivalents at 1 January	**2,071,466**	1,022,249
Effect of foreign exchange rate changes	**(18,477)**	(3,639)
Cash and cash equivalents at 30 June	**884,324**	472,451
Analysis of balances of cash and cash equivalents		
Bank balances and cash	**884,324**	432,710
Other investments	**—**	39,741
	884,324	472,451

NOTES TO CONDENSED INTERIM FINANCIAL INFORMATION

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial information (the "Condensed Interim Financial Information") have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The Condensed Interim Financial Information should be read in conjunction with the 2004 annual financial statements of the Group.

The accounting policies and methods of computation used in the preparation of the Condensed Interim Financial Information are consistent with those adopted in the annual financial statements for the year ended 31 December 2004 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards ("HKFRS") and HKAS which are effective for accounting periods commencing on or after 1 January 2005.

The changes to the Group's accounting policies and the effect of adopting these new/revised policies are set out in note 2 to the Condensed Interim Financial Information below.

2 CHANGES IN ACCOUNTING POLICIES

(a) Effect of adopting new/revised HKFRS/HKAS

In 2005, the Group adopted the new/revised HKFRS and HKAS below, which are relevant to its operations. The 2004 comparatives have been restated or reclassified as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 17	Leases
HKAS 24	Related Party Disclosures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(a) Effect of adopting new/revised HKFRS/HKAS (Continued)

(i) The adoption of HKAS 1 has affected the presentation of minority interests, share of net after-tax results of associates and jointly controlled entities and other disclosures.

(ii) The adoption of HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for at fair value or cost less accumulated depreciation and accumulated impairment.

(iii) The adoption of HKAS 24 has affected the identification of related parties and some other related-party disclosures.

(iv) The adoption of HKAS 32 and HKAS 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

(v) The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill/negative goodwill. Until 31 December 2004,

— goodwill/negative goodwill amortised on a straight-line basis over its estimated useful life of up to 20 years; and
— goodwill was assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

For positive goodwill,

— the Group ceased amortisation of goodwill from 1 January 2005;
— accumulated amortisation as at 1 January 2005 has been eliminated with a corresponding decrease in the cost of goodwill; and
— from the year ending 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(a) Effect of adopting new/revised HKFRS/HKAS (Continued)

For negative goodwill,

- the Group ceased amortisation of negative goodwill from 1 January 2005 and derecognised the carrying amount of negative goodwill at 1 January 2005, with a corresponding adjustment to the opening retained earnings at 1 January 2005.

(vi) The adoption of HKAS 40 has resulted in a change in the accounting policy relating to the classification of properties leased to other companies within a group. Until 31 December 2004, properties occupied by other companies within a group were classified as leasehold land and buildings which were stated at cost less accumulated depreciation and impairment loss. Effective on 1 January 2005, those properties leased to other companies are now treated as investment properties. The adoption of HKAS 40 also resulted in a change in the accounting policy of which the changes in fair values are recorded in the income statement. In prior years, the increases in fair value were credited to the investment property revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the income statement.

(vii) The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, the provision of share options to employees did not result in an expense in the income statement. Effective on 1 January 2005, the Group expenses the cost of share options in the income statement. As a transitional provision, the cost of share options granted after 7 November 2002 and had not yet vested on 1 January 2005 was expensed retrospectively in the income statement of the respective periods.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

- HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments in securities for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 January 2005;
- HKAS 40 – since the Group has adopted the fair value model, there is no requirement for the Group to restate the comparative information, any adjustment should be made to the opening retained earnings at 1 January 2005;
- HKFRS 2 – only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 January 2005; and
- HKFRS 3 – prospectively after the adoption date.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(a) Effect of adopting new/revised HKFRS/HKAS (Continued)

Effect of changes in the accounting policies on condensed consolidated income statement for the six months ended 30 June 2004:

	Effect of adopting					
	HKAS 1#	**HKFRS 2#**	**HKFRS 3Ω HKAS 36Ω and HKAS 38Ω**	**HKAS 32# and HKAS 39Ω**	**HKAS 40#**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Decrease in share of profits less losses of associates	(74,624)	—	—	—	—	**(74,624)**
Decrease in share of profits less losses of jointly controlled entities	(5,961)	—	—	—	—	**(5,961)**
Decrease in taxation	80,585	—	—	—	—	**80,585**
Total change in profit	—	—	—	—	—	**—**
Change in basic earnings per share	—	—	—	—	—	**—**

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(a) *Effect of adopting new/revised HKFRS/HKAS (Continued)*

Effect of changes in the accounting policies on condensed consolidated income statement for the six months ended 30 June 2005 (the "Period"):

	Effect of adopting					
	HKAS 1#	**HKFRS 2#**	**HKFRS 3Ω HKAS 36Ω and HKAS 38Ω**	**HKAS 32# and HKAS 39Ω**	**HKAS 40#**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Decrease in amortisation of goodwill	—	—	5,396	—	—	**5,396**
Increase in staff costs and related expenses	—	(18,807)	—	—	—	**(18,807)**
Increase in fair values of investment properties	—	—	—	—	90,204	**90,204**
Decrease in depreciation	—	—	—	—	10,498	**10,498**
Decrease in finance costs	—	—	—	24,129	—	**24,129**
(Decrease)/increase in share of profits less losses of associates	(96,808)	—	6,210	—	—	**(90,598)**
Decrease in share of profits less losses of jointly controlled entities	(12,839)	—	—	—	—	**(12,839)**
Decrease/(increase) in taxation	109,647	—	—	—	(6,457)	**103,190**
Total (decrease)/increase in profit	—	(18,807)	11,606	24,129	94,245	**111,173**
(Decrease)/increase in basic earnings per share (HK cents per share)	—	(0.88)	0.54	1.13	4.39	**5.18**

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(a) Effect of adopting new/revised HKFRS/HKAS (Continued)

Effect of changes in accounting policies on condensed consolidated balance sheet at 31 December 2004 and 1 January 2005:

	Effect of adopting						
	HKAS 17#	HKFRS 2#	HKAS 40#	**Total at 31 December 2004**	HKFRS 3Ω HKAS 36Ω and HKAS 38Ω	HKAS 32# and HKAS 39Ω	**Total at 1 January 2005**
	HK$'000	HK$'000	HK$'000	**HK$'000**	HK$'000	HK$'000	**HK$'000**
Increase/(decrease) in assets							
Intangible assets	—	—	—	**—**	102,695	—	**102,695**
Property, plant and equipment	(1,731,977)	—	(878,655)	**(2,610,632)**	—	—	**(2,610,632)**
Investment properties	—	—	437,739	**437,739**	—	—	**437,739**
Leasehold land and land use rights	1,732,885	—	—	**1,732,885**	—	—	**1,732,885**
Other non-current assets	(908)	—	—	**(908)**	—	—	**(908)**
Deferred tax assets	—	—	24,058	**24,058**	—	—	**24,058**
Other financial assets	—	—	—	**—**	—	830,082	**830,082**
Investments in infrastructure joint ventures	—	—	—	**—**	—	(66,046)	**(66,046)**
Investments in securities	—	—	—	**—**	—	(558,170)	**(558,170)**
Other investments	—	—	—	**—**	—	(45,355)	**(45,355)**
Interests in associates	—	—	—	**—**	34,264	—	**34,264**
(Increase)/decrease in liabilities/equity							
Creditors and accruals	—	—	—	**—**	(5,065)	—	**(5,065)**
Other financial liabilities	—	—	—	**—**	—	(4,506)	**(4,506)**
Share-based compensation reserve	—	(3,796)	—	**(3,796)**	—	—	**(3,796)**
Retained earnings	—	3,796	416,858	**420,654**	(131,894)	(156,005)	**132,755**

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(a) *Effect of adopting new/revised HKFRS/HKAS (Continued)*

Effect of changes in accounting policies on condensed consolidated balance sheet at 30 June 2005:

	Effect of adopting					
	HKAS 17#	HKFRS 2#	HKFRS 3Ω HKAS 36Ω and HKAS 38Ω	HKAS 32# and HKAS 39Ω	HKAS 40#	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Increase/(decrease) in assets						
Intangible assets	—	—	103,026	—	—	**103,026**
Property, plant and equipment	(1,721,458)	—	—	—	(868,157)	**(2,589,615)**
Investment properties	—	—	—	—	527,943	**527,943**
Leasehold land and land use rights	1,722,366	—	—	—	—	**1,722,366**
Interests in associates	—	—	40,474	—	—	**40,474**
Investments in infrastructure joint ventures	—	—	—	(63,772)	—	**(63,772)**
Investments in securities	—	—	—	(560,050)	—	**(560,050)**
Other non-current assets	(908)	—	—	—	—	**(908)**
Deferred tax assets	—	—	—	—	17,601	**17,601**
Other financial assets	—	—	—	836,134	—	**836,134**
Other investments	—	—	—	(46,025)	—	**(46,025)**
(Increase)/decrease in liabilities/equity						
Creditors and accruals	—	—	—	(3,682)	—	**(3,682)**
Other financial liabilities	—	—	—	32,318	—	**32,318**
Assets/investment valuation reserves	—	—	—	(14,789)	—	**(14,789)**
Share-based compensation reserve	—	(22,603)	—	—	—	**(22,603)**
Retained earnings	—	22,603	(143,500)	(180,134)	322,613	**21,582**

Ω adjustments which take effect prospectively from 1 January 2005

\# adjustments which take effect retrospectively

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) New accounting policies

The accounting policies used for the Condensed Interim Financial Information for the Period are the same as those set out in note 3 to the 2004 annual financial statements of the Group except for the following:

(i) Acquisition of subsidiaries, associates and jointly controlled entities

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as 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 interests. 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. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

An investment in an associate or a jointly controlled entity is accounted for using the equity method from the date on which it becomes an associate or a jointly controlled entity. On acquisition of the investment, the measurement and recognition of goodwill is same as that of goodwill arising from the acquisition of subsidiaries. Goodwill relating to an associate or a jointly controlled entity is included in the carrying amount of the investment. Appropriate adjustments to the investor's share of the profits or losses after acquisition are made to the financial statements based on their fair values at the date of acquisition.

(ii) Property, plant and equipment

Cost may include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) New accounting policies (Continued)

(iii) **Investment properties**

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

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

After initial recognition, investment property is carried at fair value. 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 on less active markets or discounted cash flow projections. These valuations are reviewed annually by external valuers. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognised in the financial statements.

Subsequent expenditure is charged to the asset's carrying amount 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. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Changes in fair values are recognised in the income statement.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) New accounting policies (Continued)

(iv) 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 or 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 investments in associates and jointly controlled entities. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. 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.

(v) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation 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).

(vi) Other financial assets

Up to 31 December 2004:

The Group classified its investments in financial instruments, other than subsidiaries, associates and jointly controlled entities as "investments in infrastructure joint ventures", "investments in securities" and "other investments".

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) New accounting policies (Continued)

(vi) **Other financial assets** (Continued)

Infrastructure joint ventures

The Group's investments in infrastructure projects under cooperative joint venture arrangements were referred to as infrastructure joint ventures where the other joint venture partners had unilateral control over the economic activities of the projects. The Group's return to be derived therefrom is pre-determined and the Group is not entitled to share the assets of these cooperative joint ventures at the end of the relevant joint venture period. Such investments are initially recorded at cost. Payments receivable from such investments were apportioned between income and reduction of the carrying value of the investments so as to give a constant periodic rate of return on the net investments. Where the estimated recoverable amount of any of these investments falls below its carrying value, an impairment loss was recognised in the income statement to reduce the carrying value of the individual investment to its recoverable amount.

Investments in securities

Investments in securities which were held for non-trading purpose were stated at cost less any provision for impairment losses. The carrying amounts of individual investments were reviewed at each balance sheet date to assess whether the fair values had declined below the carrying amounts. When a decline other than temporary had occurred, the carrying amount of such securities was reduced to its fair value. The impairment loss was recognised as an expense in the income statement. This impairment loss was written-back to the income statement when the circumstances and events that led to the write-downs or write-offs ceased to exist and there was persuasive evidence that the new circumstances and events would persist for the foreseeable future.

Other investments

Other investments were carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments were recognised in the income statement. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, were recognised in the income statement as they arise.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) New accounting policies (Continued)

(vi) **Other financial assets** (Continued)

From 1 January 2005 onwards:

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

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

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 arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. 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 included in trade and other receivables in the balance sheet.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) New accounting policies (Continued)

(vi) **Other financial assets** (Continued)

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.

Purchases and sales of investments 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. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

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 refined to reflect the issuer's specific circumstances.

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 in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

(b) *New accounting policies (Continued)*

(vii) **Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings 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.

(viii) **Share-based compensation**

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 become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

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.

(ix) **Interest income**

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost–recovery basis as conditions warrant.

3 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.

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) Estimated fair value of financial instruments

The fair value of financial instruments that are not traded in active market is determined based on available recent market information such as most recent market transaction price with third parties, the last available financial information existing at each balance sheet date and certain valuation techniques, such as discounted cash flow model.

(b) Estimate of fair value of investment properties

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgement, the Group considers information from a variety of sources including:

(i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;

(ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the dates of the transactions that occurred at those prices; and

(iii) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

If information on recent prices of investment properties is not available, the fair values of investment properties are determined using discounted cash flow valuation techniques. The Group uses assumptions that are mainly based on market conditions existing at each balance sheet date.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(b) Estimate of fair value of investment properties(Continued)

The principal assumptions underlying management's estimation of fair value are those related to the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data, and actual transactions by the Group and those reported by the market.

The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

(c) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4 TURNOVER AND OTHER REVENUES

The principal activities of the Group comprise ports and ports-related operations (include container manufacturing and related operations), non-ports operations (include toll road operation and property operation). Revenues recognised during the Period are as follows:

	Six months ended 30 June 2005			
	The Company and subsidiaries HK$'000	**Share of associates HK$'000**	**Share of jointly controlled entities HK$'000**	**Total HK$'000**
Turnover				
Ports-related transportation and service income, container service and container yard management income	397,666	1,144,668	252,631	1,794,965
Sale of paints and container related goods	756,168	3,980,300	—	4,736,468
Toll road operating income	—	—	145,319	145,319
Sales of properties	161,583	—	—	161,583
Gross rental income from investment properties	12,196	—	—	12,196
	1,327,613	5,124,968	397,950	6,850,531
Other revenues				
Income from held-to-maturity investments	7,043			
Interest income	64,117			
Others	7,396			
	78,556			
Total revenues	1,406,169			

4 TURNOVER AND OTHER REVENUES (Continued)

	Six months ended 30 June 2004			
	The Company and subsidiaries HK$'000	Share of associates HK$'000	Share of jointly controlled entities HK$'000	Total HK$'000
Turnover				
Ports-related transportation and service income, container service and container yard management income	358,690	900,161	174,192	1,433,043
Sale of paints and container related goods	538,222	2,457,252	—	2,995,474
Toll road operating income	—	—	133,650	133,650
Sales of properties	—	—	—	—
Gross rental income from investment properties	12,196	—	—	12,196
	909,108	3,357,413	307,842	4,574,363
Other revenues				
Income from infrastructure joint ventures	696			
Interest income	8,619			
Dividend income	589			
Others	9,510			
	19,414			
Total revenues	928,522			

5 SEGMENT INFORMATION

Primary reporting format - business segments:

The Group is organised into two main business segments:

(1) Ports and ports-related operations include:

(a) 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; and

(b) paint manufacturing by the Group and container manufacturing by the Group's associates.

(2) Non-ports operations include:

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

(b) property operation which includes the properties development and investment by the Group.

Other operations of the Group mainly comprise dealing in securities which do not constitute a separately reportable segment.

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

The turnover labelled as company and subsidiaries refers to the Company and subsidiaries' respective turnover. The turnover labelled as share of associates and jointly controlled entities refers to the Group's share of associates and jointly controlled entities' respective turnover.

Secondary reporting format - geographical segments:

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

Hong Kong	—	ports operation, container and paint manufacturing and related operations and property holding
Mainland China	—	ports operation, container and paint manufacturing and related operations and toll road operation
New Zealand	—	property development
Others	—	dealing in shares

There are no material sales between the geographical segments.

5 SEGMENT INFORMATION (Continued)

Analysis of the Group's revenues and results by business segments for the Period

	Ports and ports-related operations						Non-ports operations								Group	
	Ports operation		Container manufacturing and related operations		Subtotal		Toll road operation		Property operation		Other operations		Subtotal		Group	
	2005 HK$'000	2004 HK$'000	**2005 HK$'000**	2004 HK$'000	**2005 HK$'000**	2004 HK$'000	**2005 HK$'000**	2004 HK$'000	**2005 HK$'000**	2004 HK$'000	**2005 HK$'000**	2004 HK$'000	**2005 HK$'000**	2004 HK$'000	**2005 HK$'000**	2004 HK$'000
Income statement																
Turnover																
Company and subsidiaries	**397,666**	358,690	**756,168**	538,222	**1,153,834**	896,912	**—**	—	**173,779**	12,196	**—**	—	**173,779**	12,196	**1,327,613**	909,108
Share of associates	**1,144,668**	900,161	**3,980,300**	2,457,252	**5,124,968**	3,357,413	**—**	—	**—**	—	**—**	—	**—**	—	**5,124,968**	3,357,413
Share of jointly controlled entities	**252,631**	174,192	**—**	—	**252,631**	174,192	**145,319**	133,650	**—**	—	**—**	—	**145,319**	133,650	**397,950**	307,842
	1,794,965	1,433,043	**4,736,468**	2,995,474	**6,531,433**	4,428,517	**145,319**	133,650	**173,779**	12,196	**—**	—	**319,098**	145,846	**6,850,531**	4,574,363
Company and subsidiaries																
Turnover	**397,666**	358,690	**756,168**	538,222	**1,153,834**	896,912	**—**	—	**173,779**	12,196	**—**	—	**173,779**	12,196	**1,327,613**	909,108
Segment results	**96,935**	86,440	**68,016**	45,241	**164,951**	131,681	**5,932**	(651)	**120,193**	(3,594)	**578**	(2,387)	**126,703**	(6,632)	**291,654**	125,049
Unallocated income less expenses															**(6,242)**	(18,277)
Operating profit															**285,412**	106,772
Finance costs															**(91,207)**	(2,530)
Share of profits less losses of																
Associates	**373,560**	280,078	**452,128**	217,011	**825,688**	497,089	**—**	—	**—**	—	**—**	—	**—**	—	**825,688**	497,089
Jointly controlled entities	**155,797**	108,908	**—**	—	**155,797**	108,908	**85,788**	83,319	**—**	—	**—**	12,261	**85,788**	95,580	**241,585**	204,488
Profit before taxation															**1,261,478**	805,819
Taxation															**(35,596)**	(21,037)
Profit for the period from continuing operations															**1,225,882**	784,782
Profit for the period from discontinued operation (note 6)															**—**	82,624
Profit for the period															**1,225,882**	867,406

5 SEGMENT INFORMATION (Continued)

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

	Turnover		Operating profit	
	Six months ended 30 June			
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Continuing operations:				
Hong Kong	**176,276**	162,637	**111,853**	(6,966)
Mainland China	**919,826**	680,861	**148,107**	108,219
New Zealand	**157,010**	—	**18,737**	—
Others	**74,501**	65,610	**6,715**	5,519
	1,327,613	909,108	**285,412**	106,772
Discontinued operation (note 6)	**—**	214,555	**—**	82,624
	1,327,613	1,123,663	**285,412**	189,396

6 DISCONTINUED OPERATION

On 25 August 2004, the Group entered into an agreement for the disposal of the oil tanker business for a cash consideration of HK$1,310 million. The disposal was approved by the independent shareholders at an extraordinary general meeting held on 4 October 2004 and completion of the disposal and payment of the consideration took place on 18 October 2004.

The disposal of oil tanker business by the Group was part of its strategy to divest its non-core businesses and to focus on its ports and ports-related businesses. The Group considered the scale of its oil tanker business to be relatively small and that the business would require substantial investment to purchase more oil tankers for further expansion. In addition, the Group had not been involved in the daily management of the fleet. The Group was of the view that the oil tanker business did not complement the core business of the Group, and therefore, the disposal was beneficial to the Group, allowing the Group to focus its resources on its ports and ports-related businesses. The Group recognised a gain of HK$273,590,000 in the second half of 2004 in connection with the disposal.

For the six months ended 30 June 2004, turnover, cost of sales, other revenues, administrative expenses and amortisation of negative goodwill attributable to the discontinued operation were HK$214,555,000, HK$137,526,000, HK$65,000, HK$739,000 and HK$6,269,000 respectively.

7 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	Six months ended 30 June	
	2005	2004
	HK$'000	HK$'000
Crediting		
Amortisation of negative goodwill		
(included in administrative expenses)	**—**	6,269
Gain on disposal of property, plant and equipment	**—**	604
Change in fair value on investment properties	**90,204**	—
Charging		
Cost of inventories sold	**575,066**	393,455
Cost of properties sold	**119,500**	—
Depreciation, impairment and amortisation on:		
Property, plant and equipment	**52,841**	90,278
Goodwill (included in administrative expenses)	**—**	7,963
Leasehold land and land use rights	**14,412**	9,954
Staff costs	**127,950**	104,396

8 FINANCE COSTS

	Six months ended 30 June	
	2005	2004
	HK$'000	HK$'000
Interest on:		
Bank borrowings, wholly repayable within five years	**36,318**	2,530
Bank borrowings, not wholly repayable within five years	**1,719**	—
Guaranteed notes, not wholly repayable within five years	**65,949**	—
Loans from minority shareholders of subsidiaries	**2,901**	—
Amounts due to minority shareholders of subsidiaries	**522**	—
Total borrowing costs incurred	**107,409**	2,530
Less: amount capitalised in assets under construction	**(16,202)**	—
	91,207	2,530

Capitalisation rate of 4.737% was used, representing the weighted average rate of the costs of borrowings used to finance the assets under construction.

9 TAXATION

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

	Six months ended 30 June	
	2005	2004
	HK$'000	HK$'000
Current taxation		
Hong Kong profits tax	**12,629**	9,628
PRC Enterprise Income Tax	**11,178**	11,174
Overseas taxation	**7,130**	—
Deferred taxation	**4,659**	235
	35,596	21,037

Hong Kong profits tax has been provided for at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the Period.

The Group's operations in Mainland China are subject to the Enterprise Income Tax of the People's Republic of China (the "PRC") under which the standard income tax rate is 33% on assessable profits. The Group's certain major operating subsidiaries, associates and jointly controlled entities are exempted from PRC Enterprise Income Tax in the first two to five profit making years and followed by a 50% reduction in the PRC Enterprise Income Tax for the three to five years thereafter.

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

Share of associates' and jointly controlled entities' taxation for the Period of HK$96,808,000 (2004: HK$74,623,000) and HK$12,839,000 (2004: HK$5,962,000) are included in the condensed consolidated income statement as share of profits less losses of associates and jointly controlled entities respectively.

10 DIVIDEND

	Six months ended 30 June	
	2005	2004
	HK$'000	HK$'000
Interim dividend of HK17 cents (2004: HK15 cents) per ordinary share	**369,314**	321,021

At a meeting held on 21 September 2005, the Directors declared an interim dividend of HK17 cents per ordinary share which will be satisfied by allotment of new shares of the Company by way of scrip dividend, with an alternative to shareholders to elect to receive such interim dividend (or part thereof) in cash in lieu of such allotment. This dividend is not reflected as a dividend payable in the Condensed Interim Financial Information but will be reflected as an appropriation of retained earnings for the year ending 31 December 2005.

11 EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share from continuing operations are based on the Group's profit attributable to shareholders from continuing operations of HK$1,160,755,000 (2004: HK$748,997,000). For the six months ended 30 June 2004, the calculation of basic and diluted earnings per share from discontinued operation was based on the Group's profit attributable to shareholders from discontinued operation of HK$82,624,000.

The basic earnings per share is based on the weighted average number of 2,144,472,441 (2004: 2,140,745,721) ordinary shares in issue during the Period. The diluted earnings per share is based on 2,158,605,374 (2004: 2,148,689,320) ordinary shares which is the weighted average number of ordinary shares in issue during the Period plus the weighted average number of 14,132,933 (2004: 7,943,599) ordinary shares deemed to be issued at nil consideration if all outstanding options had been exercised.

12 CAPITAL EXPENDITURE

	Goodwill/ negative goodwill HK$'000	Property, plant and equipment HK$'000	Investment properties HK$'000	Leasehold land and land use rights HK$'000
Net book value as at 1 January 2005,				
as previously reported	172,132	5,853,967	—	—
Effect of adoptions of:				
- HKAS 17	—	(1,731,977)	—	1,732,885
- HKAS 40	—	(878,655)	437,739	—
Net book value as at 1 January 2005,				
as restated	172,132	3,243,335	437,739	1,732,885
Derecognised negative goodwill pursuant to				
transitional provision of HKFRS 3	102,695	—	—	—
Additions	—	1,020,238	—	3,893
Change in fair value	—	—	90,204	—
Depreciation and amortisation	—	(52,841)	—	(14,412)
Disposals	—	(22)	—	—
Net book value as at 30 June 2005	274,827	4,210,710	527,943	1,722,366

13 INVESTMENTS IN INFRASTRUCTURE JOINT VENTURES, INVESTMENTS IN SECURITIES AND OTHER INVESTMENTS

Pursuant to the transitional provisions of HKAS 39, the Group has redesigneted all of those investments previously classified as "investments in infrastructure joint ventures", "investments in securities" and "other investments" as "other financial assets at fair value through profit and loss", "held-to-maturity investments" and "available-for-sale financial assets" with effect from 1 January 2005.

14 OTHER FINANCIAL ASSETS

	30 June 2005 HK$'000
Other financial assets at fair value through profit and loss (note (a))	34,014
Held-to-maturity investments (note (b))	63,772
Available-for-sale financial assets (note (c))	738,348
	836,134
Less: current portion included under current assets	(34,014)
Non-current portion	802,120

Notes:

(a) Other financial assets at fair value through profit or loss

	30 June 2005 HK$'000
Listed investments	
- Equity shares - Hong Kong	20,558
- Equity shares - Overseas	13,456
Market value of listed shares	34,014

14 OTHER FINANCIAL ASSETS (Continued)

(b) Held-to-maturity investments

	30 June 2005 HK$'000
Unlisted equity investments in Mainland China	55,094
Loans to investees	23,903
	78,997
Less: accumulated impairment losses	(15,225)
	63,772

(c) Available-for-sale financial assets

	30 June 2005 HK$'000
Carrying value of redesignated financial assets (note 13)	569,286
Fair value adjustment pursuant to transitional provision of HKAS 39	154,273
Carrying value at 1 January 2005	723,559
Net increase in fair value through equity	14,789
Carrying value at 30 June 2005	738,348

Available-for-sale financial assets include the following:

	30 June 2005 HK$'000
Listed equity in Mainland China	51,800
Unlisted investments:	
Unlisted equity investments in Hong Kong	240,428
Unlisted equity investments in Mainland China	702
Loans to investees	445,418
	738,348

15 DEBTORS, DEPOSITS AND PREPAYMENTS

	30 June 2005 HK$'000	31 December 2004 HK$'000
Trade debtors (note)	**433,994**	395,125
Other debtors, deposits and prepayments	**174,099**	134,661
Dividends receivable from associates	**141,776**	—
Amounts due from immediate holding company and fellow subsidiaries	**2,038**	4,421
Amounts due from associates	**301,469**	269,797
	1,053,376	804,004

Note: The Group has a credit policy of allowing an average credit period of 60 days to its trade customers. The ageing analysis of trade debtors is as follows:

	30 June 2005 HK$'000	31 December 2004 HK$'000
0 - 30 days	**244,572**	207,735
31 - 60 days	**91,407**	67,516
61 - 120 days	**74,849**	86,423
Over 120 days	**23,166**	33,451
	433,994	395,125

16 SHARE CAPITAL

	Authorised ordinary shares of HK$0.1 each	
	No. of shares	**HK$'000**
At 1 January and 30 June 2005	3,000,000,000	300,000

	Issued and fully paid ordinary shares of HK$0.1 each	
	No. of shares	**HK$'000**
At 1 January 2005	2,142,192,974	214,219
Issue of shares on exercise of share options (note (a))	3,050,000	305
Issue of scrip dividend shares (note (b))	27,194,490	2,720
At 30 June 2005	2,172,437,464	217,244

16 SHARE CAPITAL (Continued)

Notes:

(a) During the Period, the Company has received the consideration of shares on exercise of share options as follows:

Date of exercise of share options	Date of grant of share options	Number of shares issued	Exercise price per share	Nominal value of shares issued	Premium on shares issued	Total consideration
			HK$	HK$'000	HK$'000	HK$'000
3 January 2005	11 October 2002	150,000	4.985	15	733	748
7 February 2005	11 October 2002	700,000	4.985	70	3,420	3,490
15 February 2005	11 October 2002	900,000	4.985	90	4,397	4,487
16 March 2005	11 October 2002	200,000	4.985	20	977	997
23 March 2005	6 July 2001	350,000	5.610	35	1,928	1,963
23 March 2005	11 October 2002	50,000	4.985	5	244	249
9 May 2005	11 October 2002	250,000	4.985	25	1,221	1,246
17 May 2005	19 September 2000	150,000	5.615	15	827	842
23 June 2005	11 October 2002	150,000	4.985	15	733	748
29 June 2005	11 October 2002	150,000	4.985	15	733	748
		3,050,000		305	15,213	15,518

The weighted average closing market price per share immediately before the dates on which the share options were exercised was HK$15.72. The related transaction costs amounting to HK$64,000 have been netted off with the proceeds received.

(b) On 10 May 2005, the Company approved a final dividend on its issued ordinary shares for the year ended 31 December 2004. The Company offered to its shareholders a scrip dividend while the shareholders could elect to receive a cash dividend in lieu of allotment of shares. A total of 27,194,490 ordinary shares of HK$0.1 each were issued on 28 June 2005 to satisfy dividend payment of HK$389,426,000, HK$2,720,000 and HK$386,706,000 were credited to share capital and share premium respectively.

(c) Share options

Details of the share option scheme are set out in the 2004 annual financial statements of the Group.

The Terminated Scheme was approved and adopted at an Extraordinary General Meeting of the Company held on 26 June 1992 and was terminated at an Extraordinary General Meeting of the Company held on 20 December 2001. The Existing Scheme was approved and adopted by the shareholders at the meeting on 20 December 2001. During the Period, 200,000 options to subscribe for ordinary shares of the Company was granted under the Existing Scheme. As at 30 June 2005, there were 5,850,000 options and 30,510,000 options outstanding which are exercisable subject to the terms of the Terminated Scheme and the Existing Scheme respectively.

16 SHARE CAPITAL (Continued)

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	Average exercise price per share HK$	Number of share options
At 1 January 2005	**8.97**	**40,210,000**
Granted	**15.31**	**200,000**
Exercised	**5.09**	**(3,050,000)**
Cancelled	**11.08**	**(1,000,000)**
At 30 June 2005	**9.27**	**36,360,000**

Out of the 36,360,000 outstanding options, 11,100,000 options were exercisable as at 30 June 2005.

Share options outstanding at 30 June 2005 have the following expiry dates and exercise prices:

Year of expiry	Exercise price per share HK$	Number of share options
2006	5.054	**4,600,000**
2006	5.615	**900,000**
2007	5.610	**350,000**
2012	4.985	**5,250,000**
2014	11.08	**25,060,000**
2015	15.31	**200,000**
		36,360,000

The fair values of options granted on 27 November 2004 and 4 May 2005, determined using the Black-scholes valuation model, were HK$1.665 and HK$2.829 per share. The significant inputs into the model were as follows:

	Share options granted on	
	4 May 2005	27 November 2004
Share price per share at grant date	**HK$15.30**	HK$10.95
Exercise price per share	**HK$15.31**	HK$11.08
Share volatility	**26.48%**	26.48%
Expected life of options	**4 years**	4 years
Expected dividends paid out rate	**2.94%**	4.02%
Average annual risk-free interest rate	**2.35% to 2.90%**	0.80% to 2.33%

Share volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the past 260 trade days before the date of grant.

No shares have been allotted and issued under the share option scheme subsequent to 30 June 2005.

During the Period, no ordinary shares were repurchased and a total of 1,000,000 options at an exercise price of HK$11.08 were being cancelled.

17 OTHER FINANCIAL LIABILITIES

	30 June 2005 HK$'000	31 December 2004 HK$'000
Short-term bank loans, unsecured	**587,444**	213,203
Long-term bank loans, wholly repayable within five years		
- unsecured	**1,702,366**	1,448,220
- secured (note (a))	**111,097**	106,593
Long-term bank loans, not wholly repayable within five years, unsecured	**1,164,014**	—
Loans from minority shareholders of subsidiaries (note (b))	**274,769**	327,479
US$500 million, 5.375% guaranteed notes due in 2015 (note (c))	**3,860,023**	—
	7,699,713	2,095,495
Less: amounts due within one year included under current liabilities	**(722,100)**	(347,781)
Non-current portion	**6,977,613**	1,747,714

Notes:

(a) Total other financial liabilities include secured bank loans of HK$111,097,000 (31 December 2004: HK$106,593,000). Bank loans are secured by mortgage debenture over all assets of a subsidiary with aggregated carrying value of HK$457,910,000 (31 December 2004: HK$448,438,000). The pledged assets mainly include freehold land and buildings with net book value of HK$11,600,000 (31 December 2004: HK$12,048,000), properties for sale of HK$432,312,000 (31 December 2004: HK$423,556,000), deposits and prepayment of HK$7,229,000 (31 December 2004: HK$5,024,000) and bank balances and cash of HK$553,000 (31 December 2004: HK$1,619,000).

(b) Except for an amount of HK$131,616,000 which bears interest at 6.138% (31 December 2004: 6.138%), the remaining amounts are unsecured, interest free and have no fixed terms of repayment. The minority shareholders have confirmed that they do not intend to demand repayment within the next twelve months from the balance sheet date. Accordingly, the loans are shown as non-current.

(c) On 7 March 2005, the Group issued US$500 million, 5.375% guaranteed notes ("Notes Payable") which will be due in 2015.

17 OTHER FINANCIAL LIABILITIES (Continued)

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

	Bank borrowings		Notes Payable		Loans from minority shareholders of subsidiaries		Total	
	30 June 2005 HK$'000	31 December 2004 HK$'000	**30 June 2005 HK$'000**	31 December 2004 HK$'000	**30 June 2005 HK$'000**	31 December 2004 HK$'000	**30 June 2005 HK$'000**	31 December 2004 HK$'000
Within 1 year	**628,089**	253,770	**—**	—	**94,011**	94,011	**722,100**	347,781
Between 1 and 2 years	**1,266,880**	66,026	**—**	—	**—**	—	**1,266,880**	66,026
Between 2 and 5 years	**505,938**	1,448,220	**—**	—	**—**	—	**505,938**	1,448,220
Wholly repayable within 5 years	**2,400,907**	1,768,016	**—**	—	**94,011**	94,011	**2,494,918**	1,862,027
Not wholly repayable within 5 years	**1,164,014**	—	**3,860,023**	—	**180,758**	233,468	**5,204,795**	233,468
	3,564,921	1,768,016	**3,860,023**	—	**274,769**	327,479	**7,699,713**	2,095,495

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

	Bank borrowings		Notes Payable		Loans from minority shareholders of subsidiaries	
	30 June 2005	31 December 2004	**30 June 2005**	31 December 2004	**30 June 2005**	31 December 2004
HK dollar	**1.55% to 4.54%**	0.74% to 1.94%	**—**	—	**—**	—
RMB	**4.78% to 5.27%**	4.78% to 5.27%	**—**	—	**6.138%**	6.138%
US dollar	**4.28% to 4.34%**	—	**5.467%**	—	**—**	—
Other currencies	**8.6%**	8.53%	**—**	—	**—**	—

(f) As at 30 June 2005, the carrying amount and fair value of the Group's Notes Payable were HK$3,860,023,000 and HK$3,957,097,000, respectively. The fair value was determined with reference to quoted market price of the Notes Payable.

Other than the Notes Payable, the carrying amount of the other financial liabilities approximate their fair values as at 30 June 2005.

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

	30 June 2005 HK$'000	31 December 2004 HK$'000
Hong Kong dollar	**2,856,328**	1,393,742
RMB	**860,205**	595,160
US dollar	**3,872,083**	—
Other currencies	**111,097**	106,593
	7,699,713	2,095,495

18 CREDITORS AND ACCRUALS

	30 June 2005 HK$'000	31 December 2004 HK$'000
Trade creditors (note)	**312,027**	318,521
Other payables and accruals	**386,164**	328,308
Amounts due to an intermediate holding company and fellow subsidiaries	**20,438**	15,165
Amounts due to associates	**2,140**	4,671
Amounts due to minority shareholders of subsidiaries	**31,652**	43,118
	752,421	709,783

Note:

The ageing analysis of trade creditors is as follows:

	30 June 2005 HK$'000	31 December 2004 HK$'000
0 - 30 days	**155,790**	261,835
31 - 60 days	**24,660**	18,685
61 - 120 days	**109,196**	3,969
Over 120 days	**22,381**	34,032
	312,027	318,521

19 CONTINGENT LIABILITIES

	30 June 2005 HK$'000	31 December 2004 HK$'000
Guarantees for bank loans of associates	**3,011**	3,389
Guarantees for bank loans of an investee	**6,630**	6,630
	9,641	10,019

20 COMMITMENTS

(a) Capital commitments for property, plant and equipment

	30 June 2005 HK$'000	31 December 2004 HK$'000
Authorised but not contracted for	**1,428,455**	2,712,946
Contracted but not provided for	**1,391,530**	1,583,614
	2,819,985	4,296,560

(b) Capital commitments for investments

	30 June 2005 HK$'000	31 December 2004 HK$'000
Contracted but not provided for		
- Investments	**408,702**	5,364,902
- Port projects	**316,443**	330,314
	725,145	5,695,216

(c) Commitments under operating leases

At 30 June 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases for buildings as follows:

	30 June 2005 HK$'000	31 December 2004 HK$'000
Within one year	**68,420**	63,734
In the second to fifth year inclusive	**17,369**	36,333
Over five years	**13,488**	—
	99,277	100,067

20 COMMITMENTS (Continued)

(d) *Future operating lease receivables*

At 30 June 2005, the Group had future aggregate lease receivables under non-cancellable operating leases as follows:

	30 June 2005 HK$'000	31 December 2004 HK$'000
Land and buildings		
Within one year	**20,973**	27,132
In the second to fifth year inclusive	**2,183**	2,798
Over five years	**12,890**	—
	36,046	29,930

21 BUSINESS COMBINATIONS

During the Period, the Group had the following acquisitions taken place:

(a) *17.5% interest in Shekou Container Terminal Limited*

On 23 March 2005, the Group acquired the entire interest in COSCO Ports (Shekou) Ltd. (now renamed as China Merchants Ports (Shekou) Limited) ("CMPSL"), a company incorporated in British Virgin Islands, and took assignment of the shareholders loan from the vendor, COSCO Pacific Limited. The sole major asset of CMPSL is its holding of approximately 17.5% interest in Shekou Container Terminal Limited ("SCT I"), a port operator in Shenzhen and a jointly controlled entity of the Group. After the acquisition, the Group's interest in SCT I was increased from 32.5% to 50%.

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

	HK$'000
Purchase consideration paid in cash	610,000
Fair value of share of net assets acquired - shown as below	(206,011)
Goodwill	403,989

21 BUSINESS COMBINATIONS (Continued)

(a) 17.5% interest in Shekou Container Terminal Limited (Continued)

The share of net assets arising from the acquisition is analysed as follows:

	Fair value	**Carrying amount**
	HK$'000	HK$'000
Non-current assets	826,772	567,144
Current assets	1,007,746	1,007,746
Current liabilities	(351,386)	(351,386)
	1,483,132	1,223,504
Less: interests attributable to the Group's original equity interest of 32.5% and other joint venture partners	(1,277,121)	
Share of net assets acquired	206,011	

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

(b) Shanghai International Ports (Group) Limited

On 29 December 2004, the Group entered into certain agreements with 上海市國有資產監督管理委員會(State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government, being an unofficial English name), 上海同盛投資（集團）有限公司 (Shanghai Tongsheng Investment (Group) Co., Ltd., being an unofficial English name),上海國有資產經營有限公司 (Shanghai State-owned Assets Operation Co., Ltd., being an unofficial English name) and 上海大盛資產有限公司 (Shanghai Dasheng Holdings Co., Ltd., being an unofficial English name) to invest in 上海國際港務（集團） 股份有限公司 (Shanghai International Port (Group) Company Limited) ("SIPG"). Pursuant to the aforesaid agreements, the Group paid HK$5,234 million (RMB5,571 million) in cash for the subscription of new shares in SIPG, representing 30% of its capital.

The transaction was completed on 28 June 2005 and the Group accounted its investment in SIPG as investment in an associate. The total consideration for such investment was approximately HK$5,264 million including cash paid and related transaction costs.

An audit commissioned by State-Owned Assets Supervision and Administration Commission of Shanghai Municipal Government is currently being undertaken. Up to the date of approval of this Condensed Interim Financial Information, there is insufficient financial information available for the Group to identify and determine the fair values to be assigned to SIPG's identifiable assets acquired, liabilities and contingent liabilities assumed for the purpose of allocation of purchase consideration and estimation of goodwill.

(c) Disclosures regarding the business combination that took place after the balance sheet date but before the approval of this Condensed Interim Financial Information are set out in note 23 to the Condensed Interim Financial Information.

22 RELATED PARTY BALANCES AND TRANSACTIONS

Related parties refer to entities in which China Merchants Group Limited ("CMG") has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions, or directors or officers of the Company. Given that the PRC government still owns a significant portion of the operating assets in the PRC despite the continuous reform of the governments 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 the 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 this Condensed Interim Financial Information, the following is a summary of significant related party transactions entered into in the normal course of business between the Group and its related parties during the period and balances arising from related transactions at 30 June 2005 indicated below:

(a) Transactions with the CMG Group

Name of party	Nature of transaction	Note	Revenues/(expenses) Six months ended 30 June 2005 HK$'000	2004 HK$'000
Holding companies:				
China Merchants Holdings (Hong Kong) Company Limited ("CMHK")	Rentals of office premises charged by the Group	(i)	**8,029**	8,029
Fellow subsidiaries:				
Associated Maritime Company (Hong Kong) Limited ("AMC")	Management fee paid by the Group	(ii)	**—**	(5,951)
China Merchants Godown Wharf and Transportation Company Limited ("CMGW")	Rental of use of nine vessels charged to the Group	(iii)	**(1,511)**	(1,511)
China Merchants Property Development Company Limited ("CMPD")	Rental of properties and plants and equipment charged to the Group	(iv)	**(4,987)**	(5,005)
Euroasia Dockyard Enterprise and Development Limited ("Euroasia")	Rentals of properties at Tsing Yi Terminal charged to the Group	(v)	**(10,143)**	(10,143)

22 RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

(a) Transactions with the CMG Group (Continued)

Name of party	Nature of transaction	Note	Revenues/(expenses) Six months ended 30 June 2005 HK$'000	2004 HK$'000
Fellow subsidiaries: (Continued)				
Hoi Tung Marine Machinery Suppliers Limited ("Hoi Tung")	Rentals of the office premises charged by the Group	(i)	**1,377**	1,377
	Rentals of warehouse charged to the Group	(vi)	**(612)**	(1,224)
	Transportation service fee charged to the Group	(vi)	**(397)**	(723)
Hong Kong Ming Wah Shipping Company Limited ("Ming Wah")	Rental of office premises charged by the Group	(i)	**2,790**	2,790
	Fees for cargo handling, loading, unloading and warehousing services charged by the Group	(vii)	**—**	771
Yiu Lian Dockyards Limited ("Yiu Lian")	Rentals of properties at Tsing Yi Terminal charged to the Group	(viii)	**(2,794)**	(2,794)
	Rentals of warehouse charged to the Group	(ix)	**—**	(530)
	Ship berthing services charged to the Group	(x)	**(4,336)**	—

22 RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

(a) *Transactions with the CMG Group (Continued)*

Name of party	Nature of transaction	Note	Revenues/(expenses) Six months ended 30 June 2005 HK$'000	2004 HK$'000
Jointly controlled entities				
Ningbo Daxie China Merchants International Terminals Company Limited	Interest charged by the Group	(xi)	**13,660**	—
Ningbo Daxie China Merchants International Containers Stevedoring Company Limited	Interest charged by the Group	(xi)	**1,547**	—
Associates:				
China International Marine Containers (Group) Co., Ltd.	Sales of container paints by the Group	(xii)	**283,101**	187,866
Valspar Hai Hong Coatings (Shenzhen) Company Limited	Rentals of premises charged by the Group	(ix)	**214**	214
Related companies:-				
China Merchants Bank ("CMB")	Interest earned by the Group	(xiii)	**367**	2,106
	Interest charged to the Group	(xiii)	**453**	—

Notes:

(i) On 2 April 2004, three tenancy agreements were entered into between the Group and CMHK, Ming Wah and Hoi Tung respectively, for lease of certain office premises at monthly rentals of HK$1,338,168, HK$465,030 and HK$229,536 respectively. The tenancy agreements with CMHK and Ming Wah are for a term of two years commencing 1 February 2004. The tenancy agreement with Hoi Tung is for a term of two years commencing 1 March 2004.

22 RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

(a) *Transactions with the CMG Group (Continued)*

Notes: (Continued)

(ii) Ming Wah (Uniersal) Shipping Inc. ("Ming Wah Shipping") and its subsidiaries entered into various vessel management agreements, commercial services agreements and corporate service agreements with AMC, a subsidiary of CMG, in 1994, under which AMC agreed to provide commercial, operational, ship repair and maintenance, insurance and accounting services to Ming Wah Universal (Bermuda) Company Limited and its subsidiaries ("Ming Wah Bermuda"). Ming Wah Bermuda is the immediate holding company of Ming Wah Shipping, which used to be the holding company of the Group's interests in oil tankers business. AMC's provision of management services to the Group enables the Group to operate its oil tanker business without making expensive investments in management and operational infrastructure.

As set out in note 6 to the Condensed Interim Financial Information, the entire interests in oil tanker business was disposed of in 2004.

(iii) The Group entered into various ship leasing agreements with CMGW, a subsidiary of CMG, on 1 November 2004 for a term of one year commencing on 1 November 2004. Pursuant to these agreements, CMGW agreed to lease to the Group the use of several vessels. The rental paid by the Group was based on the depreciation charges of the vessels.

(iv) The Group entered into an agreement with CMPD on 1 November 2004 in relation to the lease by the Group from CMPD of certain properties and plants and equipment for the operation of the port of Shekou, Shenzhen. The agreement is for a term of fourteen months commencing on 1 November 2004 and ending on 31 December 2005. CMG is a significant shareholder of CMPD. The rental paid by the Group was based on the market value of the properties and depreciation charges of the plants and equipment.

(v) The Group entered into a rental agreement with Euroasia, a wholly owned subsidiary of CMG, on 1 November 2001 for the use of certain properties owned by Euroasia in connection with the operation of the business of the Group at Tsing Yi Terminal. Pursuant to a supplemental agreement entered on 1 November 2004, the rental agreement was amended to have a term of two years commencing on 1 November 2004 at annual rental of HK$20,285,000.

(vi) The Group entered into a rental and service agreement with Hoi Tung on 1 November 2004 for the rental of warehouse space from Hoi Tung and the provision of cargo management and paint shipping services by Hoi Tung. The agreement is for a term of one year commencing on 1 November 2004. The rental paid by the Group was conducted at terms set out in the agreement.

(vii) Sales of goods and fees for cargo handling, loading, unloading and warehouse services were charged at negotiated prices by reference to market rates.

(viii) The Group entered into a rental agreement with Yiu Lian, a wholly-owned subsidiary of CMG, on 8 November 2001 for the use by the Group of certain properties owned by Yiu Lian in connection with the operation of the business of the Group at Tsing Yi Terminal. Pursuant to a supplemental agreement entered into on 1 November 2004, the rental agreements have been amended to have a term of two years commencing on 1 November 2004 at rental charge of HK$5,589,000 per annum.

(ix) Rentals charged to/by the Group in accordance with the tenancy agreements.

(x) The Group entered into a ship berthing services agreement with Yiu Lian on 1 November 2004 pursuant to which Yiu Lian provided barges to bring ships into a port. The agreement is for a term of one year commencing 1 November 2004. The ship berthing services charged were by reference to market rates.

22 RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

(a) *Transactions with the CMG Group (Continued)*

Notes: (Continued)

(xi) Interest were charged by the Group at rates ranging from 4.94% to 5.49% per annum.

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

(xiii) Interest was calculated by reference to prevailing market rates.

(b) *Balances with related parties*

Name of party	Nature of transaction	Note	30 June 2005 HK$'000	31 December 2004 HK$'000
China Merchants Bank ("CMB")	Deposits placed with CMB		**186,632**	73,258
	Loans borrowed from CMB		**54,527**	—
China Merchants Securities (Hong Kong) Co Ltd ("CMCCS")	Deposits placed with CM-CCS		**126,792**	—

(c) *Transactions with other Stated-controlled Enterprises*

(i) On 23 March 2005, the Group acquired 17.5% in Shekou Container Terminal (Phase I) Limited from COSCO Pacific Limited at a consideration of HK$610 million.

(ii) In June 2005, the Group subscribed new shares in SIPG at a consideration of HK$5,234 million which represents 30% of its capital. The other equity holders of SIPG include 上海市國有資產監督管理委員會(State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government, being an unofficial English name), 上海同盛投資（集團）有限公司(Shanghai Tongsheng Investment (Group) Co., Ltd., being an unofficial English name), 上海國有資產經營有限公司(Shanghai State-owned Assets Operation Co., Ltd., being an unofficial English name) and 上海大盛資產有限公司 (Shanghai Dasheng Holdings Co., Ltd., being an unofficial English name).

(iii) During the Period, the Group engaged certain State-controlled Enterprises in the construction of ports amounting to approximately HK$528 million (2004: HK$360 million).

22 RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

(d) Transactions with minority shareholders of subsidiaries:

Name of party	Nature of transaction	Note	Revenues/(expenses) Six months ended 30 June 2005 HK$'000	2004 HK$'000
Hempel A/S and its subsidiaries	Royalties charged to the Group	(i)	**(25,140)**	(17,338)
	Sales of paints by the Group	(ii)	**74,502**	65,609
Hempel A/S	Interest charged to the Group	(iii)	**(522)**	(166)

Notes:

(i) Royalties were based on percentages of the net sales of paints and negotiated on an arms-length basis.

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

(iii) Interest was charged at 0.5% above the Hong Kong Interbank Offer Rate ("HIBOR") per annum on the principal amounts of the respective loans.

(e) Key management compensation

	Six months ended 30 June 2005 HK$'000	2004 HK$'000
Salaries and other short-term employee benefits	**2,188**	1,865
Share-based payments	**5,718**	—
	7,906	1,865

25 SUBSEQUENT EVENTS

On 30 July 2005, the Group entered into a sale and purchase agreement to acquire an additional equity interest of 5.03% in Modern Terminals Limited, an associate of the Group engaged in the ports operations in Hong Kong, at a consideration of HK$827,800,000. The acquisition was completed on 15 August 2005 and financed by short-term bank borrowings.

26 COMPARATIVES

Certain comparative figures presented in the Condensed Interim Financial Information have been adjusted to confirm with the current presentation as a result of adoption of new/revised HKFRS/ HKAS as set out in note 2 to the Condensed Interim Financial Information.