Notes to the Financial Statements

1 General information

China Merchants Holdings (International) Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred as to the "Group") are principally engaged in ports and ports-related operations which include container terminal operation, bulk and general cargo terminal operation, ports transportation, and paint and container manufacturing. The Group is also engaged in other operations which include toll road operation and property development and investment.

The Company is a limited liability company incorporated in Hong Kong and has its listing on The Stock Exchange of Hong Kong Limited. As at 31 December 2005, China Merchants Group Limited ("CMG"), directly or indirectly, held 57.50% issued share capital of the Company. The Directors regard CMG, a company registered in the People's Republic of China ("PRC"), as being the ultimate holding company. The address of its registered office is 38/F East, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road, Central, Hong Kong.

These consolidated financial statements are presented in millions of units of Hong Kong dollars, unless otherwise stated. These consolidated financial statements have been approved for issue by the Directors on 3 April 2006.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties and certain financial assets, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise their judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4 to the financial statements.

2 Summary of significant accounting policies *(Continued)*

(a) Basis of preparation *(Continued)*

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Translation and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKAS-Int 15	Operating Leases - Incentives
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-depreciated Assets
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations

2 Summary of significant accounting policies *(Continued)*

(a) Basis of preparation *(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 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 accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. Following the adoption of HKAS 32 and HKAS 39, the Group's investments in financial instruments, other than subsidiaries, associates and jointly controlled entities, were classified into held-to-maturity investments, available-for-sale financial assets, financial assets at fair value through profit and loss and loans and receivables. The classification depends on the purpose for which the investments were acquired. Held-to-maturity investments are stated in the balance sheet at amortised cost. Interest income from held-to-maturity investments is calculated using the effective interest method. Available-for-sale financial assets are measured at fair value and changes in fair value are recognised in the investment revaluation reserve. Financial assets at fair value through profit and loss are measured at fair value and change in fair value are recognised in the income statement. Loans and receivables are measured at amortised cost and the carrying amount of the asset is computed by discounting the future cash flows to the present value using the effective interest method.

In addition, HKAS 39 requires financial liabilities, except for those carried at fair value through profit or loss, to be carried at amortised cost using the effective interest method. Embedded derivatives should be separated from the host contract and accounted for as a derivative if the economic characteristics and risks of the derivative are not closely related to that of the host contract.

2 Summary of significant accounting policies *(Continued)*

(a) Basis of preparation *(Continued)*

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

- goodwill/negative goodwill was 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 (note 2(g)):

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 ended 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

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 entities within a group. Until 31 December 2004, properties occupied by other entities 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 entities within a group 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 revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluations of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale.

2 Summary of significant accounting policies *(Continued)*

(a) Basis of preparation *(Continued)*

(viii) 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.

(ix) The adoption of HKFRS 5 has resulted in a change in the accounting policy for non-current assets (or disposal groups) held for sales. The non-current assets (or disposal groups) held for sale were previously neither classified nor presented as current assets or liabilities. There was no difference in measurement for non-current assets (or disposal groups) held for sale or for continuing use. The application of HKFRS 5 has no financial impact on the prior year financial statements other than a change in presentation of the results and cashflows of discontinued operation.

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 Statement of Standard Accounting Practice ("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 21 - prospective accounting for goodwill and fair value adjustments as part of foreign operations;
- HKAS-Int 15 - does not require the recognition of incentives for leases beginning before 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 Summary of significant accounting policies *(Continued)*

(a) Basis of preparation *(Continued)*

Effect of changes in the accounting policies on consolidated income statement for the year ended 31 December 2004:

	Effect of adopting					
	HKAS 1[#] HK$'million	HKFRS 2[#] HK$'million	HKFRS 3 [Ω], HKAS 36 [Ω] and HKAS 38 [Ω] HK$'million	HKAS 32[#] and HKAS 39[Ω] HK$'million	HKAS 40[#] HK$'million	Total HK$'million
Increase in staff costs and related expenses	–	(4)	–	–	–	(4)
Decrease in share of profits less losses of associates	(163)	–	–	–	–	(163)
Decrease in share of profits less losses of jointly controlled entities	(16)	–	–	–	–	(16)
Decrease in taxation	179	–	–	–	–	179
Total decrease in profit	–	(4)	–	–	–	(4)
Decrease in basic earnings per share (HK cents)	–	(0.19)	–	–	–	(0.19)

2 Summary of significant accounting policies *(Continued)*

(a) Basis of preparation *(Continued)*

Effect of changes in the accounting policies on consolidated income statement for the year ended 31 December 2005:

	Effect of adopting					
	HKAS 1# HK$'million	HKFRS 2# HK$'million	HKFRS 3Ω, HKAS 36Ω and HKAS 38Ω HK$'million	HKAS 32# and HKAS 39 HK$'million	HKAS 40# HK$'million	Total HK$'million
Decrease in amortisation of goodwill	–	–	11	–	–	11
Increase in staff costs and related expenses	–	(32)	–	–	–	(32)
Increase in fair value of investment properties	–	–	–	–	103	103
Decrease in depreciation	–	–	–	–	20	20
Decrease in finance costs	–	–	–	37	–	37
(Decrease)/increase in share of profits less losses of associates	(191)	–	19	–	–	(172)
(Decrease)/increase in share of profits less losses of jointly controlled entities	(30)	–	20	–	–	(10)
Decrease/(increase) in taxation	221	–	–	–	(8)	213
Total (decrease)/increase in profit	–	(32)	50	37	115	170
(Decrease)/increase in basic earnings per share (HK cents)	–	(1.46)	2.28	1.69	5.25	7.76

2 Summary of significant accounting policies *(Continued)*

(a) Basis of preparation *(Continued)*

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

	Effect of adopting						
	HKAS 17# HK$'million	HKFRS 2# HK$'million	HKAS 40# HK$'million	Total at 31 December 2004 HK$'million	HKFRS 3Ω, HKAS 36Ω and HKAS 38Ω HK$'million	HKAS 32# and HKAS 39Ω HK$'million	Total at 1 January 2005 HK$'million
Increase/(decrease) in assets							
Goodwill	–	–	–	–	103	–	103
Property, plant and equipment	(108)	–	(865)	(973)	–	–	(973)
Investment properties	–	–	425	425	–	–	425
Leasehold land and land use rights	109	–	–	109	–	–	109
Interests in associates	–	–	–	–	34	–	34
Investments in infrastructure joint ventures	–	–	–	–	–	(66)	(66)
Investments in securities	–	–	–	–	–	(558)	(558)
Other financial assets	–	–	–	–	–	820	820
Other investments	–	–	–	–	–	(45)	(45)
Other non-current assets	(1)	–	–	(1)	–	–	(1)
Deferred tax assets	–	–	24	24	–	–	24
(Increase)/decrease in liabilities/equity							
Creditors and accruals	–	–	–	–	(5)	–	(5)
Other financial liabilities	–	–	–	–	–	5	5
Investment revaluation reserve	–	–	–	–	–	(151)	(151)
Share-based compensation reserve	–	(4)	–	(4)	–	–	(4)
Retained earnings	–	4	416	420	(132)	(5)	283

2 Summary of significant accounting policies *(Continued)*

(a) Basis of preparation *(Continued)*

Effect of changes in accounting policies on consolidated balance sheet at 31 December 2005:

	Effect of adopting					
	HKAS 17[#] HK$'million	HKFRS 2[#] HK$'million	HKFRS 3[Ω], HKAS 36[Ω] and HKAS 38[Ω] HK$'million	HKAS 32[#] and HKAS 39[Ω] HK$'million	HKAS 40[#] HK$'million	Total HK$'million
Increase/(decrease) in assets						
Goodwill	–	–	109	–	–	109
Property, plant and equipment	(385)	–	–	–	(857)	(1,242)
Investment properties	–	–	–	–	539	539
Leasehold land and land use rights	386	–	–	–	–	386
Interests in associates	–	–	53	16	–	69
Interests in jointly controlled entities	–	–	20	–	–	20
Investments in infrastructure joint ventures	–	–	–	(60)	–	(60)
Investments in securities	–	–	–	(593)	–	(593)
Other financial assets	–	–	–	857	–	857
Other investments	–	–	–	(30)	–	(30)
Other non-current assets	(1)	–	–	–	–	(1)
Deferred tax assets	–	–	–	–	16	16
(Increase)/decrease in liabilities/equity						
Other financial liabilities	–	–	–	42	–	42
Investment revaluation reserve	–	–	–	(190)	–	(190)
Share-based compensation reserve	–	(36)	–	–	–	(36)
Retained earnings	–	36	(182)	(42)	302	114

Ω adjustments which took effect prospectively from 1 January 2005
\# adjustments which took effect retrospectively

2 Summary of significant accounting policies *(Continued)*

(a) Basis of preparation *(Continued)*

At the date of authorisation of these consolidated financial statements, the Group has not early adopted the following standards and interpretations which have been issued but are not yet effective:

HKAS 1 Amendment	Presentation of Financial Statements – Capital Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 and HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRS 1 and HKFRS 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and evaluation of Mineral Resources
HKFRS 7	Financial instruments: Disclosures
HKFRS-Int 4	Determining Whether an Arrangement Contains a Lease
HKFRS-Int 5	Rights to interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Financial Reporting in Hyperinflationary Economics

The Group has carried out an assessment of the impact of these new HKFRS which are not yet effective and have not been early adopted by the Group. The adoption of these new HKFRS is not expected to result in substantial changes to the Group's accounting policies, except for:

(i) HKAS 39 Amendment "Cash Flow Hedge Accounting of Forecast Intragroup Transactions" (effective from 1 January 2006). The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss. This amendment is not relevant to the Group's operations, as the Group does not have any intragroup transactions that would qualify as a hedged item in the consolidated financial statements as of 31 December 2005 and 2004.

(ii) HKAS 39 Amendment "The Fair Value Option" (effective from 1 January 2006). This amendment changes the definition of financial instruments classified at fair value through profit and loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. The Group will apply this amendment from annual periods beginning 1 January 2006.

2 Summary of significant accounting policies *(Continued)*

(a) Basis of preparation *(Continued)*

(iii) HKAS 39 and HKFRS 4 Amendment (effective from 1 January 2006). These amendments require issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. Management considered this amendment to HKAS 39 and concluded that it is not relevant to the Group's operations.

(iv) HKFRS 7 and a complementary amendment to HKAS 1 (effective from 1 January 2007). HKFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces HKAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions" and disclosure requirements in HKAS 32. It is applicable to all entities that report under HKFRS. The amendment to HKAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1 January 2007.

(v) HKFRS-Int 4 (effective from 1 January 2006). HKFRS-Int 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of HKFRS-Int 4 on the Group's operations.

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

(i) Subsidiaries

Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

2 Summary of significant accounting policies *(Continued)*

(b) Consolidation *(Continued)*

(i) Subsidiaries (Continued)

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 interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. 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.

Inter-company transactions, balances and unrealised gains on transactions between the Group's entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(ii) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(iii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. The Group's interests in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's interests in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (note 2(g)).

2 Summary of significant accounting policies *(Continued)*

(b) Consolidation *(Continued)*

(iii) Associates (Continued)

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the interests in an associate is stated at cost less provision for impairment losses. The results of the associate are accounted for by the Company on the basis of dividend received and receivable.

(iv) Jointly controlled entities

A jointly controlled entity is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Jointly controlled entities arrangements which involve the establishment of a separate entity in which each venture partner has an interest are referred to as jointly controlled entities.

Interests in jointly controlled entities are accounted for by the equity method of accounting and are initially recognised at cost. The Group's interests in jointly controlled entities includes goodwill (net of any accumulated impairment loss) identified on acquisition (note 2(g)).

The Group's share of its jointly controlled entities post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

Unrealised gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interests in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

2 Summary of significant accounting policies *(Continued)*

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the entities of the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the functional and presentation currency of the Company.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the securities, and other changes in the carrying amount of the securities. Translation differences are recognised in income statement, and other changes in carrying amount are recognised in translation reserve.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit and loss are recognised in income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale, are included in the investment revaluation reserve in equity.

(iii) Entities within the Group

The results and financial position of all the entities within the Group that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

2 Summary of significant accounting policies *(Continued)*

(d) Foreign currency translation *(Continued)*

(iii) Entities within the Group (Continued)

- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- all resulting exchange differences are recognised in translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to exchange reserve. When a foreign operation is sold, exchange differences that were recorded in exchange reserve are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) Property, plant and equipment

Property, plant and equipment comprise mainly freehold land and buildings, harbour works, buildings and dockyard, plant, machinery, furniture and equipment, vessels and ship, motor vehicles and leasehold improvements. Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Buildings	Over the shorter of the lease term or 50 years
Harbour works, buildings and dockyard	8 to 50 years
Plant and machinery	3 to 20 years
Furniture and equipment	3 to 20 years
Motor vehicles	2.5 to 20 years
Leasehold improvements	5 to 20 years

2 Summary of significant accounting policies *(Continued)*

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

No depreciation is provided on freehold land and assets under construction. All direct and indirect costs relating to the construction of property, plant and equipment including interest and financial costs and foreign exchange differences on the related borrowed funds during the construction period are capitalised as the cost of the property, plant and equipment.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2(h)).

(f) 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 comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it is a finance lease.

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 on the balance sheet date.

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 period in which they are incurred.

Changes in fair values are recognised in the income statement as part of other net income.

2 Summary of significant accounting policies *(Continued)*

(g) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate/jointly controlled entity at the date of acquisition. Goodwill on acquisitions of associates and jointly controlled entities is included in interests in associates and jointly controlled entities. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(h) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to depreciation or 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. Non-financial assets other than goodwill that suffered an impairment are revisited for possible reversal of the impairment of each reporting date.

(i) Financial assets

From 1 January 2004 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, investment securities and other investments.

2 Summary of significant accounting policies *(Continued)*

(i) Financial assets *(Continued)*

(i) Infrastructure joint ventures

The Group's investments in infrastructure projects under cooperative joint venture arrangements are referred to as infrastructure joint ventures where the other joint venture partners have 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 are 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 is recognised in the income statement to reduce the carrying value of the individual investment to its recoverable amount.

(ii) Investment securities

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

(iii) Other investments

Other investments are 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 are 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, are recognised in the income statement as they arise.

From 1 January 2005 onwards:

The Group classifies its financial assets in the following categories: financial assets at fair value through profit and loss, loans and receivables, held-to-maturity 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.

2 Summary of significant accounting policies *(Continued)*

(i) Financial assets *(Continued)*

(i) Financial assets at fair value through profit and loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit and 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.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as debtors, deposits and prepayments in the balance sheet (note 2(k)).

(iii) 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.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular 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 and loss. Financial assets carried at fair value through profit and loss are initially recognised at their value and transaction costs are expensed in the income statement. 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 and 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.

Gains and losses arising from changes in the fair value of the financial assets at fair value through profit and loss category including interest and dividend income, are presented in the income statement within other net income, in the year in which they arise.

2 Summary of significant accounting policies *(Continued)*

(i) Financial assets *(Continued)*

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between exchange differences resulting from changes in amortised cost of the securities and other changes in the carrying amount of the securities. The exchange differences are recognised in profit or loss, and other changes in carrying amount are recognised in exchange reserve. Changes in the fair value of monetary securities classified as available-for-sale and non-monetary securities classified as available-for-sale are recognised in investment revaluation reserve.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in investment revaluation reserve are included in the income statement as disposal of available-for-sale financial assets. Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little's possible on equity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the securities below their costs is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from investment revaluation reserve and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of debtors, deposits and prepayments is described in note 2(k) to the financial statements.

(j) Inventories/development properties for sale

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) and it excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2 Summary of significant accounting policies *(Continued)*

(j) Inventories/development properties for sale *(Continued)*

Properties under development are investments in freehold land and buildings on which construction work and development have not been completed. Properties under development comprise freehold land and a component in respect of the building that is stated at cost less accumulated impairment losses. Cost comprises construction costs and amounts capitalised in respect of borrowing costs incurred in the acquisition of qualifying assets during the construction period and up to the date of completion of construction. On completion, the properties are reclassified to completed properties held for sale at the then carrying amount.

(k) Debtors, deposits and prepayments

Debtors, deposits and prepayments are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of debtors, deposits and prepayments is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(l) Non-current asset (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

(m) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(n) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2 Summary of significant accounting policies *(Continued)*

(o) Other financial liabilities

Other financial liabilities 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. Other financial liabilities 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 other financial liabilities using the effective interest method.

Other financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(p) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred taxation arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred taxation is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(q) Employee benefits

(i) Salaries, bonus, paid annual leave and the cost of other benefits to the Group accrued in the year in which the associated services are rendered by employees of the Group.

(ii) The Group operates a number of defined contribution schemes, the assets of which are held in separate administered funds. The Group's contributions to the defined contribution schemes are expensed as incurred and are not reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions.

2 Summary of significant accounting policies *(Continued)*

(q) Employee benefits *(Continued)*

The Group also contributes on a monthly basis to various defined contribution retirement benefit plans organised by relevant municipal and provincial governments in Mainland China. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees for post-retirement benefits beyond the contributions made. The assets of these plans are held separately from those of the Group in independently administered funds managed by the government in Mainland China. Contributions to these plans are expensed as incurred.

(iii) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a reuslt of voluntary redundancy by having a detailed formal plan which is without realistic possibility or withdrawal.

(r) Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

(s) Revenue recognition

Revenue from ports service and transportations income, container service and container yard management income, net of business tax payable in the PRC, are recognised when the relevant services are rendered.

Revenue from sale of paints and related goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title is passed.

Revenue from sale of development properties is only brought into account when the construction of the properties are completed and when the properties are sold.

Operating lease rental income is recognised on a straight-line basis.

Dividend income is recognised when the right to receive payment is established.

(t) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (including up-front payment of the leasehold land and land use rights, other than those accounted for as investment properties) net of any incentives received from the lessor are expensed in the income statement on a straight-line basis over the period of the lease.

2 Summary of significant accounting policies *(Continued)*

(u) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3 Financial risk management

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and price risk), credit risk, liquidity risk and interest rate risk. Risk management is carried out by senior management of the Group under policies approved by the Directors of the Company.

(i) Market risk

Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in Hong Kong dollars and Renminbi. However, foreign currencies are required to settle the Group's purchases of machinery and equipment from overseas suppliers and certain expenses. Renminbi is not freely convertible into other foreign currencies and conversion of Renminbi into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government. Details of the Group's cash and cash equivalents and other financial liabilities as at 31 December 2005, denominated mainly in US dollar and Hong Kong dollar are disclosed in notes 31 and 35 to the financial statements.

The Group considers there is no material foreign exchange risk and the Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure for the year ended 31 December 2005.

On 21 July 2005, the People's Bank of China announced the introduction of a regulated, managed floating exchange rate system in the PRC based on market supply and demand and with reference to a basket of currencies. Removal of the peg to the US dollar allowed more flexibility for the exchange rate system of the Renminbi. As a result, the exchange rate between the US dollar and Renminbi was adjusted from US$1:RMB8.27 to US$1:RMB8.11 of which the Group believes that such appreciation of Renminbi does not have any adverse effect on the current operating results and financial position of the Group. In the event of a substantial revaluation of Renminbi as a result of unpegging of Renminbi to US dollar in the future, it may in turn adversely affect the operating result of the Group.

3 Financial risk management *(Continued)*

(a) Financial risk factors *(Continued)*

(i) Market risk (Continued)

Price risk

The Group's results of operations may be significantly affected by the fluctuation of the fuel price which is a significant expense for the Group. While the international fuel price is determined by worldwide market demand and supply, domestic fuel price is regulated by the relevant authorities of the state government. The Group does not use any derivative instruments to reduce its economic exposure to change in fuel price.

The Group has available-for-sale financial assets and financial assets at fair value through profit and loss which are exposed to equity securities price risk.

(ii) Credit risk

Sales to China International Marine (Group) Limited and its affiliates (hereinafter collectively referred to as "CIMC") represents 17% (2004: 24%) of the Group's turnover. The Group has policies in place to ensure that sale of products are made to customers with an appropriate credit history. The Group also performs periodic credit evaluations of its customers and believes that adequate provision for doubtful trade debtors has been made in the financial statements.

(iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

The Group's primary cash requirements have been for capital investments, additions of ports infrastructure and loading machinery and repayments of related debts. The Group finances its working capital requirements through a combination of funds generated from operations and bank loans.

The Group generally operates with a working capital surplus. As at 31 December 2005, the Group's net current assets amounted to HK$1,132 million. In addition, for the year ended 31 December 2005, the Group recorded a net cash inflow from operating activities of HK$1,316 million; a net cash outflow from investing activities of HK$8,217 million; and a decrease in cash and cash equivalents of HK$1,066 million.

The Directors believe that cash from operations and bank loans will be sufficient to meet the Group's operating cashflow. Due to the dynamic nature of the underlying business, the Group aims at maintaining flexibility in funding by keeping credit lines available. The Directors believe that the Group has obtained sufficient general credit facilities from banks for financing capital commitments in the near future and for working capital purposes.

3 Financial risk management *(Continued)*

(a) Financial risk factors *(Continued)*

(iv) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets except for loan to a jointly controlled entity, certain available-for-sale financial assets and cash and cash equivalents, details of which have been disclosed in notes 23(c), 26(c) and 31 to the financial statements . The Group's exposure to changes in interest rates is mainly attributable to its borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk. As at 31 December 2005, US$500 million, 5.375% guaranteed notes due in 2015, listed ("Listed Notes Payable"), approximately 46.2% of the Group's other financial liabilities, were at a fixed rate. The interest rates and terms of repayment of the Group's other financial liabilities are disclosed in note 35 to the financial statements.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

(b) Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, investments in financial instruments, debtors, deposits and prepayments and financial liabilities including creditors and accruals, short-term bank loans, approximate their fair values due to their short maturities. The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments. The fair values of non-current financial liabilities are disclosed in note 35 to the financial statements.

In assessing the fair value of non-traded financial instruments, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at the balance sheet date. Quoted market prices or dealer quotes for the specific or similar instruments are used for long-term financial liabilities. Other techniques, such as estimated discounted value of future cash flows, are used to determine fair value for the remaining financial instruments.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimated fair value of available-for-sale financial assets

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 and the latest available financial information existing at each balance sheet date.

(ii) Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgement is required in determining 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.

(iii) Estimated fair value of investment properties

The fair value of each investment property individually is determined at each balance sheet date by independent professional valuers by reference to comparable market transactions and where appropriate on the basis of capitalisation of the net rental income/net income, after allowing for outgoings and in appropriate cases provisions for reversionary income potential. These methodologies are based upon estimates of future results and a set of assumptions as to income and expenses of the property and future economic conditions. The fair value of each 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.

4 Critical accounting estimates and judgements *(Continued)*

(a) Critical accounting estimates and assumptions *(Continued)*

(iv) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with accounting policies stated in note 2(h) to the financial statements. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates as set out below:

Goodwill acquired through business combination, including those included in interests in associates and jointly controlled entities, is allocated to the Group's cash-generating units identified under the ports and ports-related operations which is a separate segment for impairment testing.

The recoverable amounts of the cash-generating units have been determined based on value-in-use calculations using cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rate of 5%. The discount rate applied to cash flow projections is 10.7%.

(v) Estimated fair value of identifiable assets acquired and liabilities assumed through business combinations

The fair value of each identifiable assets acquired and liabilities assumed through business combinations is determined at the date of acquisition by management or independent professional valuers. These techniques include using recent arm's length transactions, reference to the current fair value of similar instruments and discounted cash flow analysis.

(vi) Useful lives and residual values of property, plant and equipment

The Group's management determines the estimated useful lives, residual values and related depreciation expenses for the Group's property, plant and equipment. Management will revise the depreciation expenses where useful lives and residual values are different to previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

4 Critical accounting estimates and judgements *(Continued)*

(b) Critical judgements in applying the Group's accounting policies

The following critical accounting judgements may be applicable, among many other possible areas not presented in these financial statements.

(i) Net realisable values of inventories

Inventories are carried at the lower of cost and net realisable value. The cost of inventories is written down to net realisable value when there is an objective evidence that the cost of inventories may not be recoverable. The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may also be recoverable if the estimated costs to be incurred to make the sale have increased. The amount written off to the income statement is the difference between the carrying value and net realisable value of the inventories. In determining whether the cost of inventories cannot be recoverable, significant judgement is required. In making this judgement, the Group evaluates, among other factors, the duration and extent by all means to which the amount will be recovered.

(ii) Impairment of available-for-sale financial assets

The Group follows the guidance of HKAS 39 in determining when an investment is other-than-temporarily impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, change in technology and operational and financing cash flow.

5 Turnover and revenues

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

	2005 HK$'million	Restated 2004 HK$'million
Turnover		
Ports service and transportation income, container service and container yard management income	1,067	732
Sale of paints and related goods	1,481	1,301
Sales of development properties	400	–
Gross rental income from investment properties	24	26
	2,972	2,059

6 Segment information

(a) Primary reporting format – business segments:

The Group is organised into the following main business segments:

(1) Ports operations include container terminal operation, bulk and general cargo terminal operation, ports transportation and airport cargo handling operation by the Group and the Group's associates and jointly controlled entities.

(2) Ports-related operations include paint manufacturing by the Group and container manufacturing by the Group's associates.

(3) Other operations include:

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

(b) property development and investment by the Group; and

(c) dealing in securities by the Group.

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

6 Segment information *(Continued)*

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

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

An analysis of the Group's turnover by business segments is as follows:

	Turnover		Share of associates		Share of jointly controlled entities		Total	
	2005 HK$'million	Restated 2004 HK$'million	2005 HK$'million	Restated 2004 HK$'million	2005 HK$'million	Restated 2004 HK$'million	2005 HK$'million	Restated 2004 HK$'million
Ports operations	1,067	732	3,424	2,055	534	393	5,025	3,180
Ports-related operations	1,481	1,301	6,948	5,824	–	–	8,429	7,125
Other operations								
Toll road	–	–	–	–	308	279	308	279
Property	424	26	–	–	–	–	424	26
	424	26	–	–	308	279	732	305
	2,972	2,059	10,372	7,879	842	672	14,186	10,610

6 Segment information *(Continued)*

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

An analysis of the Group's results, share of profits less losses of associates and jointly controlled entities by business segments is as follows:

	Segment results		Share of profits less losses of associates		Share of profits less losses of jointly controlled entities		Total	
	2005 HK$'million	Restated 2004 HK$'million	**2005 HK$'million**	Restated 2004 HK$'million	**2005 HK$'million**	Restated 2004 HK$'million	**2005 HK$'million**	Restated 2004 HK$'million
Ports operations	**255**	124	**1,114**	631	**287**	245	**1,656**	1,000
Ports-related operations	**203**	129	**636**	556	**–**	–	**839**	685
Other operations								
Toll road	**12**	7	**–**	–	**154**	144	**166**	151
Property	**189**	–	**–**	–	**–**	–	**189**	–
Others	**3**	(4)	**–**	–	**–**	–	**3**	(4)
	204	3	**–**	–	**154**	144	**358**	147
	662	256	**1,750**	1,187	**441**	389	**2,853**	1,832
Unallocated income less expenses							**–**	(63)
Finance costs							**(266)**	(16)
Taxation							**(54)**	(46)
Profit for the year from continuing operations							**2,533**	1,707
Profit for the year from discontinued operation							**–**	410
Profit for the year							**2,533**	2,117

6 Segment information *(Continued)*

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

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

	Segment assets		Interests in associates		Interests in jointly controlled entities		Segment liabilities		Total	
	2005 HK$'million	Restated 2004 HK$'million	2005 HK$'million	Restated 2004 HK$'million	2005 HK$'million	Restated 2004 HK$'million	2005 HK$'million	Restated 2004 HK$'million	2005 HK$'million	Restated 2004 HK$'million
Ports operations	8,326	5,385	8,612	2,263	1,978	1,274	(2,600)	(1,089)	16,316	7,833
Ports- related operations	918	954	2,165	1,719	–	–	(401)	(436)	2,682	2,237
Other operations										
Toll road	948	464	–	–	2,468	2,715	–	–	3,416	3,179
Property	1,017	909	–	–	–	–	(166)	(252)	851	657
Others	92	166	–	–	–	–	–	–	92	166
	2,057	1,539	–	–	2,468	2,715	(166)	(252)	4,359	4,002
	11,301	7,878	10,777	3,982	4,446	3,989	(3,167)	(1,777)	23,357	14,072
Unallocated assets									857	1,878
Unallocated liabilities									(6,448)	(1,057)
Tax recoverable									3	5
Taxation payable									(22)	(24)
Deferred tax assets									35	40
Deferred tax liabilities									(155)	(156)
									17,627	14,758

6 Segment information *(Continued)*

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

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

	Capital expenditure		**Depreciation and amortisation**	
	2005	2004	**2005**	Restated 2004
	HK$'million	HK$'million	**HK$'million**	HK$'million
Ports operations	**2,648**	1,423	**177**	125
Ports-related operations	**13**	24	**13**	14
Property	**2**	–	**–**	–
Others	**–**	–	**1**	4
Unallocated	**1**	–	**5**	4
	2,664	1,447	**196**	147

(b) Secondary reporting format – geographical segments

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

Hong Kong	-	ports operations, ports-related operations and property investment
Mainland China	-	ports operations, ports-related operations and toll road operation
New Zealand	-	property development
Others	-	dealing in securities

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

6 Segment information *(Continued)*

(b) Secondary reporting format – geographical segments *(Continued)*

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

	Turnover		Segment results	
	2005	Restated 2004	**2005**	Restated 2004
	HK$'million	HK$'million	**HK$'million**	HK$'million
Hong Kong	**381**	337	**270**	10
Mainland China	**2,033**	1,580	**330**	232
New Zealand	**391**	–	**50**	–
Others	**167**	142	**12**	14
	2,972	2,059	**662**	256
Unallocated income less expenses			**–**	(63)
Operating profit			**662**	193

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

	Assets		Capital expenditure	
	2005	Restated 2004	**2005**	2004
	HK$'million	HK$'million	**HK$'million**	HK$'million
Hong Kong	**1,411**	1,152	**27**	8
Mainland China	**9,368**	6,084	**2,635**	1,439
New Zealand	**405**	497	**2**	–
Others	**117**	145	**–**	–
	11,301	7,878	**2,664**	1,447

7 Other net income

	2005 HK$'million	Restated 2004 HK$'million
Net unrealised gain on other listed investments	–	4
Increase in fair value of other financial assets at fair value through profit and loss	2	–
Amortisation of negative goodwill	–	10
Reversal of provision for bad and doubtful debts	22	10
Net gains on disposal of property, plant and equipment	–	14
Net exchange gains	37	1
Increase in fair value of investment properties (note 19)	101	–
Gain on disposal of an available-for-sale financial asset	35	–
Gains on disposal of associates and a jointly controlled entity	95	–
Loss on disposal of other listed investments	–	(4)
Interest income	92	20
Dividend income	2	2
Income from held-to-maturity investments	10	–
Income from infrastructure joint ventures	–	13
Others	39	40
	435	110

8 Operating profit

	2005 HK$'million	Restated 2004 HK$'million
Operating profit is stated after (crediting) and charging the following:		
Operating lease rental income from investment properties, net of outgoings of HK$1 million (2004: HK$1 million)	**(23)**	(25)
Staff costs (including Directors' emoluments) (note 9)	**348**	240
Cost of inventories sold	**1,142**	956
Cost of development properties sold	**305**	–
Auditors' remuneration	**9**	4
Depreciation of property, plant and equipment	**157**	94
Amortisation of leasehold land and land use rights	**39**	41
Amortisation of goodwill	**–**	16
Net losses on disposal of property, plant and equipment	**2**	–
Operating lease rentals in respect of		
- land and buildings	**69**	62
- plant and machinery	**19**	21

9 Staff costs (including Directors' emoluments)

	2005 HK$'million	Restated 2004 HK$'million
Wages and salaries	**298**	223
Retirement benefit scheme contributions	**18**	13
Share-based payments (note 34)	**32**	4
	348	240

The Group contributes to defined contribution provident funds, including the scheme set up under the Hong Kong Mandatory Provident Fund Ordinance ("MPF Scheme"), which are available to all employees. In accordance with the terms of the provident funds, contributions to the schemes by the Group and the employees are calculated as a percentage of the employees' basic salaries. For the MPF Scheme, both the employees and the employers are required to contribute 5% of the employees' monthly salaries up to a maximum of HK$1,000 ("mandatory contribution") and employees can choose to make additional contributions. The employees are entitled to 100% of the employers' mandatory contributions upon their retirement age of 65 years old, death or total incapacity. For the schemes other than the MPF Scheme, the unvested benefits of employees forfeited upon termination of employment can be utilised by the Group to reduce future levels of contributions.

9 Staff costs (including Directors' emoluments) *(Continued)*

The Group also participates in the employee retirement benefits of the respective municipal government in various places in the Mainland China where the Group operates. The Group is required to make monthly contributions calculated as a percentage of the monthly payroll costs and the respective municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group.

The Group's contributions to the schemes are expensed as incurred.

10 Directors' and senior management's emoluments

(a) Directors' emoluments

Directors' emoluments comprise payments to directors by the Group in connection with the management of the affairs of the Group. The amount paid to each Director is set out below:

Name of Director	Fees HK$'million	Salary HK$'million	Other benefits HK$'million	Share-based payments HK$'million	Employer's contribution to pension scheme HK$'million	2005 Total HK$'million	2004 Total HK$'million
Fu Yuning	–	–	–	1.30	–	1.30	0.15
Zhao Huxiang	–	–	–	0.91	–	0.91	0.10
Li Yinquan	–	–	–	0.65	–	0.65	0.07
Hu Zheng	–	–	–	0.65	–	0.65	0.07
Meng Xi	–	–	–	0.65	–	0.65	0.07
Wang Hong (i)	–	–	–	0.46	–	0.46	–
Yu Liming	–	–	–	0.65	–	0.65	0.07
To Wing Sing	–	1.59	–	0.78	0.13	2.50	1.75
Tsang Kam Lam	0.12	–	–	–	–	0.12	0.08
Kut Ying Hay	0.12	–	–	–	–	0.12	0.08
Lee Yip Wah, Peter	0.12	–	–	–	–	0.12	0.08
Li Kwok Heem, John	0.12	–	–	–	–	0.12	0.08
Li Yi (ii)	–	0.98	–	–	–	0.98	2.23
Koo Kou Hwa (iii)	–	–	–	–	–	–	–
Total for the year 2005	0.48	2.57	–	6.05	0.13	9.23	
Total for the year 2004	0.30	2.96	0.73	0.62	0.22	–	4.83

10 Directors' and senior management's emoluments *(Continued)*

(a) Directors' emoluments *(Continued)*

Notes:

(i) Appointed on 11 May 2005.

(ii) Resigned on 31 May 2005.

(iii) Passed away on 21 January 2005.

No Director waived emoluments in respect of the years ended 31 December 2005 and 2004.

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, one (2004: two) was the Director of the Company whose emoluments are included in the disclosure in note 10(a) to the financial statements above. The emoluments of the remaining four (2004: three) individuals were as follows:

	2005 HK$'million	2004 HK$'million
Salaries, other allowances and benefits in kind	7	5
Performance related incentive payments	1	1
Retirement benefits scheme contributions	–	–
Share-based payments	1	–
	9	6

The emoluments are within the following bands:

	Number of individuals	
	2005	2004
HK$1,000,001 - HK$1,500,000	–	1
HK$1,500,001 - HK$2,000,000	2	1
HK$2,500,001 - HK$3,000,000	1	1
HK$3,000,001 - HK$3,500,000	1	–
	4	3

11 Finance costs

	2005 HK$'million	2004 HK$'million
Interest on:		
Bank borrowings, wholly repayable within five years	123	6
Bank borrowings, not wholly repayable within five years	11	–
The Listed Notes Payable	172	–
Loans from minority shareholders of subsidiaries	3	12
Amounts due to minority shareholders of subsidiaries	1	1
Other incidental borrowing costs	–	5
Total borrowing costs incurred	310	24
Less: amount capitalised in assets under construction	(44)	(8)
	266	16

Capitalisation rates of 5.046% (2004: 5.941%) per annum was used, representing the weighted average rate of the costs of borrowings used to finance the assets under construction.

12 Taxation

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

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

12 Taxation *(Continued)*

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

	2005 **HK$'million**	Restated 2004 HK$'million
The amount of taxation charged to the consolidated income statement represents:		
Hong Kong profits tax		
- Current year	**8**	10
- Overprovision in prior years	**–**	(1)
PRC Enterprise Income Tax		
- Current year	**31**	38
- Overprovision in prior years	**(3)**	–
Overseas taxation	**15**	–
Deferred taxation (note 36)	**3**	(1)
	54	46

The differences between the Group's expected tax charges calculated at the domestic rates and the Group's tax charge for the year are as follows:

	2005 **HK$'million**	Restated 2004 HK$'million
Profit before taxation (excluding share of profits less losses of associates and jointly controlled entities)	**396**	177
Expected tax calculated at the weighted average applicable tax rate	**63**	22
Income not subject to taxation	**(282)**	(143)
Expenses not deductible for taxation purposes	**276**	168
Overprovision in prior years	**(3)**	(1)
Taxation charge	**54**	46

The weighted average applicable tax rate was 16% (2004: 12%). The increase is caused by a change in the profitability of the Group's subsidiaries in the respective countries.

13 Discontinued operation

On 18 October 2004, the Group disposed of the oil tanker operation for a cash consideration of HK$1,310 million. The disposal of oil tanker operation by the Group is part of its strategy to divest its other operations and to focus on its ports and ports-related operations. The Group considered the scale of its oil tanker operation to be relatively small and that the operation 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 operation 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 operations.

The sales, results, net operating cash inflow and net assets of the oil tanker segment during the period from 1 January 2004 to 18 October 2004 and as at 18 October 2004 were HK$350 million, HK$136 million, HK$198 million and HK$1,168 million respectively.

	As at 18 October 2004 HK$'million
Net assets disposed	(1,168)
Realisation of translation reserve	9
Reversal of negative goodwill	123
Proceed from sale	1,310
Gain on disposal of discontinued operation	274

14 Profit attributable to shareholders

Profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK$609 million (2004: HK$1,708 million).

15 Dividends

	2005 HK$'million	2004 HK$'million
Interim, paid, of 2005 of 17 HK cents (2004: 15 HK cents) per share	370	321
Final, proposed, of 2005 of 33 HK cents (2004: 30 HK cents) per share	753	643
	1,123	964

At a meeting held on 3 April 2006, the Directors proposed a final dividend of 33 HK cents which will be satisfied by allotment of new shares of the Company, credited as fully paid, by way of scrip dividend, with an alternative to shareholders to elect to receive such final dividend (or part thereof) in cash in lieu of such allotment. This proposed dividend is not reflected as a dividend payable in these financial statements but will be reflected as an appropriation of retained earnings for the year ending 31 December 2006.

The amount of proposed final dividend for 2005 was based on 2,282,262,230 (2004: 2,142,192,974) shares in issue as at 3 April 2006.

16 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$2,364 million (2004: HK$1,644 million). For the year ended 31 December 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$410 million.

The basic earnings per share is based on the weighted average number of 2,190,032,536 (2004: 2,141,117,655) ordinary shares in issue during the year. The diluted earnings per share is based on 2,200,148,579 (2004: 2,148,993,696) ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighted average number of 10,116,043 (2004: 7,876,041) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

17 Goodwill

	Group		
	Goodwill HK$'million	Negative goodwill HK$'million	Total HK$'million
Carrying value as at 1 January 2005	**275**	**(103)**	**172**
Derecognition of negative goodwill pursuant to transitional provision of HKFRS 3	**–**	**103**	**103**
Carrying value as at 31 December 2005	**275**	**–**	**275**
At 31 December 2005			
Cost	**275**	**–**	**275**
Accumulated amortisation	**–**	**–**	**–**
Net book value	**275**	**–**	**275**
Carrying value as at 1 January 2004	291	(134)	157
Acquisition of subsidiaries	–	(103)	(103)
Disposal of subsidiaries	–	124	124
Amortisation	(16)	10	(6)
Carrying value as at 31 December 2004	275	(103)	172
At 31 December 2004			
Cost	319	(103)	216
Accumulated amortisation	(44)	–	(44)
Net book value	275	(103)	172

Notes:

(a) The goodwill is attributable to ports operations. An analysis of net book value by geographical segments is as follows:

	2005 HK$'million	2004 HK$'million
Hong Kong	**52**	52
Mainland China	**223**	223
New Zealand	**–**	(103)
	275	172

(b) Estimates used to measure recoverable amounts of cash-generating units containing goodwill are disclosed in note 4(a)(iv) to the financial statements.

18 Property, plant and equipment

	Group						Company
	Land and buildings HK$'million	Harbour works, buildings and dockyard HK$'million	Plant, machinery, furniture and equipment HK$'million	Others HK$'million	Assets under construction HK$'million	Total HK$'million	Furniture and equipment and motor vehicles HK$'million
Net book value at 1 January 2005, as previously reported	1,088	1,116	485	33	1,494	4,216	2
Effect of adoption of							
- HKAS 17	(108)	–	–	–	–	(108)	–
- HKAS 40	(865)	–	–	–	–	(865)	–
Net book value at 1 January 2005, as restated	115	1,116	485	33	1,494	3,243	2
Exchange adjustments	(1)	25	8	1	33	66	–
Additions	–	17	45	27	2,298	2,387	–
Disposals	–	–	(3)	–	–	(3)	–
Reclassifications	–	1,155	1,084	14	(2,253)	–	–
Depreciation	(4)	(63)	(83)	(7)	–	(157)	(1)
Net book value at 31 December 2005	110	2,250	1,536	68	1,572	5,536	1
At 31 December 2005							
Cost	171	2,391	1,827	135	1,572	6,096	7
Accumulated depreciation and impairment	(61)	(141)	(291)	(67)	–	(560)	(6)
Net book value	110	2,250	1,536	68	1,572	5,536	1

18 Property, plant and equipment *(Continued)*

	Group						Company
	Land and buildings HK$'million	Harbour works, buildings and dockyard HK$'million	Plant, machinery, furniture and equipment HK$'million	Others HK$'million	Assets under construction HK$'million	Total HK$'million	Furniture and equipment and motor vehicles HK$'million
Net book value at 1 January 2004,							
as previously reported	1,116	968	272	33	670	3,059	1
Effect of adoption of							
- HKAS 17	(116)	–	–	–	–	(116)	–
- HKAS 40	(885)	–	–	–	–	(885)	–
Net book value at 1 January 2004, as restated	115	968	272	33	670	2,058	1
Exchange adjustments	2	2	1	–	–	5	–
Additions	–	5	19	8	1,233	1,265	2
Acquisition of subsidiaries	12	–	3	1	–	16	–
Disposals	(1)	(1)	(1)	–	–	(3)	–
Reclassifications	(11)	174	242	–	(409)	(4)	–
Depreciation	(2)	(32)	(51)	(9)	–	(94)	(1)
Net book value at 31 December 2004	115	1,116	485	33	1,494	3,243	2
At 31 December 2004							
Cost	172	1,196	693	93	1,494	3,648	7
Accumulated depreciation and impairment	(57)	(80)	(208)	(60)	–	(405)	(5)
Net book value	115	1,116	485	33	1,494	3,243	2

18 Property, plant and equipment *(Continued)*

Notes:

(a) Included in assets under construction is interest capitalised of approximately HK$52 million (2004: HK$8 million).

(b) At 31 December 2005, freehold land and buildings of approximately HK$11 million (2004: HK$12 million) has been pledged as security for the Group's bank borrowings of HK$90 million (2004: HK$107 million) (note 35).

(c) Others comprise vessels and ships, motor vehicles and leasehold improvements with net book values of HK$34 million (2004: HK$12 million), HK$23 million (2004: HK$19 million) and HK$11 million (2004: HK$2 million) respectively as at 31 December 2005.

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

	Group			
	Land and buildings		Harbour works, buildings and dockyard	
	2005 HK$'million	2004 HK$'million	**2005 HK$'million**	2004 HK$'million
Buildings in Hong Kong, held on leases of between 10 to 50 years	**64**	65	**–**	–
Buildings outside Hong Kong, held on leases of: between 10 to 50 years	**35**	38	**2,250**	1,116
Freehold land and buildings outside Hong Kong	**11**	12	**–**	–
	110	115	**2,250**	1,116

19 Investment properties

	2005 HK$'million	Restated 2004 HK$'million
Carrying value at 1 January, as previously reported	**13**	13
Effect of adoption of HKAS 40	**425**	425
Carrying value at 1 January, as restated	**438**	438
Increase in fair value (note 7)	**101**	–
Carrying value at 31 December	**539**	438

19 Investment properties *(Continued)*

Notes:

(a) The investment properties were revalued at 31 December 2005 by following independent, professionally qualified valuers.

Properties located in	**Name of valuers**
Hong Kong	Grant Sherman Appraisal Limited
Shenzhen	Shenzhen Gongpinghen Appraisal Co., Ltd.

(b) At 31 December 2005, the Group's interests in investment properties, held on leases between 10 to 50 years, at their carrying values are analysed as follows:

	2005 HK$'million	2004 HK$'million
In Hong Kong	**528**	425
Outside Hong Kong	**11**	13
	539	438

20 Leasehold land and land use rights

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and the movement are analysed as follows:

	2005 HK$'million	Restated 2004 HK$'million
Net book value at 1 January, as previously reported	**1,624**	370
Effect of adoption of HKAS 17	**109**	116
Net book value at 1 January, as restated	**1,733**	486
Exchange adjustments	**36**	—
Additions	**277**	182
Acquisitions of subsidiaries	**—**	1,106
Amortisation	**(39)**	(41)
Net book value at 31 December	**2,007**	1,733

20 Leasehold land and land use rights *(Continued)*

The Group's interests in leasehold land and land use rights, held on leases between 10 to 50 years, at their net book values are analysed as follows:

	2005 HK$'million	2004 HK$'million
In Hong Kong	**108**	109
Outside Hong Kong	**1,899**	1,624
	2,007	1,733

21 Interests in subsidiaries

	Company	
	2005 HK$'million	2004 HK$'million
Unlisted shares, at cost	**3,092**	3,010
Advances to subsidiaries		
- interest free (note a)	**16,388**	10,205
- interest bearing (note b)	**512**	118
	19,992	13,333
Advances from subsidiaries (note a)	**7,726**	2,456

Notes:

(a) The advances to/from subsidiaries are unsecured, interest free and repayable on demand.

(b) An interest bearing advance of HK$191 million (2004: HK$93 million) is repayable by July 2007 and bears interest at 5.265% per annum. The remaining amounts totalling HK$26 million (2004: HK$25 million) and HK$295 million (2004: Nil) which bear interest at Hong Kong Interbank Offered Rate ("HIBOR") and London Interbank official rate plus 0.3% per annum respectively, and are unsecured and repayable on demand.

(c) Particulars of the Company's principal subsidiaries at 31 December 2005 are set out in note 44 to the financial statements.

22 Interests in associates

	Group		Company	
	2005 HK$'million	2004 HK$'million	**2005 HK$'million**	2004 HK$'million
Listed shares, at cost				
Shares listed in Mainland China	**–**	–	**227**	181
Share of net assets of (note a):				
Listed associates	**2,101**	1,586	**–**	–
Unlisted associates	**8,220**	2,050	**–**	–
	10,321	3,636	**227**	181
Goodwill/(negative goodwill) (note b):				
Listed associates	**33**	8	**–**	–
Unlisted associates	**355**	237	**–**	–
	388	245	**–**	–
Advances to associates (note c)	**68**	101	**–**	–
	10,777	3,982	**227**	181
Market value of listed shares (note d)	**2,868**	900	**822**	900

Notes:

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

	2005 HK$'million	2004 HK$'million
Carrying value as at 1 January	3,636	3,344
Share of effect of adoption of HKFRS 3 by associates	(10)	–
Exchange adjustments	132	5
Share of associates' profits less losses		
- profit before taxation	1,941	1,350
- taxation	(191)	(163)
Share of reserves	28	–
Dividends received and receivable	(728)	(506)
Reclassifications	–	(525)
Acquisitions	5,655	131
Disposals	(142)	–
Carrying value as at 31 December	10,321	3,636

22 Interests in associates *(Continued)*

Notes: *(Continued)*

(b) Movement of goodwill/(negative goodwill) during the year:

	2005			2004		
	Goodwill HK$'million	Negative Goodwill HK$'million	Total HK$'million	Goodwill HK$'million	Negative Goodwill HK$'million	Total HK$'million
Carrying value as at 1 January	289	(44)	245	150	(55)	95
Derecognition of negative goodwill pursuant to transitional provision of HKFRS 3	–	44	44	–	–	–
Additions/acquisitions	99	–	99	148	–	148
Reclassification to subsidiary	–	–	–	–	8	8
Amortisation	–	–	–	(9)	3	(6)
Carrying value as at 31 December	388	–	388	289	(44)	245

Goodwill acquired through business combinations are allocated to the ports operations and ports-related operations for impairment testing. A summary of the goodwill allocation is presented below:

	2005 HK$'million	2004 HK$'million
Ports operations	355	237
Ports-related operations	33	8
	388	245

Estimates used to measure recoverable amount of cash-generating units containing goodwill are disclosed in note 4(a)(iv) to the financial statement.

(c) The advances to associates are unsecured, interest free and repayable on demand.

(d) As at 31 December 2004, the Group held a total of 226,644,612 shares in an associate listed in Mainland China, of which 163,701,456 shares were founder shares which were not transferable, and therefore in the opinion of the Directors, it was not meaningful to present the value of such founder shares based on the market value of the listed shares. The share of net assets attributable to the founder shares as at 31 December 2004 amounted to approximately HK$1,146 million. During the year, the founder shares were converted to ordinary shares which can be freely traded in the market.

22 Interests in associates *(Continued)*

Notes: *(Continued)*

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

	2005				2004			
		(note) Ports				(note) Ports		
	CIMC HK$'million	**operations HK$'million**	**Others HK$'million**	**Total HK$'million**	CIMC HK$'million	operations HK$'million	Others HK$'million	Total HK$'million
Turnover	**6,671**	**3,423**	**278**	**10,372**	5,584	2,055	240	7,879
Net interest income/ (expenses)	**(14)**	**(76)**	**–**	**(90)**	(4)	(12)	(1)	(17)
Depreciation and amortisation	**(71)**	**(311)**	**(4)**	**(386)**	(52)	(156)	(5)	(213)
Profit for the year	**605**	**1,114**	**31**	**1,750**	521	632	34	1,187
Non-current assets	**1,292**	**13,162**	**15**	**14,469**	818	3,824	47	4,689
Current assets	**2,427**	**5,263**	**25**	**7,715**	2,578	1,075	149	3,802
Current liabilities	**(1,327)**	**(5,114)**	**(10)**	**(6,451)**	(1,637)	(1,147)	(81)	(2,865)
Non-current liabilities	**(291)**	**(5,100)**	**(21)**	**(5,412)**	(173)	(1,805)	(12)	(1,990)
Net assets	**2,101**	**8,211**	**9**	**10,321**	1,586	1,947	103	3,636

Note:

Ports operations include the financial information of all associates within ports operations segment. Modern Terminals Limited ("MTL") and Shanghai International Ports (Group) Limited ("SIPG") are regarded as significant associates of the Group. In accordance with HKAS 28, detailed information including income, profit or losses, non-current assets, current assets, current liabilities, non-current liabilities and contingent liabilities of MTL and SIPG should be disclosed. However, it has been mutually agreed among all the respective shareholders of MTL and SIPG that the financial information of MTL and SIPG cannot be disclosed to parties other than the shareholders. Under such circumstances, the information pertaining to MTL and SIPG cannot be given separately in these financial statements. Nevertheless, in the opinion of the Directors, information given above is sufficient enough for shareholders to obtain a comparable information on MTL and SIPG and the non-disclosure of the information on MTL and SIPG alone would not prevent these financial statements from giving a true and fair view of the Group's results and state of affairs as a whole.

(f) Particulars of the Group's principal associates at 31 December 2005 are set out in note 45 to the financial statements.

23 Interests in jointly controlled entities

	Group		Company	
	2005	2004	**2005**	2004
	HK$'million	HK$'million	**HK$'million**	HK$'million
Unlisted investment, at cost	**–**	–	**3**	3
Share of net assets of jointly controlled entities (note a)	**3,124**	2,845	**–**	–
Goodwill (note b)	**404**	–	**–**	–
Loans to jointly controlled entities (note c)	**1,018**	1,244	**–**	–
Less: Provision for impairment loss	**(100)**	(100)	**–**	–
	4,446	3,989	**3**	3

Notes:

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

	2005	2004
	HK$'million	HK$'million
Carrying value as at 1 January	**2,845**	2,255
Exchange adjustments	**20**	2
Share of jointly controlled entities' profits less losses		
- profit before taxation	**471**	405
- taxation	**(30)**	(16)
Share of reserves	**1**	–
Dividends received	**(370)**	(198)
Acquisitions/capital contributions	**391**	397
Disposals	**(204)**	–
Carrying value as at 31 December	**3,124**	2,845

(b) Movement of goodwill during the year:

	2005	2004
	HK$'million	HK$'million
Carrying value as at 1 January	**–**	–
Additions	**404**	–
Carrying value as at 31 December	**404**	–

The Goodwill is attributable to ports operations. Estimates used to measure recoverable amounts of cash-generating units containing goodwill are disclosed in note 4(a)(iv) to the financial statements.

23 Interests in jointly controlled entities *(Continued)*

Notes: *(Continued)*

(c) Loans to jointly controlled entities are unsecured, interest free and have no fixed terms of repayment except for certain amounts totalling HK$192 million (2004: HK$290 million) which bears interest at 5.49% (2004: 4.94% to 5.49%) per annum.

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

	2005 HK$'million	2004 HK$'million
Turnover	842	672
Net interest income/(expenses)	(14)	10
Depreciation and amortisation	(188)	(181)
Profit for the year	441	389
Non-current assets	4,722	4,750
Current assets	1,005	826
Current liabilities	(267)	(423)
Non-current liabilities	(2,336)	(2,308)
Net assets	3,124	2,845

(e) Particulars of the Group's jointly controlled entities at 31 December 2005 are set out in note 46 to the financial statements.

24 Investments in infrastructure joint ventures

	2005 HK$'million	2004 HK$'million
Unlisted investments, at cost	–	67
Loans to infrastructure joint ventures	–	51
	–	118
Less:		
Accumulated capital receipts from infrastructure joint ventures	–	(23)
Accumulated amortisation	–	(14)
Provision for impairment loss	–	(15)
	–	66

Pursuant to the transitional provision of HKAS 39, the Group has redesignated the "investments in infrastructure joint ventures" as "held-to-maturity investments" with effect from 1 January 2005.

25 Investments in securities

	2005 HK$'million	2004 HK$'million
Unlisted shares, at cost	–	147
Listed shares in Mainland China, at cost	–	30
Loans to an investee	–	381
	–	558
Market value of listed shares	–	40

The loans to an investee were unsecured, bearing interest at 1% per annum and repayable on demand.

Pursuant to the transitional provision of HKAS 39, the Group has redesignated the "investments in securities" as "available-for-sale financial assets" with effect from 1 January 2005.

26 Other financial assets

	2005 HK$'million	2004 HK$'million
Other financial assets at fair value through profit and loss (note a)	30	–
Held-to-maturity investments (note b)	60	–
Available-for-sale financial assets (note c)	767	–
	857	–
Less: current portion included under current assets	(30)	–
Non-current portion	827	–

26 Other financial assets *(Continued)*

Notes:

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

	2005 HK$'million	2004 HK$'million
Listed investments		
- Equity shares - Hong Kong	18	–
- Equity shares - Overseas	7	–
Market value of listed shares	25	–
Unlisted investments – Overseas	5	–
	30	–

(b) Held-to-maturity investments

	2005 HK$'million	2004 HK$'million
Unlisted investments in Mainland China	60	–

(c) Available-for-sale financial assets

	2005 HK$'million	2004 HK$'million
Carrying value of redesignated financial assets	569	–
Fair value adjustment pursuant to transitional provision of HKAS 39	154	–
Carrying value as at 1 January 2005	723	–
Additions	150	–
Disposals	(132)	–
Repayment of advances	(14)	–
Interest income	1	–
Increase in fair value (note 34(a))	39	–
Carrying value as at 31 December 2005	767	–

26 Other financial assets *(Continued)*

Notes: *(Continued)*

(c) Available-for-sale financial assets *(Continued)*

Available-for-sale financial assets include the following:

	2005 HK$'million	2004 HK$'million
Listed equity investments in Mainland China	68	–
Unlisted investments:		
Unlisted equity investments in Hong Kong	106	–
Unlisted equity investments in Mainland China	151	–
Advances to an investee	442	–
	767	–

Advances to an investee are unsecured, bearing interest at 1% per annum and repayable on demand.

27 Inventories

	2005 HK$'million	2004 HK$'million
Raw materials	90	102
Finished goods	74	87
Spare parts and consumables	6	7
	170	196

28 Development properties for sale

	2005 HK$'million	2004 HK$'million
Freehold land outside Hong Kong	316	359
Development costs capitalised	65	56
	381	415
Progress billings received	–	(2)
Properties under development for sale	381	413
Completed properties for sale	–	15
	381	428

28 Development properties for sale *(Continued)*

The Group's interests in development properties for sale at their carrying values are analysed as follows:

	2005 HK$'million	2004 HK$'million
Freehold land and properties outside Hong Kong	**381**	424
Land use rights and properties outside Hong Kong, held on leases of between 10 to 50 years	**–**	4
	381	428

29 Debtors, deposits and prepayments

	Group		**Company**	
	2005 HK$'million	2004 HK$'million	**2005 HK$'million**	2004 HK$'million
Trade debtors (note a)	**743**	672	**–**	–
Other debtors, deposits and prepayments	**192**	112	**13**	20
Dividend receivable from an associate	**178**	–	**–**	–
Amounts due from immediate holding company and fellow subsidiaries (note b)	**52**	4	**1**	1
Amounts due from associates (note b)	**–**	14	**–**	–
Amount due from a jointly controlled entity (note b)	**73**	2	**–**	–
Amounts due from related companies (note b)	**4**	–	**–**	–
	1,242	804	**14**	21

29 Debtors, deposits and prepayments *(Continued)*

Notes:

(a) Included in trade debtors at 31 December 2005 are amounts due from associates, a minority shareholder of subsidiaries and bill receivables totalling HK$215 million (2004: HK$254 million), HK$6 million (2004: HK$12 million) and HK$26 million (2004: HK$12 million) respectively.

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:

	2005 HK$'million	Restated 2004 HK$'million
Not yet due	213	291
1 - 30 days	234	133
31 - 60 days	107	80
61 - 120 days	97	103
Over 120 days	92	65
	743	672

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

30 Other investments

	2005 HK$'million	2004 HK$'million
Listed shares in Mainland China, at market value	–	29
Listed shares in overseas, at market value	–	12
Unlisted investments, at cost	–	4
	–	45

Pursuant to the transitional provision of HKAS 39, the Group has redesignated the "other investments" as "available-for-sale financial assets" and "other financial assets at fair value through profit and loss" with effect from 1 January 2005.

31 Cash and cash equivalents

	Group		Company	
	2005	2004	**2005**	2004
	HK$'million	HK$'million	**HK$'million**	HK$'million
Cash at bank and in hand	**462**	577	**22**	91
Time deposits with initial term of less than three months (note a)	**478**	1,494	**343**	1,379
	940	2,071	**365**	1,470
Denominated in:				
Hong Kong dollar	**239**	1,530	**86**	1,433
Renminbi (note b)	**283**	158	**—**	—
US dollar	**364**	202	**279**	37
Other currencies	**54**	181	**—**	—
	940	2,071	**365**	1,470

Notes:

(a) The weighted average effective interest rate on time deposits during the year was approximately 3.47% (2004: 2.27%) per annum. These deposits have an average maturity of 22 (2004: 39) days.

(b) Deposits denominated in Renminbi were deposits placed with banks in Mainland China, the repatriations of which is subject to foreign exchange control regulations of the PRC.

32 Non-current assets classified as held for sale

The Group's interests in two jointly controlled entities, namely Ningbo Zhen Luo Highway Co. Ltd. and Ningbo Changzhen Highway Co., Ltd. ("Ningzhenluo JVs") which are part of the Group's toll road operation, have been classified as assets held for sale as the Directors decided to dispose the Group's interests in these jointly controlled entities.

The Group entered into sale and purchase agreements on 31 March 2006 with a third party to dispose of its interests in the Ningzhenluo JVs for a cash consideration of approximate the carrying amount of the Group's interests in the Ningzhenluo JVs as at 31 December 2005. As at 31 December 2005, the Group's interests in the Ningzhenluo JVs comprised investment cost and loans totalling HK$163 million and HK$48 million respectively.

33 Share capital

	Company			
	2005 Number of shares	2004 Number of shares	**2005 HK$'million**	2004 HK$'million
Ordinary shares of HK$0.1 each				
Authorised:	**3,000,000,000**	3,000,000,000	**300**	300
Issued and fully paid ordinary shares of HK$0.1 each:				
At 1 January	**2,142,192,974**	2,140,142,974	**214**	214
Issue of shares on exercise of share options (note a)	**9,839,000**	2,050,000	**1**	–
Issue of scrip dividend shares (note b)	**42,524,636**	–	**4**	–
At 31 December	**2,194,556,610**	2,142,192,974	**219**	214

Notes:

(a) During the year, the Company issued shares on exercise of share options as follows:

Issued during the following period in 2005	Date of grant	Number of shares issued	Exercise price per share HK$	Nominal value of shares issued HK$'million	Premium on shares issued HK$'million	Total consideration HK$'million
7 July to 18 August	1 March 2000	4,250,000	5.054	0.43	21.05	21.48
17 May to 21 December	19 September 2000	700,000	5.615	0.07	3.86	3.93
23 March	6 July 2001	350,000	5.610	0.04	1.92	1.96
3 January to 14 November	11 October 2002	4,100,000	4.985	0.41	20.03	20.44
31 October to 21 December	27 October 2004	439,000	11.08	0.04	4.82	4.86
		9,839,000		0.99	51.68	52.67

The weighted average share price at the time of exercise was HK$15.55 per share. The related transaction costs of HK$0.2 million have been deducted from the proceeds received.

33 Share capital *(Continued)*

(b) The Company offered to its shareholders a scrip dividend alternative under which the shareholders could elect to receive new ordinary share in lieu of a cash dividend. Details of ordinary shares of HK$0.1 each issued by the Company in lieu of cash dividends are as follows:

	Date of issue	Number of share issued	Nominal value of share issued HK$'million	Premium on shares issued HK$'million	Total scrip dividend HK$'million
2004 final dividend	28 June 2005	27,194,490	3	387	390
2005 interim dividend	21 November 2005	15,330,146	1	242	243
		42,524,636	4	629	633

(c) Since 1 January 2006 to the date of approval of these financial statements, the Company issued and allotted the following ordinary shares:

(i) A total of 84,952,620 ordinary shares of HK$0.1 at HK$16.8 per share to satisfy part of the purchase consideration for the acquisition of certain pieces of land as disclosed in note 43(a) to the financial statements.

(ii) A total of 2,753,000 ordinary shares of HK$0.1 at an average exercise price of HK$9.1 per share upon the exercise of share options which were granted under the share option schemes disclosed in note 33(d) to the financial statements.

(d) Share options

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 year, 200,000 options to subscribe for ordinary shares of the Company was granted under the Existing Scheme. As at 31 December 2005, there were 1,050,000 options and 27,371,000 options outstanding which are exercisable subject to the terms of the Terminated Scheme and the Existing Scheme respectively.

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

	2005		2004	
	Weighted average exercise price HK$	**Number of share options**	Weighted average exercise price HK$	Number of share options
At 1 January	**8.97**	**40,210,000**	5.08	16,200,000
Granted	**15.31**	**200,000**	11.08	26,060,000
Exercised	**5.35**	**(9,839,000)**	5.03	(2,050,000)
Lapsed	**10.65**	**(2,150,000)**	–	–
At 31 December	**10.14**	**28,421,000**	8.97	40,210,000

Out of the 28,421,000 outstanding options, 4,600,000 options were exercisable as at 31 December 2005.

33 Share capital *(Continued)*

Notes: *(Continued)*

(d) Share options *(Continued)*

Share options outstanding at 31 December 2005 have the following expiry dates and exercise prices:

Year of expiry	Exercise price HK$	**2005 Number of share options**	2004 Number of share options
2006	5.054	**350,000**	4,600,000
2006	5.615	**350,000**	1,050,000
2007	5.610	**350,000**	700,000
2012	4.985	**3,550,000**	7,800,000
2014	11.08	**23,621,000**	26,060,000
2015	15.31	**200,000**	–
		28,421,000	40,210,000

The fair values of options granted on 27 October 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 October 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.

During the year, no ordinary shares were repurchased and a total of 2,000,000 options and 150,000 options at an exercise price of HK$11.08 and HK$4.985 respectively were lasped.

34 Reserves

(a) Other reserves

	Group					
	Share-based compensation reserves HK$'million	(note i) Capital reserve/ (Goodwill) HK$'million	Investment revaluation reserve HK$'million	Exchange reserve HK$'million	(note ii) Statutory reserves HK$'million	Total HK$'million
At 31 December 2004, as previously reported	–	(144)	1	19	648	524
Effect of adoption of HKFRS 2	4	–	–	–	–	4
At 31 December 2004, as restated	4	(144)	1	19	648	528
Effect of adoption of HKAS 32 and HKAS 39	–	–	151	–	–	151
At 1 January 2005	4	(144)	152	19	648	679
Transfer to retained earnings upon disposal of an associate	–	2	–	–	–	2
Realisation of reserves upon disposal of an available-for-sale financial asset	–	–	(17)	–	–	(17)
Share of reserves of associates and jointly controlled entities	–	–	29	–	–	29
Exchange adjustments	–	–	–	223	–	223
Increase in fair value of available-for-sale financial assets (note 26(c))	–	–	39	–	–	39
Share-based payments (note 9)	32	–	–	–	–	32
Transfer from retained earnings	–	–	–	–	323	323
At 31 December 2005	36	(142)	203	242	971	1,310

34 Reserves *(Continued)*

(a) Other reserves *(Continued)*

	Group					
	Share-based compensation reserves HK$'million	(note i) Capital reserve/ (Goodwill) HK$'million	Investment revaluation reserve HK$'million	Exchange reserve HK$'million	(note ii) Statutory reserves HK$'million	Total HK$'million
At 1 January 2004	–	(142)	1	6	192	57
Realisation of reserves upon disposal of subsidiaries and associates	–	(2)	–	(9)	–	(11)
Exchange adjustments	–	–	–	22	–	22
Share-based payments (note 9)	4	–	–	–	–	4
Transfer from retained earnings	–	–	–	–	456	456
At 31 December 2004	4	(144)	1	19	648	528

Notes:

(i) Included in capital reserve is an amount of HK$2,340 million which arose in 1998 upon reduction of share premium as confirmed by the order of the High Court of the Hong Kong Special Administrative Region. It is a non-distributable reserve.

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

34 Reserves *(Continued)*

(b) Reserves

	Company				
	Share premium HK$'million	Share-based compensation reserve HK$'million	(note) Capital reserve HK$'million	Retained earnings HK$'million	Total HK$'million
At 1 January 2005, as previously reported	8,485	–	2,340	1,508	12,333
Effect of adoption of HKFRS 2	–	4	–	(4)	–
At 1 January 2005, as restated	8,485	4	2,340	1,504	12,333
Issue of shares on exercise of share options (note 33(a))	52	–	–	–	52
Share-based payments (note 9)	–	32	–	–	32
Profit for the year	–	–	–	609	609
2004 final dividend paid (note 33(b))	387	–	–	(643)	(256)
2005 interim dividend paid (note 33(b))	242	–	–	(370)	(128)
At 31 December 2005	9,166	36	2,340	1,100	12,642
Represented by:					
Reserves	9,166	36	2,340	347	11,889
Proposed final dividend	–	–	–	753	753
	9,166	36	2,340	1,100	12,642
At 1 January 2004	8,475	–	2,340	738	11,553
Issue of shares on exercise of share options	10	–	–	–	10
Share-based payments (note 9)	–	4	–	–	4
Profit for the year	–	–	–	1,708	1,708
2003 final dividend paid	–	–	–	(621)	(621)
2004 interim dividend paid	–	–	–	(321)	(321)
At 31 December 2004	8,485	4	2,340	1,504	12,333
Represented by:					
Reserves	8,485	4	2,340	861	11,690
Proposed final dividend	–	–	–	643	643
	8,485	4	2,340	1,504	12,333

Note:

The Company's capital reserve, which arose in 1998 upon reduction of share premium as confirmed by the Order of the High Court of the Hong Kong Special Administrative Region, is a non-distributable reserve.

35 Other financial liabilities

	2005 HK$'million	2004 HK$'million
Short-term bank loans		
- unsecured	456	213
- secured (note a)	21	–
Long-term bank loans, wholly repayable within five years		
- unsecured	2,802	1,448
- secured (note a)	69	107
Long-term bank loans, not wholly repayable within five years, unsecured	1,069	–
	4,417	1,768
Loans from minority shareholders of subsidiaries (note b)	62	328
Listed Notes Payable (note c)	3,852	–
	8,331	2,096
Less: amounts due within one year included under current liabilities	(539)	(348)
Non-current portion	7,792	1,748

Notes:

(a) Bank loans of HK$90 million (2004: HK$107 million) are secured by mortgage debenture over all assets of certain subsidiaries with aggregated carrying value of HK$416 million (2004: HK$448 million) including freehold land and buildings with an aggregate carrying value of HK$11 million (2004: HK$12 million).

(b) Loans from minority shareholders of subsidiaries are unsecured, interest free (2004: HK$132 million borne interest at 6.138% per annum) and are repayable on demand.

(c) On 7 March 2005, the Group issued the Listed Notes Payable which will be mature in 2015.

(d) The Group had undrawn bank loan facilities amounting to HK$3,105 million (2004: HK$5,520 million) as of 31 December 2005.

35 Other financial liabilities *(Continued)*

Notes: *(Continued)*

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

	Bank loans		Listed Notes Payable		Loans from minority shareholders of subsidiaries		Total	
	2005 HK$'million	2004 HK$'million	**2005 HK$'million**	2004 HK$'million	**2005 HK$'million**	2004 HK$'million	**2005 HK$'million**	2004 HK$'million
Within 1 year	**477**	254	**–**	–	**62**	94	**539**	348
Between 1 and 2 years	**1,295**	66	**–**	–	**–**	–	**1,295**	66
Between 2 and 5 years	**1,576**	1,448	**–**	–	**–**	–	**1,576**	1,448
Wholly repayable within 5 years	**3,348**	1,768	**–**	–	**62**	94	**3,410**	1,862
Not wholly repayable within 5 years	**1,069**	–	**3,852**	–	**–**	234	**4,921**	234
	4,417	1,768	**3,852**	–	**62**	328	**8,331**	2,096

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

	Bank loans		Listed Notes Payable		Loans from minority shareholders of subsidiaries	
	2005	2004	**2005**	2004	**2005**	2004
Hong Kong dollar	**1.55% to 5.02%**	0.74% to 1.94%	**–**	–	**–**	–
Renminbi	**4.70% to 5.27%**	4.78% to 5.27%	**–**	–	**–**	6.14%
US dollar	**4.28% to 4.34%**	–	**5.47%**	–	**–**	–
Other currencies	**8.69%**	8.53%	**–**	–	**–**	–

(g) The carrying amounts of other financial liabilities approximate their fair values as at 31 December 2005, except for the Listed Notes Payable whose fair value was HK$3,766 million as at 31 December 2005. The fair value was determined with reference to quoted market price of the Listed Notes Payable.

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

	2005 HK$'million	2004 HK$'million
Hong Kong dollar	**3,231**	1,394
Renminbi	**1,140**	596
US dollar	**3,870**	–
Other currencies	**90**	106
	8,331	2,096

36 Deferred taxation

Deferred taxation are calculated in full on temporary differences under the liability method using taxation rates enacted or substantively enacted by the balance sheet date in the respective jurisdictions. The movement on the deferred tax liabilities/(assets) account is as follows:

	Group	
	2005 HK$'million	2004 HK$'million
At 1 January, as previously reported	**140**	(9)
Effect of adoption of HKAS 40	**(24)**	(24)
At 1 January, as restated	**116**	(33)
Exchange adjustments	**1**	(1)
Acquisitions and reclassifications of subsidiaries	**–**	151
Charged/(credited) to income statement (note 12)	**3**	(1)
At 31 December	**120**	116

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK$90 million (2004: HK$75 million) to carry forward against future taxable income. The unrecognised tax losses of HK$78 million (2004: HK$67 million) can be carried forward infinitively. The remaining HK$12 million (2004: HK$8 million) expires in the following years:

	Group	
	2005 HK$'million	2004 HK$'million
2008	**5**	5
2009	**3**	3
2010	**4**	–
	12	8

36 Deferred taxation *(Continued)*

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax assets	Group							
	Provisions for doubtful debts and inventories		Impairment of assets		Tax losses		Total	
	2005 HK$'million	2004 HK$'million	2005 HK$'million	2004 HK$'million	2005 HK$'million	2004 HK$'million	2005 HK$'million	2004 HK$'million
At 1 January, as previously reported	12	9	4	5	–	2	16	16
Effect of adoption of HKAS 40	–	–	24	24	–	–	24	24
At 1 January, as stated	12	9	28	29	–	2	40	40
Exchange adjustments	–	–	(1)	1	–	–	(1)	1
Charged/(credited) to income statement	–	3	(4)	(3)	–	(2)	(4)	(2)
Acquisition of subsidiaries	–	–	–	1	–	–	–	1
At 31 December	12	12	23	28	–	–	35	40

Deferred tax liabilities	Group	
	Accelerated tax depreciation allowance	
	2005 HK$'million	2004 HK$'million
At 1 January	156	7
Credited to income statement	(1)	(3)
Acquisitions and reclassifications of subsidiaries	–	152
At 31 December	155	156

37 Creditors and accruals

	Group		Company	
	2005	2004	**2005**	2004
	HK$'million	HK$'million	**HK$'million**	HK$'million
Trade creditors (note a)	**369**	319	**–**	–
Other payables and accruals	**876**	328	**15**	7
Amounts due to an intermediate holding company and fellow subsidiaries (note b)	**20**	15	**–**	–
Amounts due to associates (note b)	**1**	5	**–**	–
Amounts due to minority shareholders of subsidiaries (note b)	**18**	43	**–**	–
	1,284	710	**15**	7

Notes:

(a) Included in trade creditors at 31 December 2005 is an amount due to a minority shareholder of subsidiaries totalling HK$10 million (2004: HK$3 million).

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

	2005	2004
	HK$'million	HK$'million
0 - 30 days	**237**	262
31 - 60 days	**96**	19
61 - 120 days	**4**	4
Over 120 days	**32**	34
	369	319

(b) The amounts are unsecured, interest free and repayable on demand except for amounts due to minority shareholders of subsidiaries of HK$18 million (2004: HK$40 million), which bear interest at HIBOR plus 0.5% per annum.

38 Consolidated cash flow statement

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

	2005 HK$'million	Restated 2004 HK$'million
Operating profit:	662	193
Adjustments for:		
Depreciation and amortisation	196	147
Net gains on disposal of associates and jointly controlled entities	(95)	–
Gain on disposal of other financial assets	(35)	–
Net gains on disposal of property, plant and equipment	–	(14)
Increase in other investments	–	(4)
Decrease in fair value of other financial assets at fair value through profit and loss	2	–
Interest income	(92)	(20)
Income received from held-to-maturity investments	(9)	–
Income received from infrastructure joint ventures	–	(13)
Net unrealised gain on other listed investments	–	(4)
Dividend income from other listed investments	–	(2)
Increasing fair value of investment properties	(101)	–
Share-based payments	32	4
Operating profit before working capital changes	560	287
Decrease/(increase) in inventories and development properties for sales	65	(44)
Increase in debtors, deposits and prepayments	(197)	(84)
Increase in creditors and accruals	21	131
Net cash inflow from operations	449	290

38 Consolidated cash flow statement *(Continued)*

(b) Analysis of changes in financing during the year:

	Share capital and share premium HK$'million	Other financial liabilities HK$'million	Minority interests HK$'million
At 1 January 2005	8,699	2,096	1,230
Cash items:			
Issue of shares on exercise of share options	53	–	–
Repayment of loans	–	(335)	–
New loans borrowed	–	6,653	–
Capital contributions	–	–	78
Dividends paid to minority shareholders	–	–	(67)
Non-cash items:			
Issue of scrip dividend shares	633	–	–
Exchange adjustments	–	(31)	21
Share of profit for the year by minority shareholders	–	–	169
Capitalisation of loans from minority shareholders	–	(52)	52
Deemed acquisitions	–	–	(15)
At 31 December 2005	9,385	8,331	1,468
At 1 January 2004	8,689	325	866
Cash items:			
Issue of shares on exercise of share options	10	–	–
Repayment of loans	–	(12)	–
New loans borrowed	–	1,633	–
Net loans received from minority shareholders	–	80	–
Dividends paid to minority shareholders	–	–	(31)
Non-cash items:			
Share of profit for the year by minority shareholders	–	–	63
Acquisitions of subsidiaries	–	108	86
Reclassifications of subsidiaries	–	(38)	(64)
Partial disposal of interests in subsidiaries	–	–	310
At 31 December 2004	8,699	2,096	1,230

39 Commitments

(a) Capital commitments for property, plant and equipment

	Group		Company	
	2005	2004	**2005**	2004
	HK$'million	HK$'million	**HK$'million**	HK$'million
Authorised but not contracted for	**1,826**	2,713	**–**	–
Contracted but not provided for	**3,453**	1,584	**–**	–
	5,279	4,297	**–**	–

(b) Capital commitments for investments

	Group		Company	
	2005	2004	**2005**	2004
	HK$'million	HK$'million	**HK$'million**	HK$'million
Contracted but not provided for				
Investments	**227**	5,365	**–**	–
Port projects	**260**	330	**–**	–
	487	5,695	**–**	–

(c) Commitments under operating leases

At 31 December 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases for leasehold land, land use rights and property, plant and equipment as follows:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'million	HK$'million	**HK$'million**	HK$'million
Within one year	**63**	64	**–**	–
In the second to fifth year inclusive	**29**	36	**–**	–
	92	100	**–**	–

39 Commitments *(Continued)*

(d) Future operating lease receivables

At 31 December 2005, the Group had future aggregate lease receivables under non-cancellable operating leases for land and buildings as follows:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'million	HK$'million	**HK$'million**	HK$'million
Within one year	**13**	27	**–**	–
In the second to fifth year inclusive	**8**	3	**–**	–
After the fifth year	**1**	–	**–**	–
	22	30	**–**	–

40 Contingent liabilities

At 31 December 2005, there were contingent liabilities in respect of the following:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'million	HK$'million	**HK$'million**	HK$'million
Guarantees for bank loans and overdrafts of subsidiaries	**–**	–	**6,413**	1,218
Guarantees for bank loans of an associate	**4**	3	**4**	3
Guarantees for bank loans of an investee	**7**	7	**7**	7
	11	10	**6,424**	1,228

41 Business combinations

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

(a) 17.5% interest in Shekou Container Terminal (Phase I) Limited

On 23 March 2005, the Group acquired the entire interest in COSCO Ports (Shekou) Limited (now renamed as China Merchants Ports (Shekou) Limited) ("CMPSL"), a company incorporated in the British Virgin Islands, and took assignment of the shareholder's loan from the vendor, COSCO Pacific Limited ("CPL"). The sole major asset of CMPSL is its holding of approximately 17.5% interest in Shekou Container Terminal (Phase I) 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 increased from 32.5% to 50%.

41 Business combinations *(Continued)*

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

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

	HK$'million
Purchase consideration paid in cash	610
Fair value of share of net assets acquired - shown as below	(206)
Goodwill	404

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

	Fair value HK$'million	Carrying amount HK$'million
Non-current assets	826	567
Current assets	1,008	1,008
Current liabilities	(351)	(351)
	1,483	1,224
Less: interests attributable to the Group's original equity interest of 32.5% and other joint venture partners	(1,277)	
Share of net assets acquired	206	

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

(b) 30% interest in SIPG

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 SIPG.

41 Business combinations *(Continued)*

(b) 30% interest in SIPG *(Continued)*

The transaction was completed on 28 June 2005 and the Group accounted for its investment in SIPG as an investment in an associate.

Details of share of net assets of the associate acquired and goodwill are as follows:

	HK$'million
Purchase consideration paid in cash	5,234
Direct costs relating to the acquisition	30
Fair value of share of net assets acquired	(5,189)
Goodwill	75

The goodwill is attributable to the significant synergies in the Group's ports operation in Shanghai expected to arise after to Group's acquisition SIPG.

(c) 4.9% interest in MTL

On 30 July 2005, the Group entered into a sale and purchase agreement to acquire additional equity interest of 5.03% in MTL, an associate of the Group which engaged in the ports operations in Hong Kong, at a consideration of HK$828 million. On 6 October 2005, the Group entered into another agreement with MTL pursuant to which MTL agreed to repurchase 2.51% of its own equity interest from the Group at a consideration of HK$414 million. Management considered these transactions were series of related transactions directly attributable to the acquisition of additional interests in MTL. Accordingly, these transactions have been taken into accounts for the purpose of calculation of goodwill arise from the acquisition. The acquisition was deem to be completed on 15 August 2005. The Group's interest in MTL was effectively increased by 4.9%.

Details of share of net assets of the associate acquired and goodwill are as follows:

	HK$'million
Purchase consideration paid in cash	414
Fair value of share of net assets acquired	(414)
Goodwill	–

42 Related party transactions

Related parties refer to entities in which CMG has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions, or directors or officers of the Company. Given that the PRC government still owns a significant portion of the operating assets in the PRC despite the continuous reform of the government structure, the majority of the Group's business activities had been conducted with certain enterprises directly or indirectly owned or controlled by the PRC government (the "State-controlled Enterprises"), including CMG, its subsidiaries, associates and jointly controlled entities (collectively referred as to the "CMG Group") in the ordinary course of business. In accordance with HKAS 24, state-controlled enterprises and their subsidiaries, other than entities under CMG (also a state-controlled enterprise), directly or indirectly controlled by the PRC government are also defined as related parties of the Group. Neither CMG nor the PRC government has published financial statements.

In addition to the related party information shown elsewhere in these financial statements, the following is a summary of significant related party transactions entered into in the normal course of business between the Group and its related parties during the year and balances arising from related transactions at 31 December 2005 indicated below:

(a) Balances and transactions with the CMG Group

	Note	**2005** **HK$'million**	2004 HK$'million
Sales of goods to	(i)		
- associates		**501**	485
- a fellow subsidiary		**4**	—
Rental income from	(ii)		
- an intermediate holding company		**16**	16
- fellow subsidiaries		**8**	8
Interest income from	(iii)		
- a jointly controlled entity		**22**	3
- a fellow subsidiary		**3**	—
Rental expenses paid to fellow subsidiaries	(ii)	**41**	44
Management fee paid to a fellow subsidiary	(iv)	**—**	10
Service fee paid to a fellow subsidiary	(v)	**6**	5

42 Related party transactions *(Continued)*

(a) Balances and transactions with the CMG Group *(Continued)*

Notes:

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

(ii) The Group rented certain vessels and properties from and leased office premises to the CMG Group. Rental income or expense is charged at a fixed amount per month in accordance with respective tenancy agreements.

(iii) Interest income was charged at interest rates as specified in note 23(c) to the financial statements on the outstanding amounts due from the jointly controlled entities.

(iv) A fellow subsidiary provided management services to the Group's oil tanker operation. Management fee was charged at rates in accordance with relevant agreements. The entire interests in oil tanker operation was disposed of in 2004.

(v) A fellow subsidiary provided barges to bring ships into ports operated by the Group. The service fee was charged by reference to market rates.

(vi) On 3 October 2005, the Group disposed of its entire interest in Fair Win Developments Limited, a subsidiary of the Group, whose principal activity was holding of an available-for-sale investment, to China Merchants Technology Holdings Company Limited, a fellow subsidiary, at a consideration of US$19.5 million (approximately HK$151 million).

The balances with entities within the CMG Group as at 31 December 2005 are disclosed in notes 22, 23, 29 and 37 to the financial statements.

(b) Transactions with other Stated-controlled Enterprises

(i) On 23 March 2005, the Group acquired 17.5% in SCT I from CPL at a consideration of HK$610 million (note 41(a)).

(ii) In June 2005, the Group subscribed new shares in SIPG at a cash consideration of HK$5,234 million which represent 30% of the capital of SIPG which is indirectly owned or controlled by the PRC government (note 41(b)).

(iii) During the year, the Group engaged certain State-controlled Enterprises in the construction of ports and related facilities amounting to approximately HK$904 million (2004: HK$1,035 million).

42 Related party transactions *(Continued)*

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

	Note	2005 HK$'million	2004 HK$'million
Royalty expense	(i)	**40**	42
Sales of goods	(ii)	**156**	137
Interest expense	(iii)	**1**	1

Notes:

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

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

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

The balances with minority shareholders of subsidiaries are disclosed in notes 29, 35 and 37 to the financial statements.

(d) Transactions with other related parties

(i) On 15 December 2005, the Group disposed of its entire interests in PPG Coatings (Hong Kong) Company Limited ("PPGC"), an associate, to PPG Industries Securities, Inc. who, directly or directly, holds 70% interest in PPGC, at a consideration of US$28 million (approximately HK$218 million).

(ii) During the year, the Group received interest income of HK$3 millon (2004: Nil) from other joint venture partners of a jointly controlled entity. Interest income was charged at interest rates as specified in note 23(c) to the financial statements on the outstanding amounts due from the jointly controlled entities.

(e) Key management compensation

	2005 HK$'million	2004 HK$'million
Salaries and other short-term employee benefits	**9**	8
Share-based payments	**5**	1
	14	9

43 Subsequent events

(a) On 27 January 2006, the Group issued 84,952,620 ordinary shares of the Company to a wholly-owned subsidiary of CMG for settlement of part of the consideration amounting to HK$1,427 million pursuant to sale and purchase agreements entered into by the Group on 14 December 2005 to acquire certain pieces of land located in Shekou, Shenzhen, the PRC at an aggregated consideration of approximately HK$2,066 million.

(b) On 31 March 2006, the Group entered into sale and purchase agreements with a third party to disposal of its interests in the Ningzhenluo JVs for a cash consideration of approximate the carrying amount of the Group's interests in the Ningzhenluo JVs as at 31 December 2005 (note 32).

44 Particulars of principal subsidiaries

The table below lists only those subsidiaries of the Group which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

Particulars of the Group's principal subsidiaries are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of issued capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Bitto Limited	British Virgin Island	US$1	100%	–	Provision of financial services
China Merchants Container Services Limited [1]	Hong Kong	HK$500,000	–	100%	Provision of container terminal services and port transportation
China Merchants Holdings (Pacific) Limited [1]	Singapore	S$426,888, 000	–	71.92%	Investment holding
China Merchants International Terminals (Ningbo) Limited	BVI	US$1	100%	–	Investment holding
CMH International (China) Investments Company Limited [1]	PRC	US$30,000,000	100%	–	Investment holding
China Merchants International Terminal (Qingdao) Company Limited ^	PRC	US$12,000,000	–	90.1%	Port, container terminal and logistic business
China Merchants International Marinetime and Logistic (Qingdao) Co. Limited # [1]	PRC	US$12,000,000	–	100%	Provision of container terminal services and port transportation

44 Particulars of principal subsidiaries *(Continued)*

Name of subsidiary	Place of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of issued capital/ registered capital held by the Company Directly	Proportion of issued capital/ registered capital held by the Company Indirectly	Principal activities
China Merchants International Container Terminal (Qingdao) Co. Ltd # 1	PRC	US$15,000,000	–	100%	Provision of container terminal services and ports transportation
China Merchants Port Service (Shenzhen) Company Limited 1	PRC	RMB550,000,000	–	100%	Provision of terminal services and ports transportation
China Merchants (CIMC) Holdings Limited (formerly known as "Fair Oaks Development Limited")	Hong Kong	HK$2	100%	–	Investment holding and securities trading
Hempel-Hai Hong (China) Limited	Hong Kong	HK$106,000,000	–	64%	Sales of paint products
Hempel-Hai Hong Coatings (Kunshan) Company Limited #	PRC	HK$40,000,000	–	64%	Manufacture and sales of paint products
Hempel-Hai Hong Coatings (Shenzhen) Company Limited #	PRC	HK$40,000,000	–	64%	Manufacture and sales of paint products
Hempel-Hai Hong Coatings (Yantai) Company Limited #	PRC	HK$20,000,000	–	64%	Manufacture and sales of paint products

44 Particulars of principal subsidiaries *(Continued)*

Name of subsidiary	Place of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of issued capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Hempel Coatings (Shenzhen) Company Limited #	PRC	HK$20,000,000	–	64%	Manufacture and sales of paint products
Residential Finance Limited [1]	New Zealand	NZD98,177	–	71.92%	Provision of finance
The House Loan Company Limited [1]	New Zealand	NZD340,100	–	71.92%	Provision of finance
Universal Homes Limited [1]	New Zealand	NZD1,012,000	–	71.92%	Property development
Shenzhen Mawan Port Service Co., Ltd. ^	PRC	RMB200,000,000	–	30.0%	Operation of berth No.5 in Mawan, Shenzhen, PRC
Shenzhen Mawan Wharf Co., Ltd. ^	PRC	RMB200,000,000	–	30.0%	Operation of berth No.0 in Mawan, Shenzhen, PRC
Shenzhen Mawan Terminals Co., Ltd. ^	PRC	RMB200,000,000	–	30.0%	Operation of berths No.6 & No.7 in Mawan, Shenzhen, PRC
Universal Sheen Investment Limited	Hong Kong	HK$100	100%	–	Property holding
Zhangzhou China Merchants Port Company Limited ^ [1]	PRC	RMB1,000,000,000	–	60%	Operation of berths No. 3 to No. 6 in the Zhangzhou Economic Development Zone, Fujian Province PRC
Shekou Container Terminals (Phase III) Company Limited#	PRC	RMB1,276,000,000	–	100%	Operation of berth No. 5, 6, 7 in Shekou, PRC

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

\# Foreign investment enterprises.

^ Sino-foreign joint ventures

45 Particulars of principal associates

The table below lists only those associates of the Group which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the Directors, result in particulars of excessive length.

Particulars of the Group's principal associates are as follows:

Name of associate	Place of incorporation/ registration and operation	Proportion of issued capital/ registered capital held by the Company		Principal activities
		Directly	Indirectly	
Asia Airfreight Terminals Company Limited [1]	Hong Kong	–	20%	Airfreight
China International Marine Containers (Group) Co., Ltd. (B shares listed in the Mainland China) [1]	PRC	6.52%	16.23%	Design, manufacture and sales of dry freight containers and refrigerated containers
China Nanshan Development (Group) Incorporation ^ [1]	PRC	–	37%	Ports transportation, petroleum services, property development,food and oil processing, building materials and other engineering services
Modern Terminals Limited [1]	Hong Kong	–	27.01%	Provides container terminal services and warehouse services
Chiwan Container Terminal Co. Ltd ^	PRC	–	20%	Ports and container terminal business
上海國際港務（集團）股份有限公司 ^ [1]	PRC	–	30%	Ports and container terminal business

45 Particulars of principal associates *(Continued)*

Name of associate	Place of incorporation/ registration and operation	Proportion of issued capital/ registered capital held by the Company		Principal activities
		Directly	Indirectly	
Shenzhen Haixing Harbor Development Co., Ltd ^	PRC	–	33%	Ports and container terminal business
Valspar Hai Hong Coatings (Shenzhen) Company Limited ^ [1]	PRC	–	40%	Manufacture and sales of packaging coating

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

^ Sino-foreign joint ventures.

46 Particulars of principal jointly controlled entities

The table below lists only those jointly controlled entities of the Group which, in the opinion of the Directors, principally affected the results for the year or form a substantial portion of the net assets of the Group. To give details of other jointly controlled entities would, in the opinion of the Directors, result in particular of excessive length.

Particulars of the Group's principal jointly controlled entities are as follows:

Name of jointly controlled entity	issued capital/ registered capital	Proportion of issued capital/ registered capital held indirectly by the Company	Principal activities
Guangxi Fushan Infrastructure Facilities Co., Ltd. ^ [1]	HK$55,317,800	40%	Operation of toll road
Guangxi Guida Infrastructure Co., Ltd. ^ [1]	HK$90,737,370	40%	Operation of toll road
Guangxi Liugui Highway Co., Ltd. ^ [1]	HK$92,563,400	40%	Operation of toll road
Guangxi Liujing Highway Co., Ltd ^ [1]	HK$84,661,600	40%	Operation of toll road
Guangxi Luqing Highway Construction Co., Ltd ^ [1]	HK$89,692,600	40%	Operation of toll road
廣西新村公路管理有限責任公司 ^ [1]	HK$84,126,200	40%	Operation of toll road
Guangxi Rongzhu Highway Construction Co., Ltd. ^ [1]	HK$83,443,000	40%	Operation of toll road

46 Particulars of principal jointly controlled entities *(Continued)*

Name of jointly controlled entity	issued capital/ registered capital	Proportion of issued capital/ registered capital held indirectly by the Company	Principal activities
廣西黃里路面管理有限責任公司 ^ [1]	HK$67,552,000	40%	Operation of toll road
Guangxi Wanli Highway Engineering Co., Ltd. ^ [1]	HK$92,453,900	40%	Operation of toll road
Guangxi Wushi Highway Co., Ltd. ^ [1]	HK$66,732,800	40%	Operation of toll road
Guangxi Xinya Engineering Co., Ltd. ^ [1]	HK$73,232,200	40%	Operation of toll road
Guangxi Zhenxing Infrastructure Facilities Co., Ltd. ^ [1]	HK$49,317,000	40%	Operation of toll road
Guizhou Jinguan Highway Co., Ltd. ^ [1]	US$11,761,300	60%	Operation of toll road
Guizhou Jinhua Highway Co., Ltd. ^ [1]	US$11,372,100	60%	Operation of toll road
Guizhou Pantao Highway Co., Ltd. ^ [1]	US$10,204,320	60%	Operation of toll road
Guizhou Yunguan Highway Co., Ltd. ^ [1]	US$10,201,600	60%	Operation of toll road
Ningbo Baoshun Infrastructure Development Co. Ltd. ^ [1]	RMB54,304,000	60%	Operation of toll road
Ningbo Deshun Transportation Management Co. Ltd. ^ [1]	RMB79,696,000	60%	Operation of toll road
Ningbo Gangshun Communications Development Co. Ltd. ^ [1]	RMB65,624,000	60%	Operation of toll road
Ningbo Longshun Roads Development Co. Ltd. ^ [1]	RMB64,376,000	60%	Operation of toll road
Ningbo Yashun Roads & Bridges Co. Ltd. ^ [1]	RMB26,345,000	60%	Operation of toll road
Ningbo Yishun Roads Engineering Co. Ltd. ^ [1]	RMB98,924,000	60%	Operation of toll road
Shekou Container Terminals Limited	HK$618,201,150	50%	Ports and container terminal business

46 Particulars of principal jointly controlled entities *(Continued)*

Name of jointly controlled entity	issued capital/ registered capital	Proportion of issued capital/ registered capital held indirectly by the Company	Principal activities
Shekou Container Terminals (Phase II) Company Limited	RMB608,549,000	51%	Ports and container terminal business
Ningbo Daxie China Merchants International Terminals Company Limited ^	RMB1,209,090,000	45%	Ports and container terminal business
Shenzhen Cyber-Harbour Netwrok Co. Limited ^	RMB5,000,000	62.5%	Provision of computer network services

[1] The financial statements of these jointly controlled entities were not audited by PricewaterhouseCoopers.

^ Sino-foreign joint ventures.

47 Comparatives

Certain comparative figures presented in the financial statements have been adjusted to conform with the current presentation as a result of adoption of new/revised HKFRS as set out in note 2 to the financial statements.