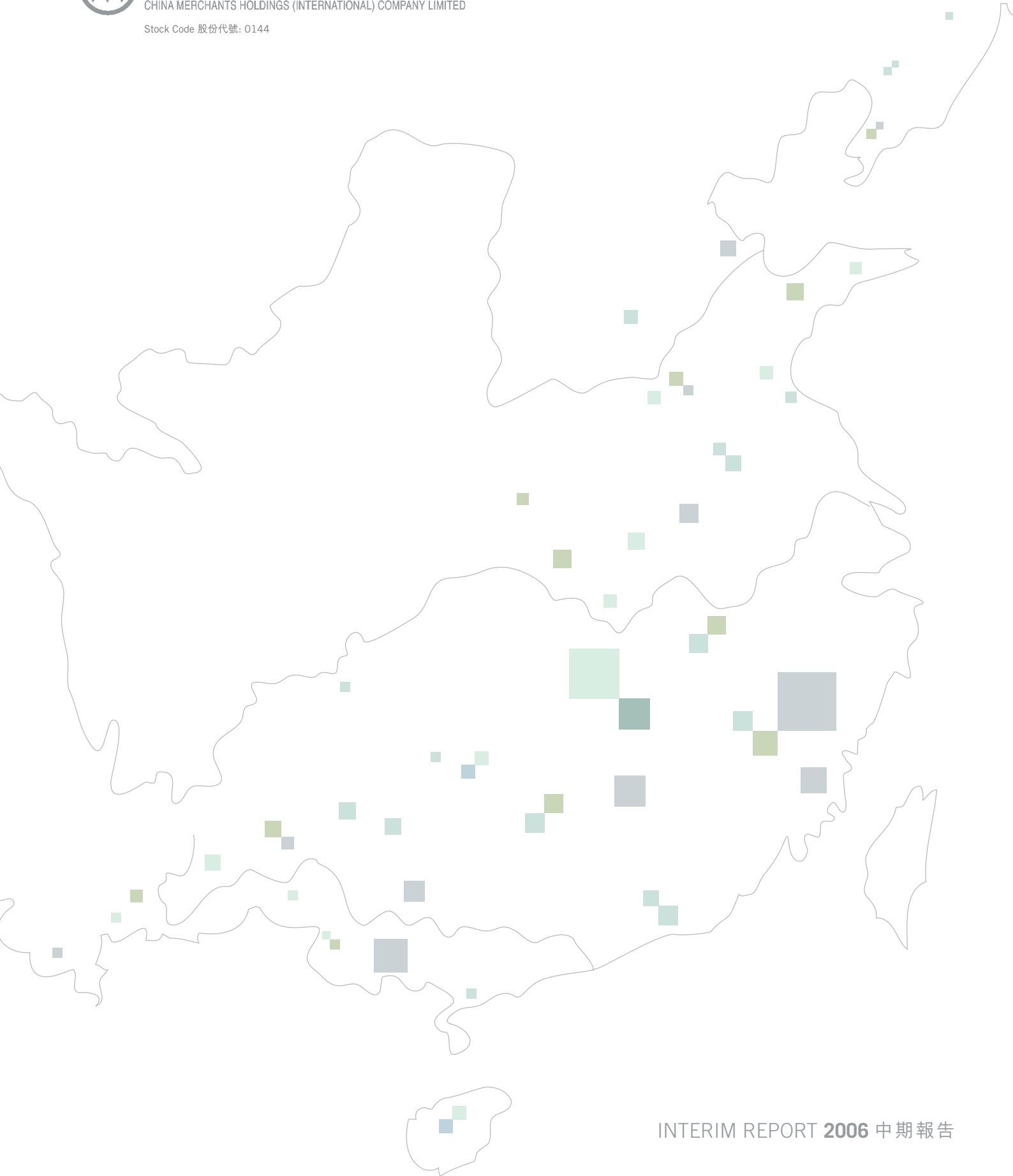


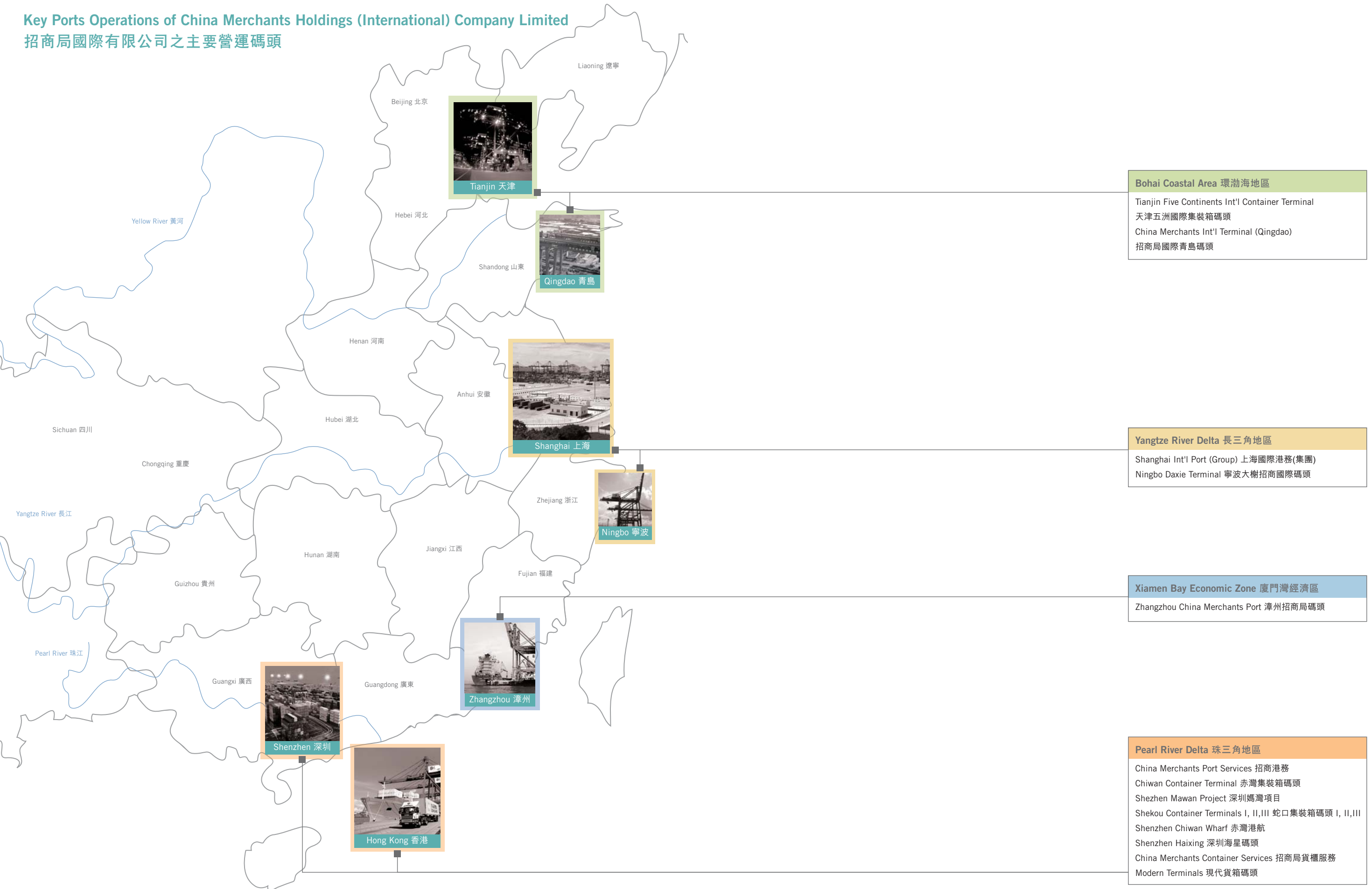


招商局國際有限公司
CHINA MERCHANTS HOLDINGS (INTERNATIONAL) COMPANY LIMITED

Stock Code 股份代號: 0144



Key Ports Operations of China Merchants Holdings (International) Company Limited
招商局國際有限公司之主要營運碼頭



Bohai Coastal Area 環渤海地區

- Tianjin Five Continents Int'l Container Terminal
天津五洲國際集裝箱碼頭
- China Merchants Int'l Terminal (Qingdao)
招商局國際青島碼頭

Yangtze River Delta 長三角地區

- Shanghai Int'l Port (Group) 上海國際港務(集團)
- Ningbo Daxie Terminal 寧波大榭招商國際碼頭

Xiamen Bay Economic Zone 廈門灣經濟區

- Zhangzhou China Merchants Port 漳州招商局碼頭

Pearl River Delta 珠三角地區

- China Merchants Port Services 招商港務
- Chiwan Container Terminal 赤灣集裝箱碼頭
- Shezhen Mawan Project 深圳媽灣項目
- Shekou Container Terminals I, II,III 蛇口集裝箱碼頭 I, II,III
- Shenzhen Chiwan Wharf 赤灣港航
- Shenzhen Haixing 深圳海星碼頭
- China Merchants Container Services 招商局貨櫃服務
- Modern Terminals 現代貨箱碼頭

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CORPORATE INFORMATION

Board of Directors

Dr. Fu Yuning (*Chairman and Managing Director*)

Mr. Zhao Huxiang (*Vice-Chairman*)

Mr. Li Yinquan

Mr. Hu Zheng

Mr. Meng Xi

Mr. Wang Hong

Mr. Yu Liming

Mr. To Wing Sing

Mr. Tsang Kam Lan*

Mr. Kut Ying Hay*

Mr. Lee Yip Wah Peter*

Mr. Li Kwok Heem*

* independent non-executive director

Registered Office

38th Floor East, China Merchants Tower

Shun Tak Centre

168-200 Connaught Road Central

Hong Kong

Company Secretary

Mr. Leung Chong Shun, Practising Solicitor

Principal Bankers

Bank of China

Industrial and Commercial Bank of China

China Construction Bank

China Merchants Bank

Auditors

PricewaterhouseCoopers

Legal Adviser

Linklaters

Stock Code

0144

Registrars

Computershare Hong Kong Investor Services Limited

17th Floor, Hopewell Centre

183 Queen's Road East

Hong Kong

Website

<http://www.cmhi.com.hk>

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2006

	2006 HK\$'million	2005 HK\$'million	Changes
Income statement highlights			
Turnover ¹	8,294	6,851	21.1%
Profit attributable to the shareholders of the Company	1,205	1,161	3.8%
Other net income	(69)	(169)	
Profit attributable to the shareholders of the Company before other net income	1,136	992	14.5%
Earnings per share (HK cents)			
Basic	53.00	54.13	-2.1%
Diluted	52.83	53.77	-1.7%
Dividend per share (HK cents)			
Interim dividend	17.00	17.00	

	30 June 2006 HK\$'million	31 December 2005 HK\$'million
Balance sheet highlights		
Total assets	31,745	27,419
Capital and reserves attributable to the shareholders of the Company	18,214	16,159
Net interest bearing debts ²	7,556	7,329

	2006 HK\$'million	2005 HK\$'million	Changes
Turnover¹			
Ports operations	3,889	1,796	116.5%
Ports-related operations	4,053	4,736	-14.4%
Other operations	352	319	10.3%
Total	8,294	6,851	21.1%
EBITDA³			
Ports operations	1,727	866	99.4%
Ports-related operations	418	603	-30.7%
Other operations	234	288	-18.8%
EBITDA	2,379	1,757	35.4%
Unallocated expenses ^{4,5}	(45)	(44)	
Net interest expenses ⁴	(242)	(71)	
Taxation ⁴	(226)	(146)	
Depreciation and amortisation ⁴	(516)	(270)	
Profit for the period	1,350	1,226	10.1%
Minority interests	(145)	(65)	
Profit attributable to the shareholders of the Company	1,205	1,161	3.8%

1. Include turnover of the Company, its subsidiaries and share of turnover of its associates and jointly controlled entities.
2. Interest bearing debts less cash and cash equivalents.
3. Earnings before net interests, tax, depreciation and amortisation, unallocated income less expenses and minority interest ("Defined Earnings") for the Company and its subsidiaries, and its share of Defined Earnings of associates and jointly controlled entities.
4. For the Company and its subsidiaries, and its share of expenses of associates and jointly controlled entities.
5. Exclude unallocated interest income, interest expenses, depreciation and amortisation.

MANAGEMENT DISCUSSION AND ANALYSIS



Steady Progress

Sustainable Growth

OPERATIONS REVIEW

During the first six months of 2006, China has maintained its steady and rapid economic growth. According to the data released by the National Bureau of Statistics, Mainland China experienced a period-on-period GDP growth of 10.9% for the period with fixed asset investment and international trade continued to be the major driving forces behind such fast economic growth. In the first half of 2006, import and export grew by 23.4%, over the same period last year. While imports have grown at a much faster pace, the volume of export trade has shown signs of slowing down. Of China's total foreign trade, the proportion of high-value and hi-technology items has expanded whereas that for the export-oriented value-adding assembling products has declined moderately. The combined impact of changes in the structure of import and export product mix and higher base figures for container through-put volumes achieved in previous years have resulted in China recording a relatively moderate growth rate of container volume handled by the ports in Mainland China, when compared to that of the same period last year.

Owing to the steadily progressive and reinforcing development strategies adopted, the Group's ports business overall has displayed a satisfactory performance: its profit contribution and its proportion in the Group's EBIT¹ by business segments has also risen, thus further cementing the Group's leading position in Mainland China's ports market.

During the period under review, the Group has further expanded its operating activities in ports across all major coastal economic regions. The only exception is Qingdao Terminal, which is still under construction. Stemmed from the strategic positioning established thus far, the Group has stepped up its efforts in optimising and integrating internal resources while continuing to exercise better influence and control over its operations — all in all to maximise overall economic benefits and to ensure the sustainable development of the Group's core ports business. Meanwhile, the Group has initiated a series of continuing measures aimed towards management improvements. With a view to addressing an overall and long term development needs and challenges while ensuring the effective utilization of resources, the Group has adopted a phased roll-out strategy to avoid irrational expansion, thereby laying a solid foundation for its long term scaled development.

For the six months ended 30 June 2006, profit attributable to shareholders amounted to HK\$1,205 million, representing an increase of 3.8% over the same period last year. EBITDA² derived from ports operations amounted to \$1,727 million, representing an increase of 99.4% over the same period last year and accounting for 72.6% of the Group's overall EBITDA, compared to a corresponding figure of 49.3% last year.

For the six months ended 30 June 2006, turnover³ was HK\$8,294 million, representing an increase of 21.1% over the same period last year. Of this amount, turnover from the ports operations was HK\$3,889 million, representing an increase of 116.5% period-on-period.

Ports Operations

For the first half of this year, the Group's EBIT derived from the ports operations amounted to HK\$1,295 million, an increase of 84.5% over the same period last year. Ports operations accounted for 69.5% of the Group's total EBIT, compared to a corresponding figure of 47.2% last year. In addition, the turnover from the ports operations was HK\$3,889 million, an increase of 116.5% over the same period last year.

The Group has benefited from continuing improvements in the operation capability of existing ports assets as well as new handling capacities added. For the period under review, container boxes handled by Group's ports totalled 18,490,000 TEU, representing a period-on-period increase of 161.6%. Of this through-put, operations in the Mainland China accounted for 15,290,000 TEU and that in Hong Kong 3,200,000 TEU.

The Group's ports in western Shenzhen recorded a container throughput of 4,340,000 TEU, representing a period-on-period increase of 11.5%. The somewhat moderately and lower-than-expected growth rate in container through-put during the period under review could, in the Group's view, had been caused by adjustments in international sea-freight routes as evidenced by the Group, which could have been brought about by activities in mergers and consolidation in ownership interests of international shipping companies over the last one to two years. Notwithstanding the surfacing of such factors which was beyond the Group's control, the Group has continued to maintain its market share of more than 50% for the entire Shenzhen market. The Group anticipates such adjustments and consolidation endeavours in international sea-freight routes among shipping companies which have already seen signs of stabilization to gradually complete, and is confident that the Group's terminals business of which were affected during the period under review will see their respective business volumes restore in the near future.

MANAGEMENT DISCUSSION AND ANALYSIS

Two berths at the Group's Ningbo Daxie Terminal commenced operations in August and November 2005 respectively. Active and targeted business development efforts have led to considerable progress made during the first half of this year. Currently, various international routes covering Asia, Middle East, Europe and the US have been established. It is expected that these two berths will record promising through-put for their first full-year operation in the second half of the year.

During the period under review, the Group's Tianjin operation recorded a container throughput of nearly 740,000 TEU, which represented a market share of almost 27% for the entire Tianjin port.

As part of its overall strategies to strengthen its competitive position by offering to the market comprehensive services that meet the ever-changing demand of its customer groups, the Group has been steadily expanding its capabilities at a designed pace through integrating the services provided at the terminal zone to those provided at the bonded logistics parks respectively in Qingdao and Shenzhen. The availability of newly-commissioned warehousing facilities in the logistics parks in these two locations have helped the Group's marketing efforts in securing interests from shipping companies and other participants in the marine logistics industry such as exporters, freight forwarders and shipping agents. These facilities will over time greatly support and enable the Group to offer fully-integrated and comprehensive services to all its customers in the marine logistics industry.

Whilst it continues to strengthen the platform of its existing business, the Group strives to steadily raise its share of China's overall container handling market through enhancing the operational management of its terminals and the relevant warehousing zones, streamlining and improving as much as possible the efficiency of various ancillary facilities and

services, as well as accelerating the establishment of handling capabilities at hub terminals along the coast of China where the Group has a presence.

Based on the industrial statistics released by the Ministry of Communications, the terminals in which the Group is interested accounted for 36% of the total container volume handled by the China.

For the first half of this year, including that handled by Shanghai International Ports (Group) Company Limited ("SIPG"), the Group's general and bulk cargo operations handled 72,290,000 tones of goods. In Shenzhen, this business has been affected by unforeseen factors such as policies introduced by the local governments that require mooring capabilities for bulk cargo handling to be reassessed, the outbreak of avian influenza in the south China region, etc. A small setback was experienced during the period under review and the volume handled declined by less than 1% to 17,040,000 tones when compared to the same period last year. The Group believes that the aforesaid factors would not sustain and the problems so brought about have been addressed effectively.

Ports-related Operations

For the first half of this year, EBIT derived from ports-related operations amounted to HK\$374 million, representing a decrease of 33.9% over the same period last year.

China International Marine Containers (Group) Ltd. ("CIMC"), of which the Group is the single largest shareholder, sold 770,300 TEU (or container boxes) in the first half of this year, a drop of approximately 7.3% when compared to those sold during the same period last year. The special vehicle business has continued to grow rapidly, with approximately 42,000 units sold during the period under review, reflecting a sharp increase of 63.3% over the same period last year.



Having been affected by the slowing down in container box sales, Hempel-Hai Hong (China) Limited, a major manufacturer in container paints and marine paints in China, recorded a total sale of 40,160,000 litres of paints, which represents a period-on-period decrease of approximately 3.2%.

Other Operations

Continuing to benefit from the fast economic growth of China and the increasingly growing passenger traffic and logistics activities, the toll road operations of China Merchants Holdings (Pacific) Limited ("CMHP"), a company listed in Singapore and controlled by the Group, has recorded a traffic flow of 14,150,000 vehicles for all its toll roads during the first half of 2006, representing an increase of 6.9% over the same period last year (These traffic flow figures do not contain the traffic flow for the same period last year of the Ningbo Zhen Luo Project, which was disposed of in the first half this year).

For the period under review, EBIT of toll road operations amounted to HK\$125 million, an increase of 28.9% over the same period last year.

PROSPECTS AND OUTLOOK

For the period under review, the Chinese economy has continued to expand rapidly but steadily, fueled in the main by the country's strong import and export trades. Continuously enlarging economic scale as well as growing import and export

trade offers the momentum necessary to support and encourage the on-going development of the ports business in the PRC. Although the pace of economic development in the Mainland China will likely decelerate as a result of the introduction of measures in macro-economic control in the recent past that aims to cool down a potentially overheated economy, the Group firmly believes that policies designed to bring about a steadily growing but healthy and balanced economy will be beneficial to the steady development of ports industry in China.

Looking forward, in the second half of 2006, the Group will have new berths coming on stream in Shenzhen, Qingdao and Zhangzhou. Together with the investment for and improvement of ancillary resources carried out during the first half of this year, the Group anticipates that, commencing from the second half of this year stretching to 2007 and beyond, it will see operational potential from the added capacity of these new berths gradually be released. Simultaneously as it continues to strengthen and reinforce its market development endeavours, the Group will continue to intensify various measures to integrate ports resources, adopt efficiency-driven measures aiming to strengthen management and control of its business, and accelerate where possible the integration between ports and logistics parks with a view to enabling the Group to offer comprehensive logistics services to our customers. Meanwhile, the Group will, as an important element in its efforts towards resources integration, leverage the competitive edge of the

MANAGEMENT DISCUSSION AND ANALYSIS

water-transportation network established in south China to ensure closer linkage and co-operation between networks of feeder routes and the Group's hub ports.

As Qingdao Qianwan Logistic Park and Shenzhen Qianhaiwan Logistic Park are gradually coming on stream, the Group has made initial progress in developing its marine-logistics customer-base and in reinforcing the tri-party linkage between the Group's terminals, its customers and the relevant government agencies overseeing customer inspections. Further efforts — through improvements in upgrading of both tangible and intangible resources - will be put towards integrating the service functions of logistic parks and the Group's terminals in the respective areas with a view to creating smooth, value-adding and fully-integrated services for its customer groups thereby, in turn, further enhancing the competitive advantages for the Group's ports. The Group maintains the view that as and when more and more of these logistics park facilities become operational, they will constitute an additional source of business momentum which complements the Group's strive to optimise its ability to satisfy its customers.

The Group will also intensify its efforts towards strengthening and improving on the south China shuttle barge system currently operating. The proximity of the Group's terminal handling facilities in western Shenzhen infers that, to cargo owners, maritime transportation along the Pearl River and within the region has been proven to be convenient and more cost-effective. The Group maintains that this business model has huge development potential with a lot of space for expansion and is one of the forces driving the growth of the Group's ports business in western Shenzhen. The Group will continue to further expand the coverage network of this shuttle barge system as one of the means to support the development of the Group's terminal handling facilities in the location. At the same time, the Group will, where practicable, apply the operational management expertise gained over the years to ensure the quality and competitive advantages of its services are maintained in the face of increasing competition from the market.

The Group places significant emphasises on enhancing its corporate competitiveness amid the ever-changing environment. Sustainably high crude oil prices and the notably increasing



awareness towards health, safety and environmental protection are just some of the concerns of the general public today. In order to maintain its long-term competitiveness, the Group has initiated a series of measures aimed towards achieving sustainable internal improvements in the short to medium term. These measures include cost reduction, technical reform, streamlining in operational flow, as well as safety and labour protection. Implementation of these measures has taken place at the terminals managed by the Group during the first half of this year and initial progress has been noted. It is the Group's intention to adopt these measures at, where possible and where it is felt needed, the Group's investee companies during the second half of this year. In addition, the Group will work towards formulating / tailor-making a long-term competitive strategy that suits its own needs. Furthermore, the Group will continue to adjust its human resources structure placing emphasis on enhancing its capability in customer management, thereby ensuring that its ability to satisfy customers is constantly improved. Overall, the Group firmly believes that equipped with strengthened management, appropriately-designed control measures and in turn improved service standard, the Group is well-positioned to anticipate and, in turn, control business and other risks associated with its ports operation, thereby facilitating the Group's efforts to release the growth potential from its core ports business.

Note:

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

As for the ports-related business, the Group will continue to support CIMC in the latter's on-going development of its traditional container manufacturing business as well as its emerging special vehicle business, share with CIMC the Group's view in formulating CIMC's development strategy, and actively promote co-operation among the relevant operations of the Group.

As for the toll road business, the Group will, through CMHP, continue to strengthen the optimisation of corporate management and control and corporate governance structure, steadily increase the investment return from and the asset value of the toll road business. Meanwhile, it will continue to watch out for quality toll road projects in China for CMHP to invest.

The people-oriented principal and the "customer-first" approach which the Group has adopted will continue to prevail, and maximising shareholders' benefits will remain its core objective. The Group is certain that, through strengthening internal management and control, enhancing service quality and operating efficiency, improving the ancillary systems at its network terminals, and adopting a more flexible operating strategy, it will drive its business scale and the accompanying profitability to an even higher level.

MANAGEMENT DISCUSSION AND ANALYSIS

INTERIM DIVIDEND

In order to reward investors' continuous support of the Group, the Board has declared an interim dividend of HK17 cents per share in scrip form for the period which is same as the 2005 interim dividend. The 2006 interim dividend represents a dividend payout of 32.7%. The interim dividend will be payable on or around 29 November 2006 to shareholders whose names appear on the Register of Members of the Company on 13 October 2006, with an alternative to the shareholders to elect to receive such interim dividend (or part thereof) in cash in lieu of such allotment (the "Scrip Dividend Scheme").

A circular containing details of the Scrip Dividend Scheme together with the relevant election form will be sent to shareholders on or around 27 October 2006. The Scrip Dividend Scheme is conditional upon the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited of the listing of and permission to deal in the new shares to be issued pursuant thereto. It is expected that certificates for the new shares will be despatched to shareholders on or around 29 November 2006.

CLOSURE OF REGISTER

The Register of Members will be closed from 9 October 2006 to 13 October 2006 (both days inclusive), during which no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers and the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:00 p.m. on 6 October 2006.

LIQUIDITY AND TREASURY POLICIES

The amount of cash held by the Group as at 30 June 2006 amounted to HK\$1,057 million, 39.0% of which was denominated in Hong Kong dollars, 24.3% in US dollars, 33.1% in RMB and 3.6% in other currencies.

The Group's source of funds is mainly derived from its operating activities related to ports and ports-related businesses and investment returns from associates and jointly controlled entities, contributing HK\$512 million in total. For the first half of the year, the Group contributed over HK\$917 million for ports investment projects out of which HK\$160 million was financed by bank loans. While the Group has been expanding its investment, the Group adopts a prudent financial policy. The Group is currently financially sound and has abundant cash to meet its daily operating requirements. Besides, as most of the Group's bank loans are medium-to-long-term borrowings while the Group does not anticipate any difficulties on rolling over short-term loans, thus the pressure for repaying the loans in short-term is limited.

SHARE CAPITAL AND FINANCIAL RESOURCES

As at 30 June 2006, the Company had issued a total of 2,293,215,230 shares. During the period, the Company issued 13,706,000 shares upon the exercise of share options and received HK\$135 million as a result. Other than the above-mentioned newly issued shares, the Company issued 84,952,620 shares in the amount of approximately HK\$1,427 million, representing part of the consideration for acquisition of certain pieces of land in Shekou, Shenzhen in January this year.

As at 30 June 2006, the Group carried outstanding interest bearing bank loans and notes in the amount of HK\$8,613 million, out of which HK\$1,706 million are repayable within one year and the remaining HK\$6,907 million are medium-to-long-term borrowings. Other than HK\$115 million of the outstanding bank loans which were secured by assets of subsidiaries, all other bank loans were unsecured. Outstanding bank loans were increased by HK\$344 million from the end of last year and such increase was caused by consolidating the bank loans of Shenzhen Haixing Harbour Development Company Limited, a subsidiary of the Group, of HK\$184 million and additional investments in new port projects of HK\$160 million during the period. Other than the 10-year listed notes payable of US\$500 million issued by the Group in March 2005, all other loans were at floating interest rates.

Approximately 82.6% of the bank loans currently borrowed by the Group are loans denominated in Hong Kong dollars or US dollars. The remainders were loans denominated in RMB or local currencies borrowed by the Company's subsidiaries. As these loans could be repaid using income denominated in local currencies, the Group did not employ any financial instrument to hedge the said loans. The Group mainly holds assets in Hong Kong dollars and RMB.

As at 30 June 2006, the Group's gearing ratio (dividing interest-bearing bank loans and notes by net assets) was approximately 47.3%.

ASSETS CHARGE

As at 30 June 2006, the Company did not have any charge on its assets. However, certain bank loans borrowed by the Company's subsidiaries were secured. Bank loans of HK\$80 million were secured by mortgage debenture over all assets of certain subsidiaries with an aggregate carrying value of HK\$465 million including freehold land and buildings with an aggregate carrying value of HK\$10 million. Bank loans of HK\$35 million were secured by the property, plant and equipment with net book value at 30 June 2006 of HK\$74 million.

CONTINGENT LIABILITIES

As at 30 June 2006, the Group had given a guarantee to a bank for a bank loan of an associate in the amount of HK\$3 million.

EMPLOYEES AND REMUNERATION

As at 30 June 2006, the Group had 2,867 full-time employees, of which 217 were working in Hong Kong, 41 were working overseas and the remainder were working in Mainland China. Employee remuneration amounted to HK\$207 million for the first half of the year, representing 13.0% of the total operating expenses of the Group. The Group undertakes a review of the employee salary policy annually, with close reference to the relevant human resources market and economic situation.

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

MANAGEMENT DISCUSSION AND ANALYSIS

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2006, the interests of the directors of the Company in the securities of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”), as recorded in the register required to be kept by the Company under Section 352 of the SFO were as follows:

Shares and share options in the Company

Name of Director	Capacity	Nature of interest	Number of shares in the Company	Number of shares in the Company subject to share options granted*	Percentage of aggregate long position in shares to the issued share capital of the Company as at 30 June 2006
Dr. Fu Yuning	Beneficial owner	Personal interest	1,200,000	800,000	0.09%
Mr. Zhao Huxiang	Beneficial owner	Personal interest	—	800,000	0.03%
Mr. Li Yinquan	Beneficial owner	Personal interest	—	850,000	0.04%
Mr. Hu Zheng	Beneficial owner	Personal interest	—	800,000	0.03%
Mr. Meng Xi	Beneficial owner	Personal interest	—	900,000	0.04%
Mr. Wang Hong	Beneficial owner	Personal interest	100,000	900,000	0.04%
Mr. Yu Liming	Beneficial owner	Personal interest	—	1,450,000	0.06%
Mr. To Wing Sing	Beneficial owner	Personal interest	100,000	500,000	0.03%
Mr. Lee Yip Wah Peter	Beneficial owner	Personal interest	134,140	—	0.006%
			1,534,140	7,000,000	0.37%

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

Save as disclosed above and based on the register maintained by the Company as at 30 June 2006, none of the directors or chief executive of the Company or any of their associates had any interests and short positions in the shares, underlying shares and debenture of the Company or any of its associated corporations (within the meaning of the SFO) which are required, pursuant to section 352 of the SFO, to be entered in the register or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies set out in appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), to be notified to the Company and the Stock Exchange. Apart from the share option schemes disclosed below, none of the directors or their spouses or children under the age of 18 had been granted any right to subscribe for the equity or debt securities of the Company or any of its associated corporations or had exercised any such right during the period.

At no time during the period was any of the Company, its subsidiaries, its fellow subsidiaries or its holding companies a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Share Option Schemes

(a) Terminated Scheme

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Details of the share options outstanding as at 30 June 2006 which have been granted under the Terminated Scheme are as follows:

Name	Date of grant	Exercise price HK\$	Options held as at 1 January 2006	Options exercised during the period <i>Note</i>	Options cancelled during the period	Options held as at 30 June 2006
Continuous contract employees						
(I)	1 March 2000	5.054	350,000	(100,000)	(250,000)	—
(II)	19 September 2000	5.615	350,000	(250,000)	—	100,000
(III)	6 July 2001	5.610	350,000	(350,000)	—	—
			1,050,000	(700,000)	(250,000)	100,000

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

Note:

The weighted average closing market price per share immediately before the dates on which the share options were exercised was HK\$25.01.

(b) Existing Scheme

Under the share option scheme (the “Existing Scheme”) approved by the shareholders of the Company at an extraordinary general meeting of the Company held on 20 December 2001, the Board may, at their discretion, invite any director or employee of the Company or any of its subsidiaries or associates (the “Eligible Persons”), to take up options to subscribe for fully paid ordinary shares (the “Shares”) in the Company subject to the terms and conditions stipulated therein.

In view of the on-going support given to the Company by China Merchants Holdings (Hong Kong) Company Limited, an intermediate holding company of the Company, together with its subsidiaries (excluding the Group) and associated companies (together, the “CMHK Group”), the Board considered that it is in the best interest of the Company to extend the Existing Scheme to directors and employees of members of the CMHK Group. A resolution was passed at the extraordinary general meeting held on 27 August 2002 to amend the Existing Scheme to effect such extension of Eligible Persons.

Details of the share options outstanding as at 30 June 2006 which have been granted under the Existing Scheme are as follows:

Name	Date of grant	Exercise price HK\$	Options held as at 1 January 2006	Options granted during the period	Options exercised during the period	Options cancelled during the period	Other changes during the period	Options held as at 30 June 2006
Director								
Dr. Fu Yuning	11 October 2002	4.985	600,000	—	(600,000)	—	—	—
	27 October 2004	11.08	1,000,000	—	(1,000,000)	—	—	—
	25 May 2006	23.03	—	800,000	—	—	—	800,000
Mr. Zhao Huxiang	27 October 2004	11.08	700,000	—	(300,000)	—	—	400,000
	25 May 2006	23.03	—	400,000	—	—	—	400,000
Mr. Li Yinquan	11 October 2002	4.985	200,000	—	(200,000)	—	—	—
	27 October 2004	11.08	500,000	—	(50,000)	—	—	450,000
	25 May 2006	23.03	—	400,000	—	—	—	400,000
Mr. Hu Zheng	27 October 2004	11.08	500,000	—	(100,000)	—	—	400,000
	25 May 2006	23.03	—	400,000	—	—	—	400,000
Mr. Mengxi	27 October 2004	11.08	500,000	—	—	—	—	500,000
	25 May 2006	23.03	—	400,000	—	—	—	400,000
Mr. Wang Hong	27 October 2004	11.08	350,000	—	(100,000)	—	—	250,000
	25 May 2006	23.03	—	650,000	—	—	—	650,000
Mr. Yu Liming	11 October 2002	4.985	450,000	—	—	—	—	450,000
	27 October 2004	11.08	500,000	—	—	—	—	500,000
	25 May 2006	23.03	—	500,000	—	—	—	500,000
Mr. To Wing Sing	27 October 2004	11.08	600,000	—	(600,000)	—	—	—
	25 May 2006	23.03	—	500,000	—	—	—	500,000
			5,900,000	4,050,000	(2,950,000)	—	—	7,000,000

MANAGEMENT DISCUSSION AND ANALYSIS

Name	Date of grant	Exercise price HK\$	Options held as at 1 January 2006	Options granted during the period	Options exercised during the period	Options cancelled during the period	Other changes during the period	Options held as at 30 June 2006
Continuous contract employees								
(I) The Group	11 October 2002	4.985	1,050,000	—	(500,000)	—	—	550,000
	27 October 2004	11.08	13,171,000	—	(6,346,000)	—	—	6,825,000
	25 May 2006	23.03	—	20,070,000	—	—	—	20,070,000
	21 June 2006	20.91	—	150,000	—	—	—	150,000
(II) The CMHK Group	11 October 2002	4.985	1,250,000	—	(900,000)	—	—	350,000
	27 October 2004	11.08	5,800,000	—	(2,310,000)	—	—	3,490,000
	04 May 2005	15.31	200,000	—	—	—	—	200,000
	25 May 2006	23.03	—	15,920,000	—	—	—	15,920,000
			21,471,000	36,140,000	(10,056,000)	—	—	47,555,000
			27,371,000	40,190,000	(13,006,000)	—	—	54,555,000

Note:

- The above outstanding share options can be exercised at any time during a period of 10 years commencing on the date of grant of the options.
- The closing market price of the shares was HK\$22.75 and HK\$20.45 immediately preceding the dates of grant (i.e. 24 May 2006 and 20 June 2006).
- The weighted average closing market price per share immediately before the date on which the share options were exercised was HK\$19.62.
- Values of options

The values of the options that were granted under the Existing Scheme as of 25 May 2006 and 21 June 2006 are reasonably stated by the amount of HK\$3.705 and HK\$3.802 per option respectively. The valuation of the options is based on the closing price of the shares of the Company as of 25 May 2006 and 21 June 2006.

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

In calculation of the fair market value of the options granted as of 25 May 2006, the following assumptions have been made:

- The eligible person has no right to exercise their respective options during the period from their grant date to the date before vesting of the options;
- The eligible person has right to exercise the respective options at any time during the remaining time to maturity from the date after the options have been vested and before the expiration of the relevant options;
- Transferability of the options is not allowed;
- Forfeiture rate of the options is assumed to be 0%;
- The share price is assumed to be equal to the closing price of the Company as of 25 May 2006 (i.e. HK\$22.15);
- Historical volatility of the Company (i.e. 27.83%) is deemed to be appropriate figure to serve as the expected volatility of the options;
- The dividend yield of the Company is assumed to be 2.48% as of 25 May 2006.

In calculation of the fair market value of the options granted as of 21 June 2006 the following assumptions have been made:

- The eligible person has no right to exercise their respective options during the period from their grant date to the date before vesting of the options;

Note: (Continued)

- ii. The eligible person has right to exercise the respective options at any time during the remaining time to maturity from the date after the options have been vested and before the expiration of the relevant options;
- iii. Transferability of the options is not allowed;
- iv. Forfeiture rate of the options is assumed to be 0%;
- v. The share price is assumed to be equal to the closing price of the Company as of 21 June 2006 (i.e. HK\$20.80);
- vi. Historical volatility of the Company (i.e. 28.18%) is deemed to be appropriate figure to serve as the expected volatility of the options;
- vii. The dividend yield of the Company is assumed to be 2.64% as of 21 June 2006.

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

(c) China Merchants Holdings (Pacific) Limited – CMHP 2002

Scheme

China Merchants Holdings (Pacific) Limited Share Option Scheme 2002 (the “CMHP 2002 Scheme”) was approved and adopted by its members at an extraordinary general meeting held on 30 May 2002. At the general meetings of CMHP and the Company held on 27 April 2006 and 10 May 2006, respectively, amendments to the CMHP 2002 scheme for the purpose of compliance with chapter 17 of the Listing Rules were approved by the shareholders of CMHP and the Company. The CMHP 2002 Scheme is administered by the CMHP Remuneration Committee, which comprises the following directors of CMHP:

Dr. Hong Hai (*Chairman*)

Dr. Lim Heng Kow

Mr. Jiang Yan Fei

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

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

Directors and employees of the CMHP’s parent company and its subsidiaries (other than the CMHP Group) are not allowed to participate in the CMHP 2002 Scheme.

Controlling shareholders and their associates are also not eligible to participate in the CMHP 2002 Scheme.

MANAGEMENT DISCUSSION AND ANALYSIS

Details of the share options outstanding as at 30 June 2006 which have been granted under the CMHP 2002 Scheme are as follows:

Name	Date of grant	Exercise price per share S\$	Options held as at 1 January 2006	Options exercised during the period <i>Note</i>	Options lapsed/cancelled during the period	Other changes during the period	Options held as at 30 June 2006
Director	—	—	—	—	—	—	—
Continuous contract employees	10 February 2003	0.5	500,000	—	—	—	500,000

Note:

CMHP is a 71.92% owned subsidiary of the Company listed in Singapore.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2006, the following persons, other than a director or chief executive of the Company, have interest or short position in the shares and underlying shares of the Company as recorded in the register of the Company required to be kept by the Company under section 336 of the SFO:

Long Positions

Name of substantial shareholder	Capacity	Number of shares held	Total interest	Total interest as percentage of issued shares
China Merchants Group Limited	Interest of Controlled Corporation	1,261,926,264	1,261,926,264 (Notes 1 & 2)	55.03%
China Merchants Steam Navigation Company Limited	Interest of Controlled Corporation	1,155,007,562	1,155,007,562 (Notes 1 & 2)	50.37%
China Merchants Holdings (Hong Kong) Company Limited	Interest of Controlled Corporation	1,155,007,562	1,155,007,562 (Notes 1 & 2)	50.37%
China Merchants Union (BVI) Limited	Beneficial Owner	608,773,958	608,773,958 (Notes 1 & 2)	26.55%
Cheer Far Development Limited	Beneficial Owner	526,774,369	526,774,369 (Notes 1 & 2)	22.97%

Notes:

- 1,261,926,264 shares held by China Merchants Group Limited represent the aggregate of 608,773,958 shares held by China Merchants Union (BVI) Limited, 526,774,369 shares held by Cheer Far Development Limited, 2,982,090 shares held by Blue Sky International Investments Limited, 84,952,620 shares held by Super Talent Group Limited, 16,477,145 shares held by Best Winner Investment Limited, 19,894,192 shares held by Orienture Holdings Company Limited, and 2,071,890 shares held by Orienture International Financing Limited.
- China Merchants Group Limited is deemed to be interested in the shares held by its wholly-owned subsidiaries Best Winner Investment Limited, Orienture International Financing Limited, Super Talent Group Limited, Orienture Holdings Company Limited, Blue Sky International Investments Limited, Cheer Far Development Limited, China Merchants Union (BVI) Limited, China Merchants Holdings (Hong Kong) Company Limited and China Merchants Steam Navigation Company Limited.

Short Positions

Nil

Save as disclosed above, the register required to be kept by the Company under section 336 of the SFO showed that the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company as at 30 June 2006.

CORPORATE GOVERNANCE**(a) Compliance with the Code on Corporate Governance Practices**

During the period, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules except the following:

Code Provision A.2.1

Code Provision A.2.1 provides that the role of chairman and chief executive officer should be separate and should not be performed by the same individual.

Due to the resignation of Mr. Li Yi as an executive director and the Managing Director of the Company with effect from 31 May 2005, Dr. Fu Yuning, the Chairman of the Company, also acts as the Managing Director of the Company with effect from 31 May 2005. As explained in the announcement of the Company issued on 11 May 2005, the Board considers that as Dr. Fu has been leading and is more aware of the Company's strategic policies and development, it is in the best interests of the Company for Dr. Fu to act as the Managing Director pending the appointment of a new Managing Director to ensure continuity. During the Period, the Company has been actively identifying a separate individual to act as the Managing Director. However, given the importance of the role and function of the Managing Director, the Company requires more time to identify a suitable candidate with appropriate qualifications and experience and understanding of the port and port-related business.

MANAGEMENT DISCUSSION AND ANALYSIS

Code Provision A.4.2

The code provision A.4.2 (the first sentence) provides that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. According to Article 97 of the Articles of Association of the Company, a director appointed to fill a casual vacancy is only required to retire at the next following annual general meeting and, under Article 98 of the Articles of Association of the Company, may be reappointed at the annual general meeting. As Article 97 of the Articles of Association of the Company deviates from the code provision A.4.2, a special resolution to amend Article 97 of the Articles of Association of the Company was proposed and approved by shareholders at the annual general meeting on 26 May 2006.

(b) Compliance with Model Code

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

AUDIT COMMITTEE

The Audit Committee of the Company comprises all of the four independent non-executive directors. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financing reporting matters including the review of the unaudited interim report for the six months ended 30 June 2006.

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

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

By order of the Board

Dr. Fu Yuning

Chairman

Hong Kong, 19 September 2006

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2006

	Note	Unaudited 2006 HK\$'million	2005 HK\$'million
Turnover			
Company and subsidiaries		1,859	1,328
Share of associates		6,044	5,125
Share of jointly controlled entities		391	398
		8,294	6,851
Company and subsidiaries			
Turnover	4	1,859	1,328
Cost of sales		(1,305)	(948)
Gross profit		554	380
Other net income	6	69	169
Distribution costs		(123)	(108)
Administrative expenses		(162)	(155)
Operating profit	7	338	286
Finance costs	8	(188)	(91)
Share of profits less losses of			
Associates		1,023	826
Jointly controlled entities		215	241
Profit before taxation		1,388	1,262
Taxation	9	(38)	(36)
Profit for the period		1,350	1,226
Attributable to:			
Shareholders of the Company		1,205	1,161
Minority interests		145	65
		1,350	1,226
Dividend	10	394	369
Earnings per share attributable to the shareholders of the Company			
– basic	11	HK53.00 cents	HK54.13 cents
– diluted	11	HK52.83 cents	HK53.77 cents

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2006

	Note	Unaudited 30 June 2006 HK\$'million	Audited 31 December 2005 HK\$'million
ASSETS			
Non-current assets			
Goodwill	12	275	275
Property, plant and equipment	12	6,830	5,536
Investment properties	12	580	539
Leasehold land and land use rights	12	2,790	2,007
Interests in associates		11,112	10,777
Interests in jointly controlled entities		4,396	4,446
Other financial assets		882	827
Prepayment	13	1,427	—
Deferred tax assets		31	35
		28,323	24,442
Current assets			
Inventories		259	170
Development properties for sale		370	381
Debtors, deposits and prepayments	14	1,627	1,242
Tax recoverable		3	3
Other financial assets		12	30
Cash and cash equivalents		1,057	940
		3,328	2,766
Non-current assets classified as held for sale	15	94	211
		3,422	2,977
Total assets		31,745	27,419

	Note	Unaudited 30 June 2006 HK\$'million	Audited 31 December 2005 HK\$'million
EQUITY			
Capital and reserves attributable to the shareholders of the Company			
Share capital	16	229	219
Reserves		17,591	15,187
Proposed dividend	10	394	753
		18,214	16,159
Minority interests		2,264	1,468
Total equity		20,478	17,627
LIABILITIES			
Non-current liabilities			
Other financial liabilities	17	6,907	7,792
Deferred tax liabilities		243	155
		7,150	7,947
Current liabilities			
Creditors and accruals	18	2,322	1,284
Taxation payable		27	22
Other financial liabilities	17	1,768	539
		4,117	1,845
Total liabilities		11,267	9,792
Total equity and liabilities		31,745	27,419
Net current (liabilities)/assets		(695)	1,132
Total assets less current liabilities		27,628	25,574

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006

	Unaudited					
	Attributable to the shareholders of the Company				Minority interests	Total
	Share capital HK\$'million	Share premium HK\$'million	Other reserves HK\$'million	Retained earnings HK\$'million	HK\$'million	HK\$'million
At 1 January 2006	219	9,166	1,310	5,464	1,468	17,627
Realisation of reserves upon disposal of jointly controlled entities	-	-	(3)	3	-	-
Share of reserves of associates and jointly controlled entities	-	-	1	-	-	1
Exchange differences from translation of financial statements of subsidiaries, associates and jointly controlled entities	-	-	(36)	-	-	(36)
Increase in fair value of available-for-sale financial assets	-	-	33	-	-	33
Net gains not recognised in the consolidated income statement	-	-	(5)	3	-	(2)
Profit for the period	-	-	-	1,205	145	1,350
Total recognised gains	-	-	(5)	1,208	145	1,348
Issue of shares on exercise of share options, net of share issue expenses of HK\$200,000	1	134	-	-	-	135
Issue of shares for purchase of land use rights	9	1,418	-	-	-	1,427
Share-based payments	-	-	17	-	-	17
Transfer to reserves	-	-	101	(101)	(3)	(3)
Dividend paid	-	-	-	(756)	(84)	(840)
Capital contributions by minority shareholders of subsidiaries	-	-	-	-	96	96
Acquisition of subsidiaries	-	-	29	-	642	671
At 30 June 2006	229	10,718	1,452	5,815	2,264	20,478
Representing:						
Reserves				5,421		
Proposed dividend				394		
At 30 June 2006				5,815		

	Unaudited					
	Attributable to the shareholders of the Company				Minority interests	Total
	Share capital HK\$'million	Share premium HK\$'million	Other reserves HK\$'million	Retained earnings HK\$'million	HK\$'million	HK\$'million
At 1 January 2005	214	8,485	679	4,438	1,230	15,046
Exchange differences from translation of financial statements of subsidiaries, associates and jointly controlled entities	–	–	(14)	–	–	(14)
Increase in fair value of available-for-sale financial assets	–	–	14	–	–	14
Net gains not recognised in the consolidated income statement	–	–	–	–	–	–
Profit for the period	–	–	–	1,161	65	1,226
Total recognised gains	–	–	–	1,161	65	1,226
Issue of shares on exercise of share options, net of share issue expenses of HK\$60,000	–	15	–	–	–	15
Issue of shares in lieu of dividends	3	387	–	–	–	390
Share-based payments	–	–	19	–	–	19
Transfer to reserves	–	–	79	(79)	(4)	(4)
Dividend paid	–	–	–	(643)	(22)	(665)
Capital contributions by minority shareholders of subsidiaries	–	–	–	–	93	93
At 30 June 2005	217	8,887	777	4,877	1,362	16,120

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2006

	2006 HK\$'million	Unaudited 2005 HK\$'million
Net cash inflow from operating activities	512	653
Net cash used in investing activities	(518)	(7,255)
Net cash inflow from financing activities	123	5,433
Net increase/(decrease) in cash and cash equivalents	117	(1,169)
Cash and cash equivalents at 1 January	940	2,071
Effect of foreign exchange rate changes	–	(18)
Cash and cash equivalents at 30 June	1,057	884
Analysis of cash and cash equivalents		
Bank balances and cash	1,057	884

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 GENERAL INFORMATION

China Merchants Holdings (International) Company Limited (the “Company”) and its subsidiaries (hereinafter collectively referred as to the “Group”) are principally engaged in ports and ports-related operations 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. The address of its registered office is 38/F East, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

This condensed consolidated interim financial information was approved for issue on 19 September 2006.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2006 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting”. This condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2005.

3 ACCOUNTING POLICIES

The accounting policies adopted are consistent with those adopted in the annual financial statements for the year ended 31 December 2005, as described in the annual financial statements for the year ended 31 December 2005.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2006.

- Amendment to HKAS 19, “Actuarial gains and losses, group plans and disclosures”, effective for annual periods beginning on or after 1 January 2006. As the Group does not have any defined benefit plan, the adoption of this amendment does not have significant impact to the Group’s financial statements;
- Amendment to HKAS 39, Amendment to “The fair value option”, effective for annual periods beginning on or after 1 January 2006. This amendment does not have any impact on the classification and valuation of the Group’s financial instruments classified as at fair value through profit or loss prior to 1 January 2006 as the Group is able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss;
- Amendment to HKAS 21, Amendment “Net investment in a foreign operation”, effective for annual periods beginning on or after 1 January 2006. This amendment does not have material effect on the Group’s financial statements;
- Amendment to HKAS 39, Amendment “Cash flow hedge accounting of forecast intragroup transactions”, effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3 ACCOUNTING POLICIES (Continued)

- Amendment to HKAS 39 and HKFRS 4, Amendment “Financial guarantee contracts”, effective for annual periods beginning on or after 1 January 2006. This amendment has insignificant effect on the Group’s financial statements;
- HKFRS 6, “Exploration for and evaluation of mineral resources”, effective for annual periods beginning on or after 1 January 2006. This standard is not relevant for the Group;
- HK(IFRIC)-Int 4, “Determining whether an arrangement contains a lease”, effective for annual periods beginning on or after 1 January 2006. This amendment does not have material effect on the Group’s financial statements;
- HK(IFRIC)-Int 5, “Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds”, effective for annual periods beginning on or after 1 January 2006. This interpretation is not relevant for the Group; and
- HK(IFRIC)-Int 6, “Liabilities arising from participating in a specific market - waste electrical and electronic equipment”, effective for annual periods beginning on or after 1 December 2005. This interpretation is not relevant for the Group.

4 TURNOVER AND REVENUES

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

	Six months ended 30 June	
	2006 HK\$'million	2005 HK\$'million
Turnover		
Ports services and transportation income, container service and container yard management income	828	398
Sale of paints and related goods	852	756
Sales of development properties	165	162
Gross rental income from investment properties	14	12
	1,859	1,328

5 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.

The amounts labelled as "Company and subsidiaries" represent the Group's turnover. The amounts labelled as "Share of associates" and "Share of jointly controlled entities" represent the Group's share of turnover of associates and jointly controlled entities respectively. An analysis of the Group's turnover by business segments is as follows:

	Company and subsidiaries		Share of associates		Share of jointly controlled entities		Total	
	Six months ended 30 June							
	2006 HK\$'million	2005 HK\$'million	2006 HK\$'million	2005 HK\$'million	2006 HK\$'million	2005 HK\$'million	2006 HK\$'million	2005 HK\$'million
Ports operations	828	398	2,843	1,145	218	253	3,889	1,796
Ports-related operations	852	756	3,201	3,980	-	-	4,053	4,736
Other operations								
Toll road	-	-	-	-	173	145	173	145
Property	179	174	-	-	-	-	179	174
	179	174	-	-	173	145	352	319
Turnover	1,859	1,328	6,044	5,125	391	398	8,294	6,851

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 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:

	Company and subsidiaries		Share of profits less losses of associates		Share of profits less losses of jointly controlled entities		Total	
	Six months ended 30 June							
	2006 HK\$'million	2005 HK\$'million	2006 HK\$'million	2005 HK\$'million	2006 HK\$'million	2005 HK\$'million	2006 HK\$'million	2005 HK\$'million
Ports operations	244	98	732	374	103	155	1,079	627
Ports-related operations	59	68	291	452	-	-	350	520
Other operations								
Toll road	6	6	-	-	112	86	118	92
Property	65	120	-	-	-	-	65	120
Others	7	-	-	-	-	-	7	-
	78	126	-	-	112	86	190	212
Segment results	381	292	1,023	826	215	241	1,619	1,359
Unallocated income less expenses							(43)	(6)
Finance costs							(188)	(91)
Taxation							(38)	(36)
Profit for the period							1,350	1,226

Unallocated income less expenses represented corporate income and expenses.

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

	Depreciation and amortisation	
	Six months ended 30 June	
	2006 HK\$'million	2005 HK\$'million
Ports operations	180	57
Ports-related operations	5	6
Property	3	3
	188	66

5 SEGMENT INFORMATION (Continued)

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

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

	Segment assets		Interests in associates		Interests in jointly controlled entities		Segment liabilities		Total	
	30 June 2006	31 December 2005	30 June 2006	31 December 2005	30 June 2006	31 December 2005	30 June 2006	31 December 2005	30 June 2006	31 December 2005
	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million
Ports operations	12,390	8,326	8,846	8,612	1,991	1,978	(3,068)	(2,600)	20,159	16,316
Ports-related operations	1,290	918	2,266	2,165	-	-	(557)	(401)	2,999	2,682
Other operations										
Toll road	691	948	-	-	2,405	2,468	-	-	3,096	3,416
Property	1,352	1,017	-	-	-	-	(167)	(166)	1,185	851
Others	26	92	-	-	-	-	-	-	26	92
	2,069	2,057	-	-	2,405	2,468	(167)	(166)	4,307	4,359
	15,749	11,301	11,112	10,777	4,396	4,446	(3,792)	(3,167)	27,465	23,357
Unallocated assets									454	857
Unallocated liabilities									(7,205)	(6,448)
Tax recoverable									3	3
Taxation payable									(27)	(22)
Deferred tax assets									31	35
Deferred tax liabilities									(243)	(155)
									20,478	17,627

	Capital expenditure	
	Six months ended 30 June	
	2006	2005
	HK\$'million	HK\$'million
Ports operations	909	1,022
Ports-related operations	8	1
Property	-	1
	917	1,024

Segment assets consist primarily of tangible and intangible assets, prepayments, other financial assets, assets classified as held for sale, inventories, receivables and operating cash. They exclude deferred taxation, tax recoverable, leasehold land and buildings and cash and cash equivalents held for corporate use.

Segment liabilities comprise operating liabilities. They exclude items such as taxation, deferred tax liabilities and corporate borrowings.

Capital expenditure comprises additions to property, plant and equipment, leasehold land and land use rights.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5 SEGMENT INFORMATION (Continued)**(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 transactions between the geographical segments.

An analysis of Group's turnover and segment results by geographical segments is as follows:

	Turnover		Segment results	
	2006 HK\$'million	Six months ended 30 June		2005 HK\$'million
		2005 HK\$'million	2006 HK\$'million	
Hong Kong	199	176	75	126
Mainland China	1,401	920	269	140
New Zealand	165	157	30	19
Others	94	75	7	7
	1,859	1,328	381	292

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

	Segment assets		Capital expenditure	
	30 June 2006 HK\$'million	31 December 2005 HK\$'million	Six months ended 30 June	
			2006 HK\$'million	2005 HK\$'million
Hong Kong	1,434	1,411	–	11
Mainland China	13,687	9,368	917	1,012
New Zealand	370	405	–	1
Others	258	117	–	–
	15,749	11,301	917	1,024

6 OTHER NET INCOME

	Six months ended 30 June	
	2006 HK\$'million	2005 HK\$'million
Change in fair value of investment properties	32	90
Income from held-to-maturity investments	5	7
Increase in fair value of other financial assets at fair value through profit or loss	8	–
Interest income	10	64
Net exchange gains	9	–
Others	5	8
	69	169

7 OPERATING PROFIT

	Six months ended 30 June	
	2006 HK\$'million	2005 HK\$'million
Operating profit is stated after charging the following:		
Cost of inventories sold	652	575
Cost of development properties sold	125	120
Depreciation of property, plant and equipment	154	52
Amortisation of leasehold land and land use rights	34	14

8 FINANCE COSTS

	Six months ended 30 June	
	2006 HK\$'million	2005 HK\$'million
Interest on:		
Bank borrowings, wholly repayable within five years	110	36
Bank borrowings, not wholly repayable within five years	6	2
Listed notes payable, not wholly repayable within five years	104	66
Loans from minority shareholders of subsidiaries	–	3
Total borrowing costs incurred	220	107
Less: amount capitalised in assets under construction	(32)	(16)
	188	91

Capitalisation rate of 4.900% (2005: 4.737%) per annum was used, representing the weighted average rate of the costs of borrowings used to finance the assets under construction.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

9 TAXATION

Hong Kong profits tax has been provided for at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the period.

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

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

	Six months ended 30 June	
	2006 HK\$'million	2005 HK\$'million
Current taxation		
Hong Kong profits tax	13	13
PRC enterprise income tax	22	11
Overseas taxation	2	7
Deferred taxation	1	5
	38	36

10 INTERIM DIVIDEND

	Six months ended 30 June	
	2006 HK\$'million	2005 HK\$'million
Interim dividend of HK17 cents (2005: HK17 cents) per ordinary share	394	369

At a meeting held on 19 September 2006, the Directors proposed an interim dividend of HK 17 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 interim dividend (or part thereof) in cash in lieu of such allotment. This proposed dividend is not reflected as a dividend payable in this condensed consolidated interim financial information but will be reflected as an appropriation of retained earnings for the year ending 31 December 2006.

The amount of interim dividend for 2006 was based on 2,319,214,410 shares in issue as at 19 September 2006.

11 EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$1,205 million (2005: HK\$1,161 million).

The basic earnings per share is based on the weighted average number of 2,272,843,953 (2005: 2,144,472,441) ordinary shares in issue during the period. The diluted earnings per share is based on 2,280,427,066 (2005: 2,158,605,374) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of 7,583,113 (2005: 14,132,933) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

12 CAPITAL EXPENDITURE

	Goodwill HK\$'million	Property, plant and equipment HK\$'million	Investment properties HK\$'million	Leasehold land and land use rights HK\$'million
Carrying value as at 1 January 2006	275	5,536	539	2,007
Exchange difference	–	(2)	–	–
Acquisition of subsidiaries	–	537	9	814
Additions	–	914	–	3
Change in fair value	–	–	32	–
Depreciation and amortisation	–	(154)	–	(34)
Disposals	–	(1)	–	–
Carrying value as at 30 June 2006	275	6,830	580	2,790
Carrying value as at 1 January 2005	172	3,243	438	1,733
Derecognition of negative goodwill pursuant to transitional provision of HKFRS 3	103	–	–	–
Additions	–	1,020	–	4
Change in fair value	–	–	90	–
Depreciation and amortisation	–	(52)	–	(14)
Carrying value as at 30 June 2005	275	4,211	528	1,723

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

13 PREPAYMENT

Pursuant to a sale and purchase agreement dated 14 December 2005 with a fellow subsidiary, the Company issued 84,952,620 ordinary shares on 27 January 2006 in the amount of HK\$1,427 million as part of the consideration for the acquisition of certain pieces of land located in Shekou, Shenzhen, the PRC.

The seller and its holding company have undertaken and guaranteed to the Group the execution, on or before 31 December 2006, of land grant contracts to transfer the relevant pieces of land to the Group. Such contracts are not yet executed as at 30 June 2006.

14 DEBTORS, DEPOSITS AND PREPAYMENTS

	30 June 2006 HK\$'million	31 December 2005 HK\$'million
Trade debtors (note)	1,024	743
Other debtors, deposits and prepayments	212	192
Dividends receivable from associates	268	178
Amounts due from fellow subsidiaries	3	52
Amounts due from jointly controlled entities	120	73
Amounts due from related companies	–	4
	1,627	1,242

Note:

Included in trade debtors are amounts due from associates of HK\$221 million (2005: HK\$215 million) and bill receivables of HK\$24 million (2005: HK\$26 million).

14 DEBTORS, DEPOSITS AND PREPAYMENTS (Continued)

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

	30 June 2006 HK\$'million	31 December 2005 HK\$'million
Not yet due	288	213
1 – 30 days	268	234
31 – 60 days	162	107
61 – 120 days	162	97
Over 120 days	144	92
	1,024	743

15 NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

On 31 March 2006, the Group entered into three conditional agreements to dispose its entire 60% 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, for a cash consideration approximates its carrying amount of HK\$211 million as at 31 December 2005.

As at 30 June 2006, the disposal of the Group’s 25% equity interests in the Ningzhenluo JVs had been completed and the Group received in cash for settlement of consideration and repayment of shareholders’ loans. The Group’s remaining 35% interests in the Ningzhenluo JVs have been classified as assets held for sale.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

16 SHARE CAPITAL

	2006 Number of shares	2005 Number of shares	2006 HK\$'million	2005 HK\$'million
Ordinary shares of HK\$0.1 each Authorised:				
At 1 January	3,000,000,000	3,000,000,000	300	300
Increase in authorised share capital (note (a))	2,000,000,000	–	200	–
At 30 June	5,000,000,000	3,000,000,000	500	300
Issued and fully paid shares of HK\$0.1 each:				
At 1 January	2,194,556,610	2,142,192,974	219	214
Issue of shares on exercise of share options (note (b))	13,706,000	3,050,000	1	–
Issue of scrip dividend shares (note (c))	–	27,194,490	–	3
Issue of shares for purchase of land use rights (Note 13)	84,952,620	–	9	–
At 30 June	2,293,215,230	2,172,437,464	229	217

Notes:

- (a) Pursuant to a shareholders' resolution passed in the Extraordinary General Meeting of the Company held on 25 January 2006, the authorised share capital was increased from HK\$300 million to HK\$500 million by the creation of an additional 2,000,000,000 ordinary shares of HK\$0.1 each.
- (b) During the period, 13,706,000 shares were issued on exercise of share options (2005: 3,050,000), with proceeds of HK\$135 million (2005: HK\$15 million).
The weighted average share price at the time of exercise was HK\$25.00 per share (2005: HK\$15.72). The related transaction costs of HK\$200,000 (2005: HK\$60,000) have been deducted from the proceeds received.
- (c) On 28 June 2005, 27,194,490 shares were issued to satisfy dividend payment of HK\$390 million, resulting in an increase of share capital and share premium of HK\$3 million and HK\$ 387 million, respectively.
- (d) During the period from 1 July 2006 to the date of approval of this condensed consolidated interim financial information, 24,434,180 ordinary shares of HK\$0.1 were issued to satisfy the payment of the 2005 final dividend payment of HK\$508 million and 1,565,000 ordinary shares of HK\$0.1 at an average exercise price of HK\$9.95 per share were issued upon the exercise of share options.

16 SHARE CAPITAL (Continued)

Notes: (Continued)

(e) 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 period, 40,190,000 options to subscribe for ordinary shares of the Company were granted under the Existing Scheme. As at 30 June 2006, there were 100,000 options and 54,555,000 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:

	Six months ended 30 June			
	2006		2005	
	Weighted average exercise price HK\$	Number of share options	Weighted average exercise price HK\$	Number of share options
At 1 January	10.14	28,421,000	8.97	40,210,000
Granted	23.02	40,190,000	15.31	200,000
Exercised	9.82	(13,706,000)	5.09	(3,050,000)
Lapsed	5.05	(250,000)	11.08	(1,000,000)
At 30 June	19.72	54,655,000	9.27	36,360,000

Out of the 54,655,000 outstanding options, 13,885,000 options were exercisable as at 30 June 2006.

Share options outstanding at 30 June 2006 have the following expiry dates and exercise prices:

Year of expiry	Exercise price HK\$	Number of Share options
2006	5.615	100,000
2012	4.985	1,350,000
2014	11.08	12,815,000
2015	15.31	200,000
2016	23.03	40,040,000
2016	20.91	150,000
		54,655,000

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

16 SHARE CAPITAL (Continued)

Notes: (Continued)

(e) Share options (Continued)

The fair values of options were determined by using the Black-Scholes option pricing model. The significant inputs into the model were as follows:

	Share options granted on			
	21 June 2006	25 May 2006	4 May 2005	27 November 2004
Fair value of options	HK\$3.802	HK\$3.705	HK\$2.829	HK\$1.665
Share price per share at grant date	HK\$20.80	HK\$22.15	HK\$15.30	HK\$10.95
Exercise price per share	HK\$20.91	HK\$23.03	HK\$15.31	HK\$11.08
Share volatility	28.18%	27.83%	26.48%	26.48%
Expected life of options	2.5 years	2.5 years	4 years	4 years
Expected dividends payout rate	2.64%	2.48%	2.94%	4.02%
Average annual risk-free interest rate	4.649%	4.399%	2.35% to 2.90%	0.80% to 2.33%

17 OTHER FINANCIAL LIABILITIES

	30 June 2006 HK\$'million	31 December 2005 HK\$'million
Short-term bank loans		
– unsecured	1,352	456
– secured (note (a))	41	21
Long-term bank loans, wholly repayable within five years		
– unsecured	3,069	2,802
– secured (note (a))	74	69
Long-term bank loans, not wholly repayable within five years, unsecured	225	1,069
Loans from a minority shareholder of a subsidiary (note (b))	62	62
Listed notes payable (note (c))	3,852	3,852
	8,675	8,331
Less: amounts due within one year included under current liabilities	(1,768)	(539)
Non-current portion	6,907	7,792

Notes:

- (a) Bank loans of HK\$80 million (2005: HK\$90 million) are secured by mortgage debenture over all assets of certain subsidiaries with an aggregate carrying value of HK\$465 million (2005: HK\$416 million) including freehold land and buildings with an aggregate carrying value of HK\$10 million (2005: HK\$11 million). Bank loans of HK\$35 million (2005: Nil) are secured by the property, plant and equipment with net book value at 30 June 2006 of HK\$74 million.
- (b) Loan from a minority shareholder of a subsidiary is unsecured, interest free and is repayable on demand.
- (c) Listed notes payable represents US\$500 million, 5.375% guaranteed listed notes maturing in 2015.

17 OTHER FINANCIAL LIABILITIES (Continued)

Notes: (Continued)

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

	Bank loans		Listed notes payable		Loan from a minority shareholder of a subsidiary		Total	
	30 June 2006	31 December 2005	30 June 2006	31 December 2005	30 June 2006	31 December 2005	30 June 2006	31 December 2005
	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million
Within 1 year	1,706	477	-	-	62	62	1,768	539
Between 1 and 2 years	1,281	1,295	-	-	-	-	1,281	1,295
Between 2 and 5 years	1,549	1,576	-	-	-	-	1,549	1,576
Wholly repayable within 5 years	4,536	3,348	-	-	62	62	4,598	3,410
Not wholly repayable within 5 years	225	1,069	3,852	3,852	-	-	4,077	4,921
	4,761	4,417	3,852	3,852	62	62	8,675	8,331

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

	Bank loans		Listed notes payable	
	30 June 2006	31 December 2005	30 June 2006	31 December 2005
HK dollar	1.55% - 5.21%	1.55% to 5.02%	-	-
RMB	4.70% - 5.27%	4.70% to 5.27%	-	-
US dollar	4.28% - 5.00%	4.28% to 4.34%	5.47%	5.47%
Other currencies	8.69%	8.69%	-	-

(f) The carrying amounts of other financial liabilities approximate their fair values except for the listed notes payable whose market values at 30 June 2006 amounted to HK\$3,563 million (2005: HK\$3,766 million).

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

	30 June 2006	31 December 2005
	HK\$'million	HK\$'million
Hong Kong dollar	3,070	3,231
RMB	1,421	1,140
US dollar	4,104	3,870
Other currencies	80	90
	8,675	8,331

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

18 CREDITORS AND ACCRUALS

	30 June 2006 HK\$'million	31 December 2005 HK\$'million
Trade creditors (note)	528	369
Other payables and accruals	985	876
Dividend payable	756	–
Amounts due to an intermediate holding company and fellow subsidiaries	21	20
Amounts due to associates	1	1
Amount due to a jointly controlled entity	8	–
Amounts due to minority shareholders of subsidiaries	23	18
	2,322	1,284

Note:

Included in trade creditors is an amount due to a minority shareholder of a subsidiary totalling of HK\$27 million (2005: HK\$10 million).

The ageing analysis of trade creditors is as follows:

	30 June 2006 HK\$'million	31 December 2005 HK\$'million
0 - 30 days	372	237
31 - 60 days	15	96
61 - 120 days	43	4
Over 120 days	98	32
	528	369

19 CONTINGENT LIABILITIES

	30 June 2006 HK\$'million	31 December 2005 HK\$'million
Guarantees for a bank loan of an associate	3	4
Guarantees for bank loans of an investee	–	7
	3	11

20 COMMITMENTS

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

	30 June 2006 HK\$'million	31 December 2005 HK\$'million
Authorised but not contracted	977	1,826
Contracted but not provided for	2,181	3,453
	3,158	5,279

(b) Other capital commitments

	30 June 2006 HK\$'million	31 December 2005 HK\$'million
Contracted but not provided for		
– Investment in associates and jointly controlled entities	123	227
– Investment in ports projects	152	260
	275	487

(c) Commitments under operating leases

At 30 June 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases for leasehold land, land use rights and property, plant and equipment as follows:

	30 June 2006 HK\$'million	31 December 2005 HK\$'million
Within one year	57	63
In the second to fifth year inclusive	34	29
After the fifth year	2	–
	93	92

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

20 COMMITMENTS (Continued)**(d) Future operating lease receivables**

At 30 June 2006, the Group had future aggregate lease receivables under non-cancellable operating leases for leasehold land and buildings as follows:

	30 June 2006 HK\$'million	31 December 2005 HK\$'million
Within one year	44	13
In the second to fifth year inclusive	22	8
After the fifth year	17	1
	83	22

21 BUSINESS COMBINATION

During the period, the Group entered into an agreement with a fellow subsidiary, which holds 34% interest in Shenzhen Haixing Harbour Development Co., Ltd. ("SHHD"), an associate of the Group. Under the agreement, the fellow subsidiary granted a first right of refusal to the Group to acquire its entire 34% interest in SHHD and irrevocably assigned its voting rights in the board of directors of SHHD to the Group.

Following the execution of the abovementioned agreement, the Group is in control of more than half of the voting rights of the board of directors of SHHD. Consequently, SHHD is considered as a subsidiary commencing from 1 January 2006, the effective date of the agreement.

SHHD contributed revenues of HK\$158 million and net profit of HK\$14 million to the Group for the six months ended 30 June 2006.

Details of net assets acquired are as follows:

	HK\$'million
Fair value of net identifiable assets deemed to be acquired – shown as below	304
Reclassification from interests in associate	(275)
Change in fair value credited to assets revaluation reserve	29

21 BUSINESS COMBINATION (Continued)

The assets and liabilities arising from the acquisition are as follows:

	Carrying amount HK\$'million	Fair value HK\$'million
Non-current assets	748	1,350
Current assets	77	77
Non-current liabilities	(204)	(294)
Current liabilities	(202)	(202)
Minority interests	(10)	(10)
	409	921
Minority interests		(617)
Net identifiable assets deemed to be acquired		304

22 RELATED PARTY BALANCES AND TRANSACTIONS

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

22 RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

In addition to the related party information shown elsewhere in this condensed consolidated interim financial information, the following is a summary of significant related party transactions entered into in the normal course of business between the Group and its related parties during the period and balances arising from related transactions at 30 June 2006:

(a) Balances and transactions with the CMG Group

	Note	Six months ended 30 June	
		2006	2005
		HK\$'million	HK\$'million
Transactions with the CMG Group			
Sales of goods to associates	(i)	223	283
Rental income from	(ii)		
– an intermediate holding company		8	8
– fellow subsidiaries		6	4
Interest income from jointly controlled entities	(iii)	1	15
Rental expenses paid to fellow subsidiaries	(ii)	37	20
Service fee paid to a fellow subsidiary	(iv)	4	5
<hr/>			
	Note	30 June	31 December
		2006	2005
		HK\$'million	HK\$'million
Balances with the CMG Group			
Advances to associates	(v)	68	68
Loans to jointly controlled entities	(vi)	758	1,018

Other balances with entities within the CMG Group as at 30 June 2006 are disclosed in notes 14 and 18 to this condensed consolidated interim financial information.

Notes:

- (i) Sales of goods were at negotiated prices by transacting parties.
- (ii) The Group rented certain vessels and properties from and leased office premises to the CMG Group. Rental income or expense is charged at a fixed amount per month in accordance with respective tenancy agreements.
- (iii) Interest income was charged at 5.49% per annum.
- (iv) A fellow subsidiary provided barges services to the Group. The service fee was charged by reference to market rates.
- (v) The advances to associates are unsecured, interest free and repayable on demand.
- (vi) Loans to jointly controlled entities are unsecured, interest free and have no fixed terms of repayments.

22 RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

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

Notes:

(vii) During the period, the Group entered into an agreement with a fellow subsidiary, which holds 34% interest in an associate of the Group, SHHD. Under the agreement, the fellow subsidiary granted a first right of refusal to the Group to acquire its interest in SHHD and irrevocably assigned its voting rights in the board of directors of SHHD to the Group (Note 21).

(viii) On 14 December 2005, the Group entered into sale and purchase agreements to acquire certain pieces of land located in Shekou, Shenzhen, PRC from a fellow subsidiary at an aggregate consideration of HK\$2,066 million. During the period, the Company issued 84,952,620 ordinary shares totalling HK\$1,427 million as part of the consideration.

The seller and its holding company have undertaken and guaranteed to the Group, the execution, on or before 31 December 2006, of the transfer of the relevant pieces of land to the Group. In the event that such guarantees and undertakings are not satisfied prior to 31 December 2006, the seller and its holding company, will pay to the Group an amount equivalent to approximately HK\$1,427 million plus interest accruing on daily basis thereon up to 31 December 2006 at an interest rate of approximately 5.35% and for the period from 1 January 2007 to the date of actual payment of the amount at the 3-month LIBOR as quoted on the first business day in January 2007 plus 0.5%. The Group shall grant a grace period of three months, from the date after 31 December 2006, to the seller and its holding company after reviewing the fulfilment or progress of such guarantees and undertakings.

(b) Transactions with other State-controlled Enterprises

During the period, the Group engaged certain State-controlled Enterprises in the construction of ports and related facilities amounting to approximately HK\$367 million (2005: HK\$528 million).

(c) Balances and transactions with minority shareholders of subsidiaries

	Note	Six months ended 30 June	
		2006 HK\$'million	2005 HK\$'million
Transactions with minority shareholders of subsidiaries			
Royalty expense	(i)	28	25
Sales of goods	(ii)	79	75
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) Pricing of goods sold were determined by the relevant subsidiary based on its 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 17 and 18 to this condensed consolidated interim financial information.

(d) Transactions with other related parties

During the period, the Group received interest income of HK\$1 million (2005: 10 million) from other joint venture partners of a jointly controlled entity. Interest income was charged at interest rates as specified in note 22(a)(iii) to this condensed consolidated interim financial information on the outstanding amount due from the jointly controlled entity.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

22 RELATED PARTY BALANCES AND TRANSACTIONS (Continued)**(e) Key management compensation**

	Six months ended 30 June	
	2006 HK\$'million	2005 HK\$'million
Salaries and other short-term employee benefits	2	2
Share-based payments	2	6
	4	8

23 SUBSEQUENT EVENT

In June 2006, Shanghai International Ports (Group) Limited (“SIPG”), an associate of the Group, has proposed to merge with its non wholly-owned subsidiary, Shanghai Port Container Co., Ltd. (“SPC”) by way of share swap (the “Absorption Merger”). SPC is a joint stock limited company incorporated in the PRC and its A shares are listed on the Shanghai Stock Exchange. SIPG will issue new shares to the existing shareholders of SPC other than SIPG and its subsidiaries, to swap for their shareholdings in SPC. Upon completion of the Absorption Merger, SIPG will be the subsisting listed company and SPC will be delisted. The Company’s interest in SIPG will then be diluted from 30% to approximately 26.5%.

The Absorption Merger has been approved by the shareholders of SIPG and SPC on 7 August 2006 and China Securities Regulatory Commission on 18 September 2006. The Absorption Merger is subject to further approval by the relevant authorities in China including the approval by the Shanghai Stock Exchange.



**CHINA MERCHANTS HOLDINGS (INTERNATIONAL)
COMPANY LIMITED**

38/F East, China Merchants Tower
Shun Tak Centre, 168-200 Connaught Road
Central, Hong Kong
Tel: (852) 2102 8888
Fax: (852) 2587 7771
E-mail: relation@cmhi.com.hk

招商局國際有限公司

香港干諾道中168-200號
信德中心招商局大廈38樓東
電話：(852) 2102 8888
傳真：(852) 2587 7771
電子郵件：relation@cmhi.com.hk

www.cmhi.com.hk