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 (note 6).

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 2006, China Merchants Group Limited ("CMG"), directly or indirectly, held 54.93% 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 Hong Kong dollars, unless otherwise stated. These consolidated financial statements have been approved for issue by the Directors on 12 April 2007.

2 Summary of significant accounting policies

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

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss.

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

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

(i) Standards, amendments to Standards and interpretations effective in 2006

In 2006, the Group adopted the following Standards, amendments to Standards and interpretations of HKFRS issued by the Hong Kong Institute of Certified Public Accountants, which became effective for accounting periods beginning on or after 1 January 2006.

- Amendment to HKAS 19, 'Employee Benefits', is mandatory for the Group's accounting periods on or after 1 January 2006. It introduces the option of an alternative recognition approach for actuarial gains or losses. The Group adopted this alternative recognition approach. Details of the change is set out in note 2(r)(ii).
- Amendments to HKAS 39 and HKFRS 4, 'Financial Guarantee Contracts'. 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 values, and subsequently measured at the higher of the unamortised balance of the related fees received and deferred, and the expenditure required to settle the commitment at the balance sheet date. The Company issued corporate guarantees to certain bank loans drawn down by subsidiaries of the Group. The adoption of this Standard has no significant financial impacts to the financial statements of the Company for the year ended 31 December 2006.
- HK(IFRIC)-Int 4, 'Determining whether an Arrangement contains a Lease'. This interpretation 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 (the asset); and (b) the arrangement conveys a right to use the asset. The adoption of this Standard has no significant financial impacts to the financial statements of the Company for the year ended 31 December 2006.

(ii) Standards, amendments to Standards and interpretations effective in 2006 but not relevant for the Group's operations

- Amendment to HKAS 21, 'Net Investment in a Foreign Operation';
- Amendment to HKAS 39, 'Cash Flow Hedge Accounting of Forecast Intragroup Transactions';
- Amendment to HKAS 39, 'The Fair Value Option';
- HKFRS 6, 'Exploration for and Evaluation of Mineral Resources';
- Amendment to HKFRS 1, 'First-time Adoption of Hong Kong Financial Reporting Standards' and Amendment to HKFRS 6, 'Exploration for and Evaluation of Mineral Resources';
- HK(IFRIC)-Int 5, 'Rights to interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds'; and
- HK(IFRIC)-Int 6, 'Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment'.

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

(iii) Standards and interpretations to existing Standards that have been issued but are not effective for 2006 and have not been early adopted by the Group:

- HK(IFRIC)-Int 7, 'Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies', effective for annual periods beginning on or after 1 March 2006. Management does not expect the interpretation to be relevant to the Group.

- HK(IFRIC)-Int 8, 'Scope of HKFRS 2', effective for annual periods beginning on or after 1 May 2006. It requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued to establish whether or not they fall within the scope of HKFRS 2. Management expects the interpretation will have no material impact to the Group.

- HK(IFRIC)-Int 9, 'Reassessment of Embedded Derivatives', effective for annual periods beginning on or after 1 June 2006. Management believes that this interpretation should not have a significant impact on the reassessment of embedded derivatives as the Group already assessed if embedded derivative should be separated using principles consistent with HK(IFRIC)-Int 9.

- HK(IFRIC)-Int 10, 'Interim Financial Reporting and Impairment', effective for annual periods beginning on or after 1 November 2006. It prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. Management does not expect the interpretation to be relevant to the Group.

- HK(IFRIC)-Int 11, 'Group and Treasury Share Transactions', effective for annual periods beginning on or after 1 March 2007. This interpretation clarifies that certain types of transaction are accounted for as equity-settled or cash-settled under HKFRS 2. It also addresses the accounting for share-based payment transactions involving two or more entities within one group. Management does not expect the interpretation to be relevant to the Group.

- HK(IFRIC)-Int 12, 'Service Concession Arrangements', effective for annual periods beginning on or after 1 January 2008. It applies to companies that participate in service concession arrangements and provides guidance on the accounting by operators in public-to-private service concession arrangements. The interpretation is applicable to the Group's toll road operations. The Group will continue to assess the impact of the interpretation to the Group.

- HKFRS 7, 'Financial instruments: Disclosures', and the complementary Amendment to HKAS 1, 'Presentation of Financial Statements - Capital Disclosures', effective for annual periods beginning on or after 1 January 2007. The Group assessed the impact of HKFRS 7 and complementary Amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by complementary Amendment to HKAS 1. The Group will apply HKFRS 7 and complementary Amendment to HKAS 1 from annual periods beginning 1 January 2007.

- HKFRS 8, 'Operating Segments', effective for annual periods beginning on or after 1 January 2009. HKFRS 8 introduces the management approach to segment reporting and emphasises the disclosures of the measures used to manage the business. The Group assessed the impact of HKFRS 8 and concluded that it will affect the presentation of segment information of the Group.

2 Summary of significant accounting policies (Continued)

(b) Consolidation

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

(i) Subsidiaries

Subsidiaries are those entities over which the Group, directly or indirectly, has power to govern the financial and operating policies generally accompanying a shareholder of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured 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 (note 2(g)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between the group companies 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 (note 2(h)). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

The Group treated transactions with minority interest as transactions with parties external to the Group in prior years. Purchase from minority interest result in goodwill, being the difference between any consideration paid and the relevant share of the carrying value of net assets of the subsidiary acquired. Disposals to minority interest result in gains and losses for the Group that are recorded in the consolidated income statement.

2 Summary of significant accounting policies (Continued)

(b) Consolidation (Continued)

(i) Subsidiaries (Continued)

With effect from 1 January 2006, the Group no longer accounts for transactions with minority interest as transactions with parties external to the Group but as transactions with equity owners of the Group. For purchases from minority interest, the difference between any consideration paid and the relevant share of the carrying value of net assets of the relevant subsidiary is credited/charged to equity. For disposals to minority interest, differences between any proceeds received and the relevant share of minority interest are also recorded in equity. The Group regards the change is appropriate as under this new treatment, the Group only recognises goodwill in the balance sheet and gain/loss on disposal in the income statement from the purchase and disposal of interest of a subsidiary when there is a change in control in the subsidiary.

Adoption of this new treatment has no significant impact to the consolidated financial statements in prior years and had this not been applied for an associate to account for its purchases from its minority interest during the year, the Group's interests in associates and the Group's profit for the year ended 31 December 2006 would have been increased by HK$1,688 million and the Group's earnings per share and diluted earnings per share would have been increased by 72.76 HK cents and 72.52 HK cents respectively .

(ii) Associates

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

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.

2 Summary of significant accounting policies (Continued)

(b) Consolidation (Continued)

(ii) Associates (Continued)

In the Company's balance sheet the interest in an associate is stated at cost less provision for impairment losses (note 2(h)). The results of the associate are accounted for by the Company on the basis of dividend received and receivable.

(iii) Joint ventures

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

Joint venture arrangements which involve the establishment of a separate entity in which each venture partner has an interest and joint control with the venturers over the economic activities of the entities are referred to as jointly controlled entities.

Interests in jointly controlled entities are accounted for by the equity method of accounting and are initially recognised at cost. The Group's interests in jointly controlled entities 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.

In the Company's balance sheet, the interest in a jointly controlled entity is stated at cost less provision for impairment losses (note 2(h)). The results of the jointly controlled entity are accounted for by the Company on the basis of dividend received and receivable.

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 dollar, 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 security, and other changes in the carrying amount of the security. Translation differences are recognised in the 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 or loss are recognised in the 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.

2 Summary of significant accounting policies (Continued)

(d) Foreign currency translation (Continued)

(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;
- 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 translation reserve. When a foreign operation is sold, exchange differences that were recorded in translation 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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are expensed in the income statement during the period in which they are incurred.

2 Summary of significant accounting policies (Continued)

(e) Property, plant and equipment (Continued)

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

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

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

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

(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.

2 Summary of significant accounting policies (Continued)

(f) Investment properties (Continued)

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 gains.

(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 investments in subsidiaries, associates, jointly controlled entities and non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation, which are at least tested annually for impairment. 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. Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2 Summary of significant accounting policies (Continued)

(i) Financial assets

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

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

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as debtors, deposits and prepayments, advances to associates and loans to jointly controlled entities in the balance sheet.

(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. Held-for-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date; these are classified as current assets.

2 Summary of significant accounting policies (Continued)

(i) Financial assets (Continued)

(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 financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership . Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity 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 or loss category including interest and dividend income, are presented in the income statement within other gains, in the year in which they arise.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in the income statement; translation differences on non-monetary securities are recognised in translation reserve. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in investment revaluation reserve.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in investment revaluation reserve are included in the income statement as gains and losses on disposal of available-for-sale financial assets. Interest on available-for-sale securities calculated using the effective interest method is recognised in the 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.

2 Summary of significant accounting policies (Continued)

(i) Financial assets (Continued)

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 security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the 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.

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 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.

2 Summary of significant accounting policies (Continued)

(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 original 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 if their carrying amount will be recovered principally through a sale transaction, not through continuing use. The non-current assets (or disposal groups) are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

(m) Cash and cash equivalents

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

(n) Share capital

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

(o) Creditors

Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2 Summary of significant accounting policies (Continued)

(p) Other financial liabilities

Other financial liabilities are recognised initially at fair value and 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.

(q) Deferred income tax

Deferred income tax 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, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

2 Summary of significant accounting policies (Continued)

(r) Employee benefits

(i) 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) Entities of the Group operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of services and compensation.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

In prior years, actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to the consolidated income statement over the employees' expected average remaining working lives. With effect from 1 January 2006, the Group adopted retrospectively the alternative recognition policy in Amendment to HKAS 19 under which actuarial gains and losses are charged or credited to equity in the Consolidated Statement of Recognised Income and Expense in the period in which they arise.

2 Summary of significant accounting policies (Continued)

(r) Employee benefits (Continued)

The adoption of Amendment to HKAS 19 does not have any significant impact to the financial statements in prior years and the adoption resulted in an increase in interests in associates and share of net actuarial gains on defined benefit plan of associates of HK$65 million in 2006.

Past-service costs are recognised immediately as income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

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

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

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

2 Summary of significant accounting policies (Continued)

(r) Employee benefits (Continued)

(iii) The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity.

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

(s) Revenue recognition

Revenue from ports service and transportation 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.

Profit 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) Borrowing costs

Borrowing costs incurred for the construction of any qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for intended use. Other borrowing costs are expensed.

2 Summary of significant accounting policies (Continued)

(u) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases net of any incentives received from the lessor are expensed in the income statement on a straight-line basis over the period of the lease.

(v) 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

Transactions of the Group's operation in the PRC are settled in Hong Kong dollar and Renminbi. However, foreign currencies are required to settle the Group's purchases of machinery and equipmnet 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 2006, denominated mainly in United States dollar and Hong Kong dollar are disclosed in notes 28 and 32 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 2006.

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 changes in fuel price.

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

(ii) Credit risk

Sales to China International Marine Containers (Group) Co., Ltd. and its affiliates (hereinafter collectively referred to as "CIMC") represents 15% (2005: 17%) 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 evaluation 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, addition of ports infrastructure and loading machinery and repayment of related debts. The Group finances its working capital requirements through a combination of funds generated from operations and bank loans.

For the year ended 31 December 2006, the Group recorded a net cash inflow from operating activities of HK$1,994 million (2005: HK1,316 million); a net cash outflow from investing activities of HK$1,639 million (2005: HK$8,217 million); and a decrease in cash and cash equivalents of HK$134 million (2005: 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 certain available-for-sale financial assets and cash and cash equivalents, details of which have been disclosed in notes 23(c) and 28 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 2006, US$500 million, 5.375% guaranteed listed notes ("Listed Notes Payable"), maturing in 2015, approximately 44% 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 32 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 32 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 assumption

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.

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. The Group uses discounted cash flow analysis for various available-for-sale financial assets that were not traded in active markets. The carrying amount of available-for-sale financial assets would be HK$44 million lower or HK$51 million higher were the discount rate used in the discounted cash flow analysis be differed by 10% from management estimates.

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

Net realisable values of inventories

Inventories are carried at the lower of cost and net realisable value. 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.

5 Turnover

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). Turnover recognised during the year are as follows:

	2006 HK$'million	2005 HK$'million
Turnover		
Ports service and transportation income, container service and container yard management income	**1,919**	1,067
Sales of paints and related goods	**2,013**	1,481
Sales of development properties	**404**	400
Gross rental income from investment properties	**29**	24
	4,365	2,972

6 Segment information

Primary reporting format – business segment:

The Group is organised into the following main business segment:

(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 segment.

Secondary reporting format – geographical segment:

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 between the geographical segment.

6 Segment information (Continued)

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

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

	Company and subsidiaries		Share of associates		Share of jointly controlled entities		Total	
	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	**1,919**	1,067	**5,435**	3,424	**499**	534	**7,853**	5,025
Ports-related operations	**2,013**	1,481	**7,388**	6,948	**—**	—	**9,401**	8,429
Other operations								
Toll road	**—**	—	**—**	—	**350**	308	**350**	308
Property	**433**	424	**—**	—	**—**	—	**433**	424
	433	424	**—**	—	**350**	308	**783**	732
Turnover	**4,365**	2,972	**12,823**	10,372	**849**	842	**18,037**	14,186

6 Segment information (Continued)

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

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

	Company and subsidiaries		Share of profits of associates		Share of profits of jointly controlled entities		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'million	HK$'million	**HK$'million**	HK$'million	**HK$'million**	HK$'million	**HK$'million**	HK$'million
Ports operations	**539**	245	**1,551**	1,114	**249**	287	**2,339**	1,646
Ports-related operations	**180**	203	**633**	636	**—**	—	**813**	839
Other operations								
Toll road	**8**	8	**—**	—	**187**	154	**195**	162
Property	**114**	156	**—**	—	**—**	—	**114**	156
Others	**8**	2	**—**	—	**—**	—	**8**	2
	130	166	**—**	—	**187**	154	**317**	320
Segment results	**849**	614	**2,184**	1,750	**436**	441	**3,469**	2,805
Unallocated income less expenses							**(118)**	(44)
Interest income							**33**	92
Finance costs							**(392)**	(266)
Taxation							**(99)**	(54)
Profit for the year							**2,893**	2,533

6 Segment information (Continued)

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

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

	Segment assets		Interests in associates		Interests in jointly controlled entities		Segment liabilities		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'million	HK$'million	**HK$'million**	HK$'million	**HK$'million**	HK$'million	HK$'million	HK$'million	**HK$'million**	HK$'million
Ports operations	**14,424**	8,326	**9,804**	8,612	**1,919**	1,978	**(3,969)**	(2,600)	**22,178**	16,316
Ports- related operations	**1,220**	918	**2,841**	2,165	**—**	—	**(615)**	(401)	**3,446**	2,682
Other operations										
Toll road	**992**	948	**—**	—	**2,502**	2,468	**—**	—	**3,494**	3,416
Property	**1,105**	1,017	**—**	—	**—**	—	**(134)**	(166)	**971**	851
Others	**16**	92	**—**	—	**—**	—	**—**	—	**16**	92
	2,113	2,057	**—**	—	**2,502**	2,468	**(134)**	(166)	**4,481**	4,359
	17,757	11,301	**12,645**	10,777	**4,421**	4,446	**(4,718)**	(3,167)	**30,105**	23,357
Unallocated assets									**237**	857
Unallocated liabilities									**(6,661)**	(6,448)
Tax recoverable									**4**	3
Taxation payable									**(21)**	(22)
Deferred tax assets									**22**	35
Deferred tax liabilities									**(243)**	(155)
									23,443	17,627

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

	Capital expenditure		Depreciation and amortisation	
	2006	2005	**2006**	2005
	HK$'million	HK$'million	**HK$'million**	HK$'million
Ports operations	**2,319**	2,648	**358**	177
Ports-related operations	**18**	13	**12**	13
Property	**2**	2	**6**	—
Others	**—**	—	**1**	1
Unallocated	**—**	1	**1**	5
	2,339	2,664	**378**	196

6 Segment information (Continued)

(b) Secondary reporting format – geographical segment

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

	Turnover		Segment results	
	2006	2005	**2006**	2005
	HK$'million	HK$'million	**HK$'million**	HK$'million
Hong Kong	**392**	381	**177**	257
Mainland China	**3,348**	2,033	**599**	295
New Zealand	**404**	391	**52**	50
Others	**221**	167	**21**	12
	4,365	2,972	**849**	614
Unallocated income less expenses			**(118)**	(44)
Operating profit			**731**	570

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

	Assets		Capital expenditure	
	2006	2005	**2006**	2005
	HK$'million	HK$'million	**HK$'million**	HK$'million
Hong Kong	**1,308**	1,411	**10**	27
Mainland China	**15,959**	9,368	**2,327**	2,635
New Zealand	**461**	405	**2**	2
Others	**29**	117	**—**	—
	17,757	11,301	**2,339**	2,664

7 Other gains, net and other income

	2006 HK$'million	2005 HK$'million
Other gains, net		
Increase in fair value of investment properties (note 18)	**55**	101
Increase in fair value of other financial assets at fair value through profit or loss	**7**	2
Gain on disposal of an available-for-sale financial asset	**61**	35
Gains on disposal of associates and jointly controlled entiies	**1**	95
Reversal of provision for bad and doubtful debts	**—**	22
Net exchange gains	**49**	37
Others	**11**	36
	184	328
Other income		
Income from held-to-maturity investments	**9**	10
Dividend income	**3**	2
Others	**16**	3
	28	15

8 Expenses by nature

	2006 HK$'million	2005 HK$'million
Cost of inventories sold	**1,521**	1,142
Cost of development properties sold	**320**	305
Staff costs (including Directors' emoluments) (note 9)	**514**	348
Depreciation of property, plant and equipment	**321**	157
Amortisation of leasehold land and land use rights	**57**	39
Net losses on disposal of property, plant and equipment	**—**	2
Auditors' remuneration	**14**	9
Operating lease rentals in respect of		
– land and buildings	**93**	69
– plant and machinery	**16**	19
Other expenses	**838**	655
Total cost of sales, distribution costs and administrative expenses	**3,694**	2,745

9 Staff costs (including Directors' emoluments)

	2006 HK$'million	2005 HK$'million
Wages and salaries	401	298
Retirement benefit scheme contributions	32	18
Share-based payments (note (31(b))	81	32
	514	348

10 Directors' and senior management's emoluments

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

Name of Director	Fees HK$'million	Salary and bonus HK$'million	Share based payments HK$'million	Employer's contribution to pension scheme HK$'million	2006 Total HK$'million	2005 Total HK$'million
Fu Yuning	—	—	1.66	—	1.66	1.30
Zhao Huxiang	—	—	0.86	—	0.86	0.91
Li Yinquan	—	—	0.83	—	0.83	0.65
Hu Zheng	—	—	0.83	—	0.83	0.65
Meng Xi	—	—	0.83	—	0.83	0.65
Wang Hong	—	0.89	1.27	0.03	2.19	0.46
Yu Liming	—	—	1.02	—	1.02	0.65
To Wing Sing	—	1.59	1.03	0.13	2.75	2.50
Tsang Kam Lam	0.12	—	—	—	0.12	0.12
Kut Ying Hay	0.12	—	—	—	0.12	0.12
Lee Yip Wah, Peter	0.12	—	—	—	0.12	0.12
Li Kwok Heem	0.12	—	—	—	0.12	0.12
Li Yi	—	—	—	—	—	0.98
Total for the year 2006	0.48	2.48	8.33	0.16	11.45	—
Total for the year 2005	0.48	2.57	6.05	0.13	—	9.23

No Director waived emoluments in respect of the years ended 31 December 2006 and 2005.

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

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, one (2005: one) was Director of the Company whose emolument is disclosed in note 10(a) to the financial statements above. The emoluments of the remaining four (2005: four) individuals were as follows:

	2006 **HK$'million**	2005 HK$'million
Salaries, other allowances and benefits in kind	**6**	7
Performance related incentive payments	**1**	1
Retirement benefits scheme contributions	**—**	—
Share-based payments	**2**	1
	9	9

The emoluments are within the following bands:

	Number of individuals	
	2006	2005
HK$1,500,001 – HK$2,000,000	**2**	2
HK$2,500,001 – HK$3,000,000	**2**	1
HK$3,000,001 – HK$3,500,000	**—**	1
	4	4

11 Finance costs

	2006 **HK$'million**	2005 HK$'million
Interest on:		
Bank borrowings, wholly repayable within five years	**214**	123
Bank borrowings, not wholly repayable within five years	**24**	11
Listed Notes Payable, not wholly repayable within five years	**211**	172
Loans from minority shareholders of subsidiaries	**—**	3
Amounts due to minority shareholders of subsidiaries	**3**	1
Total borrowing costs incurred	**452**	310
Less: amount capitalised in assets under construction	**(60)**	(44)
	392	266

Capitalisation rates of 5.172% (2005: 5.046%) 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% (2005: 17.5%) on the estimated assessable profit for the year.

The Group's operations in Mainland China are subject to Foreign Enterprise Income Tax of Mainland China ("PRC Foreign Enterprise Income Tax") at tax rate of 10% to 15% on assessable profits. The Group's certain major operating subsidiaries are exempted from the PRC Foreign Enterprise Income Tax in the first two to five profit making years followed by a 50% reduction in the PRC Foreign Enterprise Income Tax for the next three to five years thereafter.

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

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

	2006 HK$'million	2005 HK$'million
Hong Kong profits tax		
– Current year	**7**	8
PRC Foreign Enterprise Income Tax		
– Current year	**62**	31
– Under/(over) provision in prior years	**3**	(3)
Overseas taxation		
– Current year	**18**	15
– Under provision in prior years	**1**	—
Deferred taxation (note 33)	**8**	3
	99	54

The tax on the Group's profit before taxation differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the companies within the Group as follows:

	2006 HK$'million	2005 HK$'million
Profit before taxation (excluding share of profits of associates and jointly controlled entities)	**372**	396
Expected tax calculated at the weighted average applicable tax rate	**47**	63
Income not subject to taxation	**(102)**	(282)
Expenses not deductible for taxation purposes	**150**	276
Under/(over) provision in prior years	**4**	(3)
Taxation charge	**99**	54

The weighted average applicable tax rate was 13% (2005: 16%). The decrease is caused by a change in the profitability of the Group's subsidiaries in the respective countries.

13 Profit attributable to shareholders

Profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK$1,591 million (2005: HK$609 million).

14 Dividends

	2006 HK$'million	2005 HK$'million
Interim, paid, of 17 HK cents (2005: 17 HK cents) per share	**394**	370
Final, proposed, of 36 HK cents (2005: 33 HK cents) per share	**841**	753
	1,235	1,123

At a meeting held on 12 April 2007, the Directors proposed a final dividend of 36 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 2007.

The amount of proposed final dividend for 2006 was based on 2,334,852,168 shares in issue as at 12 April 2007. The amount of proposed final dividend for 2005 was based on 2,282,262,230 shares in issue as at 3 April 2006.

15 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$2,540 million (2005: HK$2,364 million).

The basic earnings per share is based on the weighted average number of 2,320,044,447 (2005: 2,190,032,536) ordinary shares in issue during the year. The diluted earnings per share is based on 2,327,739,234 (2005: 2,200,148,579) ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighted average number of 7,694,787 (2005: 10,116,043) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

16 Goodwill

	2006 HK$'million	2005 HK$'million
Carrying value as at 1 January	**275**	275
Additions	**6**	—
Carrying value as at 31 December	**281**	275

Goodwill is allocated to the Group's cash-generating units ("CGUs") identified according to country of operation and business segment. The goodwill is attributable to ports operation. An analysis of net book value by geographical area is as follows:

	2006 HK$'million	2005 HK$'million
Hong Kong	**52**	52
Mainland China	**229**	223
	281	275

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Management determined the financial budgets based on past performance and its expectations for the market development. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below.

The key assumptions used for value-in-use calculations are as follows:

	2006	2005
Growth rate (note (i))	**5.0%**	5.0%
Discount rate (note (ii))	**11.9%**	10.7%

Notes:

(i) Weighted average growth rate is used to extrapolate cash flows beyond the budget period which does not exceed the historical trend of the CGUs. The weighted average growth rates used are consistent with the forecasts included in industry reports.

(ii) Pre-tax discount rate has been applied to the cash flow projections. The discount rates used are pre-tax and reflect specific risks relating to the Group.

During the year ended 31 December 2006, there is no impairment of any of its CGUs or group of CGUs containing goodwill with indefinite useful lives.

17 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 2006	**110**	**2,250**	**1,536**	**68**	**1,572**	**5,536**	**1**
Exchange adjustments	**2**	**92**	**58**	**4**	**57**	**213**	**—**
Acquisition of subsidiaries	**—**	**334**	**111**	**81**	**13**	**539**	**—**
Additions	**—**	**116**	**271**	**13**	**1,933**	**2,333**	**—**
Disposals	**—**	**—**	**(2)**	**—**	**—**	**(2)**	**—**
Transfer	**11**	**1,192**	**519**	**82**	**(2,103)**	**(299)**	**—**
Depreciation	**(5)**	**(134)**	**(160)**	**(22)**	**—**	**(321)**	**—**
Net book value at 31 December 2006	**118**	**3,850**	**2,333**	**226**	**1,472**	**7,999**	**1**
At 31 December 2006							
Cost	**173**	**4,279**	**2,859**	**335**	**1,472**	**9,118**	**7**
Accumulated depreciation and impairment	**(55)**	**(429)**	**(526)**	**(109)**	**—**	**(1,119)**	**(6)**
Net book value	**118**	**3,850**	**2,333**	**226**	**1,472**	**7,999**	**1**
Net book value at 1 January 2005	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)	—
Transfer	—	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

17 Property, plant and equipment (Continued)

Notes:

(a) Included in assets under construction is interest capitalised of approximately HK$112 million (2005: HK$52 million).

(b) At 31 December 2006, land and buildings of approximately HK$11 million (2005: HK$11 million) have been pledged as one of the securities for the Group's bank borrowings of HK$60 million (2005: HK$90 million). Plant, machinery, furniture and equipment with net book value of HK$73 million (2005: Nil) has been pledged as security for the Group's bank borrowings of HK$30 million (2005: Nil).

(c) Others comprise vessels and ships, motor vehicles and leasehold improvements with net book values of HK$173 million (2005: HK$34 million), HK$29 million (2005: HK$23 million) and HK$24 million (2005: HK$11 million) respectively as at 31 December 2006.

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

	Group			
	Buildings		Harbour works and buildings and dockyard	
	2006	2005	**2006**	2005
	HK$'million	HK$'million	**HK$'million**	HK$'million
Buildings in Hong Kong, held on leases of between 10 to 50 years	**56**	64	**—**	—
Buildings outside Hong Kong, held on leases of between 10 to 50 years	**51**	35	**3,850**	2,250
Freehold land and buildings outside Hong Kong	**11**	11	**—**	—
	118	110	**3,850**	2,250

18 Investment properties

	2006	2005
	HK$'million	HK$'million
Carrying value at 1 January	**539**	438
Acquisition of subsidiaries	**9**	—
Increase in fair value (note 7)	**55**	101
Carrying value at 31 December	**603**	539

18 Investment properties (Continued)

Notes:

(a) The investment properties were revalued at 31 December 2006 by following independent, professionally qualified valuers. Valuations are based on current prices in an active market.

Properties located in	Name of valuers
Hong Kong	Grant Sherman Appraisal Limited
Shenzhen	Shenzhen Gongpingheng Appraisal Co., Ltd. and 深圳市長基房地產評估交易有限公司

(b) At 31 December 2006, the Group's interests in investment properties, held on leases between 10 to 50 years, at their carrying values are analysed as follows:

	2006 HK$'million	2005 HK$'million
Hong Kong	581	528
Mainland China	22	11
	603	539

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

	2006 HK$'million	2005 HK$'million
Rental income	29	24
Direct operating expense arising from investment properties	(1)	(1)
	28	23

(d) The period of lease where by the Group leases out its investment properties under operating leases is between 3 to 8 years.

19 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:

	2006 HK$'million	2005 HK$'million
Net book value at 1 January	2,007	1,733
Exchange adjustments	35	36
Acquisitions of subsidiaries	814	—
Additions	6	277
Transfer from assets under construction	299	—
Amortisation	(57)	(39)
Net book value at 31 December	3,104	2,007

19 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:

	2006 **HK$'million**	2005 HK$'million
Hong Kong	**108**	108
Mainland China	**2,996**	1,899
	3,104	2,007

20 Interests in subsidiaries

	Company	
	2006 **HK$'million**	2005 HK$'million
Unlisted shares, at cost	**5,158**	3,092
Advances to subsidiaries		
– interest free (note (a))	**18,831**	16,388
– interest bearing	**—**	512
	23,989	19,992
Advances to subsidiaries (note (b))	**44**	—
Advances from subsidiaries (note (c))	**7,426**	7,726

Notes:

(a) The interest-free advances to subsidiaries are unsecured and have no fixed terms of repayment.

(b) The advances to subsidiaries are unsecured, interest free and repayable in January 2007.

(c) The advances from subsidiaries are unsecured, interest free and will not be repayable within one year.

(d) Particulars of the Company's principal subsidiaries at 31 December 2006 are set out in note 40 to the financial statements.

21 Interests in associates

	Group		Company	
	2006	2005	**2006**	2005
	HK$'million	HK$'million	**HK$'million**	HK$'million
Listed shares, at cost				
Shares listed in Mainland China	**—**	—	**227**	227
Share of net assets of (note (a)):				
Listed associates	**9,478**	2,101	**—**	—
Unlisted associates	**2,857**	8,220	**—**	—
	12,335	10,321	**227**	227
Goodwill (note (b)):				
Listed associates	**103**	33	**—**	—
Unlisted associates	**140**	355	**—**	—
	243	388	**—**	—
Advances to associates (note (c))	**67**	68	**—**	—
	12,645	10,777	**227**	227
Market value of listed shares	**46,194**	2,868	**7,437**	2,868

21 Interests in associates (Continued)

Notes:

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

	2006 **HK$'million**	2005 HK$'million
Carrying value as at 1 January	**10,321**	3,636
Effect of adoption of HKFRS 3 by associates	**—**	(10)
Exchange adjustments	**248**	132
Share of profits	**2,184**	1,750
Capital contribution	**226**	—
Share of reserves	**243**	28
Share of net actuarial gains on defined benefit plan of associates	**65**	—
Dividends received and receivable	**(654)**	(728)
Acquisition	**—**	5,655
Disposals	**—**	(142)
Loss on deemed disposal of partial interest in an associate (note 21(d))	**(143)**	—
Reclassification	**(155)**	—
Carrying value as at 31 December	**12,335**	10,321

(b) Movement of goodwill during the year:

	2006 **HK$'million**	2005 HK$'million
Carrying value as at 1 January	**388**	289
Exchange adjustments	**4**	—
Acquisitions	**—**	99
Loss on deemed disposal of partial interest in an associate (note 21(d))	**(9)**	—
Reclassification	**(140)**	—
Carrying value as at 31 December	**243**	388

21 Interests in associates (Continued)

Notes: (Continued)

(c) The advances to associates are unsecured, interest free and have no fixed terms of repayment.

(d) On 26 October 2006, Shanghai International Ports (Group) Limited ("SIPG"), an associate of the Group, merged with its non-wholly owned subsidiary, Shanghai Port Container Co., Ltd ("SPC") by way of a share swap (the "Absorption Merger"). SPC is a joint stock limited company incorporated in the PRC and its A shares were listed on the Shanghai Stock Exchange. SIPG issued new shares ("New SIPG Shares"), representing approximately 11.54% of the enlarged capital of SIPG, to the minority shareholders of SPC as consideration of the Absorption Merger. Upon completion of the Absorption Merger, SIPG became the subsisting listed company and SPC's shares were delisted. The Group's interest in SIPG was diluted from 30% to 26.539%, resulting in a loss on deemed disposal of HK$152 million.

(e) At 31 December 2006, the Group provided guarantees to banks for bank loans drawn by an associate of HK$1 million (2005: HK$4 million).

(f) The Group's share of turnover, net interest 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:

	2006					2005				
	CIMC	SIPG	Ports operations (note)	Others	Total	CIMC	SIPG	Ports operations (note)	Others	Total
	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
Turnover	7,353	2,726	2,709	35	12,823	6,671	1,008	2,415	278	10,372
Net interest expenses	(7)	(89)	(55)	—	(151)	(14)	(37)	(39)	—	(90)
Depreciation and amortisation	(84)	(273)	(124)	(1)	(482)	(71)	(118)	(193)	(4)	(386)
Profit for the year	628	840	711	5	2,184	605	368	746	31	1,750
Non-current assets	2,007	9,021	6,353	6	17,387	1,292	7,853	5,324	15	14,484
Current assets	3,273	3,405	1,680	27	8,385	2,427	3,938	1,325	25	7,715
Current liabilities	(2,098)	(4,375)	(1,840)	(29)	(8,342)	(1,327)	(3,712)	(1,402)	(10)	(6,451)
Non-current liabilities	(398)	(1,357)	(3,340)	—	(5,095)	(291)	(2,567)	(2,548)	(21)	(5,427)
Net assets	2,784	6,694	2,853	4	12,335	2,101	5,512	2,699	9	10,321

21 Interests in associates (Continued)

Notes: (Continued)

Ports operations include the financial information of all associates other than SIPG within ports operations segment. Modern Terminals Limited ("MTL") is regarded as a significant associate 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 should be disclosed. However, it has been mutually agreed among all the respective shareholders of MTL that the financial information of MTL cannot be disclosed to parties other than the shareholders. Under such circumstances, the information pertaining to MTL 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 the non-disclosure of the information on MTL 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.

(g) Particulars of the Company's and the Group's principal associates at 31 December 2006 are set out in note 41 to the financial statements.

22 Interests in jointly controlled entities

	Group		**Company**	
	2006 HK$'million	2005 HK$'million	**2006 HK$'million**	2005 HK$'million
Unlisted investment, at cost	**—**	—	**3**	3
Share of net assets of jointly controlled entities (note (a))	**3,354**	3,124	**—**	—
Goodwill (note (b))	**403**	404	**—**	—
Loans to jointly controlled entities (note (c))	**764**	1,018	**—**	—
Less: Provision for impairment loss	**(100)**	(100)	**—**	—
	4,421	4,446	**3**	3

22 Interests in jointly controlled entities (Continued)

Notes:

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

	2006 **HK$'million**	2005 HK$'million
Carrying value as at 1 January	**3,124**	2,845
Exchange adjustments	**47**	20
Share of profits	**436**	441
Share of reserves	**—**	1
Dividends received and receivable	**(426)**	(370)
Acquisitions	**—**	211
Capital contribution	**13**	180
Capitalization of loans to jointly controlled entities	**160**	—
Disposals	**—**	(204)
Carrying value as at 31 December	**3,354**	3,124

(b) Movement of goodwill during the year:

	2006 **HK$'million**	2005 HK$'million
Carrying value as at 1 January	**404**	—
Additions	**—**	404
Exchange adjustments	**(1)**	—
Carrying value as at 31 December	**403**	404

(c) As at 31 December 2006, all loans to jointly controlled entities were unsecured, interest free and had no fixed terms of repayment. As at 31 December 2005, loans to jointly controlled entities were unsecured, interest free and had no fixed terms of repayment except for certain amounts totalling HK$192 million which borne interest at 5.49% per annum.

22 Interests in jointly controlled entities (Continued)

Notes: (Continued)

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

	2006 HK$'million	2005 HK$'million
Turnover	849	842
Net interest expenses	(9)	(14)
Depreciation and amortisation	(227)	(188)
Profit for the year	436	441
Non-current assets	4,970	4,722
Current assets	973	1,005
Current liabilities	(568)	(267)
Non-current liabilities	(2,021)	(2,336)
Net assets	3,354	3,124

(e) Particulars of the Company's and the Group's principal jointly controlled entities at 31 December 2006 are set out in note 42 to the financial statements.

23 Other financial assets

	2006 HK$'million	2005 HK$'million
Other financial assets at fair value through profit or loss (note (a))	—	30
Held-to-maturity investments (note (b))	50	60
Available-for-sale financial assets (note (c))	867	767
	917	857
Less: current portion included under current assets	—	(30)
Non-current portion	917	827

23 Other financial assets (Continued)

Notes:

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

	2006 **HK$'million**	2005 HK$'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

	2006 **HK$'million**	2005 HK$'million
Unlisted investments in Mainland China	**50**	60

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

(c) Available-for-sale financial assets

	2006 **HK$'million**	2005 HK$'million
Listed equity investments in Mainland China	**14**	68
Unlisted investments:		
Unlisted equity investments in Hong Kong	**125**	106
Unlisted equity investments in Mainland China	**265**	151
Advances to an investee	**463**	442
	867	767

23 Other financial assets (Continued)

Notes: (Continued)

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

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

	2006 HK$'million	2005 HK$'million
Carrying value as at 1 January	**767**	723
Acquisition of subsidiaries	**26**	—
Additions	**—**	150
Disposal	**(87)**	(132)
Repayment of advances	**(23)**	(14)
Interest income	**4**	1
Net change in fair value transferred to equity (note 31(b))	**180**	39
Carrying value as at 31 December	**867**	767

Available-for-sale financial assets are denominated in the following currencies:

	2006 HK$'million	2005 HK$'million
Hong Kong dollar	**588**	548
Renminbi	**279**	219
	867	767

24 Prepayments

Pursuant to a sale and purchase agreement dated 14 December 2005 signed with a fellow subsidiary, the Company agreed to acquire the rights to purchase certain pieces of land located in Shekou, Shenzhen, PRC at a consideration of HK$2,066 million.

The seller and its holding company have undertaken and guaranteed to the Group the execution, on or before 31 December 2006, with an extension of 3 months grace period, of land grant contracts to transfer the relevant pieces of land to the Group. As at the date of these financial statements, the relevant land grant contracts have been executed.

25 Inventories

	2006 HK$'million	2005 HK$'million
Raw materials	**111**	90
Finished goods	**120**	74
Spare parts and consumables	**8**	6
	239	170

26 Development properties for sale

	2006 HK$'million	2005 HK$'million
Freehold land outside Hong Kong	**291**	316
Development costs capitalised	**96**	65
	387	381

27 Debtors, deposits and prepayments

	Group		Company	
	2006 HK$'million	2005 HK$'million	**2006 HK$'million**	2005 HK$'million
Trade debtors (note (a))	**1,120**	743	**—**	—
Amounts due from immediate holding company and fellow subsidiaries (note (b))	**46**	52	**—**	1
Amounts due from an associate (note (b))	**7**	—	**—**	—
Amounts due from jointly controlled entities (note (b))	**226**	73	**—**	—
Amounts due from related companies (note (b))	**1**	4	**7**	—
	1,400	872	**7**	1
Other debtors, deposits and prepayments	**123**	192	**9**	13
Dividend receivable from an associate	**—**	178	**—**	—
	1,523	1,242	**16**	14

27 Debtors, deposits and prepayments (Continued)

Notes:

(a) Included in trade debtors as at 31 December 2006 are amounts due from associates, a minority shareholder of subsidiaries and bill receivables totalling HK$318 million (2005: HK$215 million), HK$21 million (2005: HK$6 million) and HK$27 million (2005: HK$26 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:

	2006 **HK$'million**	2005 HK$'million
Not yet due	**412**	213
1 – 30 days	**271**	234
31 – 60 days	**178**	107
61 – 120 days	**132**	97
Over 120 days	**127**	92
	1,120	743

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

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

	Group		**Company**	
	2006 **HK$'million**	2005 HK$'million	**2006** **HK$'million**	2005 HK$'million
Hong Kong dollar	**58**	106	**7**	1
Renminbi	**711**	359	**—**	—
United States dollar	**613**	401	**—**	—
Euro	**18**	6	**—**	—
	1,400	872	**7**	1

28 Cash and cash equivalents

	Group		Company	
	2006 HK$'million	2005 HK$'million	**2006 HK$'million**	2005 HK$'million
Cash at bank and in hand	**447**	462	**48**	22
Time deposits with initial maturity of less than three months	**334**	478	**3**	343
	781	940	**51**	365

The weighted average effective interest rate on time deposits during the year was approximately 2.67% (2005: 3.47%) per annum. These deposits have an average maturity of 45 days (2005: 22 days).

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

	Group		Company	
	2006 HK$'million	2005 HK$'million	**2006 HK$'million**	2005 HK$'million
Hong Kong dollar	**259**	239	**48**	86
Renminbi	**198**	283	**—**	—
United States dollar	**298**	364	**3**	279
Other currencies	**26**	54	**—**	—
	781	940	**51**	365

29 Non-current assets 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 31 December 2006, the disposal of the Group's 25% equity interests in Ningzhenluo JVs was 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.

30 Share capital

	Company			
	Number of shares		Share capital	
	2006	2005	**2006**	2005
			HK$'million	HK$'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 31 December	**5,000,000,000**	3,000,000,000	**500**	300
Issued and fully paid ordinary 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))	**17,618,000**	9,839,000	**2**	1
Issue of scrip dividend shares (note (c))	**36,152,938**	42,524,636	**4**	4
Issue of shares for purchase of land use rights (note (d))	**84,952,620**	—	**8**	—
At 31 December	**2,333,280,168**	2,194,556,610	**233**	219

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 year, 17,618,000 (2005: 9,839,000) shares were issued on exercise of share options, with proceeds of HK$175 million (2005: HK$53 million).

The weighted average share price at the time of exercise was HK$25.41 (2005: HK$15.55) per share. The related transaction costs of HK$0.3 million (2005: HK$0.2 million) have been netted off with the proceeds received.

During the year, no ordinary shares were repurchased.

30 Share capital (Continued)

Notes: (Continued)

(c) The Company distributed dividends to its shareholders by way of scrip dividends, with a cash alternative to shareholders. Details of ordinary shares of HK$0.1 each issued by the Company as dividends are as follows:

	Date of issue	Number of share issued	Nominal value of share issued HK$'million	Premium on shares issued HK$'million	Total scrip dividend HK$'million
2005 final dividend	**5 July 2006**	**24,434,180**	**2**	**506**	**508**
2006 interim dividend	**29 November 2006**	**11,718,758**	**2**	**276**	**278**
2006 Total			**4**	**782**	**786**
2005 Total			4	629	633

(d) On 27 January 2006, the Company issued 84,952,620 new ordinary shares in the amount of HK$1,427 million as part of the consideration for the purchase of certain pieces of land located in Shekou, Shenzhen, PRC.

(e) Since 1 January 2007 to the date of approval of these financial statements, the Company issued and allotted a total of 1,572,000 ordinary shares of HK$0.1 at an average exercise price of HK$10.8 per share upon the exercise of share options which were granted under the share option schemes disclosed in note 30(f) to the financial statements.

(f) Share options

Share options of the Company

The share option scheme of the Company was approved and adopted by the shareholders at the meeting on 20 December 2001. Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	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	**9.95**	**(17,618,000)**	5.35	(9,839,000)
Lapsed	**5.05**	**(250,000)**	10.65	(2,150,000)
At 31 December	**20.44**	**50,743,000**	10.14	28,421,000

Out of the 50,743,000 outstanding options, 10,188,000 options were exercisable as at 31 December 2006.

30 Share capital (Continued)

Notes: (Continued)

(f) Share options (Continued)

Share options of the Company (Continued)

Share options outstanding at 31 December 2006 have the following expiry dates and exercise prices:

Year of expiry	Exercise price HK$	Share options 2006 Number of share options	2005 Number of share options
2006	5.054	—	350,000
2006	5.615	—	350,000
2007	5.610	—	350,000
2012	4.985	**1,000,000**	3,550,000
2014	11.08	**9,353,000**	23,621,000
2015	15.31	**200,000**	200,000
2016	23.03	**40,040,000**	—
2016	20.91	**150,000**	—
		50,743,000	28,421,000

The fair values of options issued during the year were determined by using the Black-Scholes valuation model. The significant inputs into the model for options granted during the year were as follows:

	Share options granted on 21 June 2006	25 May 2006
Fair value per option	**HK$3.802**	**HK$3.705**
Share price per share at grant date	**HK$20.80**	**HK$22.15**
Exercise price per option	**HK$20.91**	**HK$23.03**
Share volatility	**28.18%**	**27.83%**
Expected life of options	**2.5 years**	**2.5 years**
Expected dividends payout rate	**2.64%**	**2.48%**
Average annual risk-free interest rate	**4.649%**	**4.399%**

Share volatility measured at a 4-month moving average of annualised volatility at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the past 30 months before the date of grant.

30 Share capital (Continued)

Notes: (Continued)

(f) Share options (Continued)

Share options of China Merchants Holdings (Pacific) Limited, a subsidiary of the Company

China Merchants Holdings (Pacific) Limited Share Option Scheme 2002 (the "CMHP 2002 Scheme") was approved and adopted by its shareholders at an extraordinary general meeting held on 30 May 2002 and modifications to the CMHP 2002 Scheme were approved by the shareholders at an extraordinary general meeting held on 27 April 2006.

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

	2006		2005	
	Weighted average exercise price S$	**Number of share options**	Weighted average exercise price S$	Number of share options
At 1 January	**0.500**	**500,000**	0.500	2,605,000
Granted	**0.789**	**12,350,000**	—	—
Exercised	**—**	**—**	0.500	(2,005,000)
Lapsed	**—**	**—**	0.500	(100,000)
At 31 December	**0.778**	**12,850,000**	0.500	500,000

Out of the 12,850,000 outstanding options, 500,000 options were exercisable as at 31 December 2006.

Share options outstanding at 31 December 2006 have the following expiry dates and exercise prices:

		Share options	
Year of expiry	**Exercise price S$**	**2006 Number of share options**	2005 Number of share options
2013	0.500	**500,000**	500,000
2011	0.789	**2,100,000**	—
2016	0.789	**10,250,000**	—
		12,850,000	500,000

30 Share capital (Continued)

Notes: (Continued)

(f) Share options (Continued)

Share options of China Merchants Holdings (Pacific) Limited, a subsidiary of the Company (Continued)

The fair values of options were determined by using Binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The significant inputs into the model for options granted during the year were as follows:

Grantees of options	Non-executive directors	Employees of New Zealand subsidiaries	Other employees of the group
Date of grant of options	6 October 2006	6 October 2006	6 October 2006
Fair value per option	S$0.135	S$0.172	S$0.106
Share price per share at grant date	S$0.800	S$0.800	S$0.800
Exercise price per option	S$0.789	S$0.789	S$0.789
Share volatility	30.87%	34.37%	25.52%
Expected life of options	2.56 years	5.5 years	2.14 years
Expected dividends payout rate	6.73%	6.73%	6.73%
Average annual risk-free interest rate	2.81%	3.00%	2.73%

The expected volatility is based on the historical volatility of comparable companies (calculated based on the weighted average expected life of the share options) adjusted for any expected changes to future volatility due to publicly available information. There are no market conditions associated with the share option grants. Service conditions and non-market performance conditions are not taken into account in the measurement of the fair value of the services to be received at the grant date.

31 Reserves

(a) Consolidated statement of changes in equity

	Attributable to the shareholders of the Company				Minority interest	Total
	Share capital HK$'million	Share premium HK$'million	(note 31(b)) 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
Share of reserves of associates and jointly controlled entities	—	—	243	—	—	243
Realisation of reserves upon deemed disposal of partial interest in an associate	—	—	(2)	—	—	(2)
Realisation of reserve upon disposal of jointly controlled entities	—	—	(2)	2	—	—
Realisation of reserves upon disposal of an available-for-sale financial asset	—	—	(56)	—	—	(56)
Share of net actuarial gains on defined benefit plan of associates	—	—	—	65	—	65
Exchange differences from translation of financial statements of subsidiaries, associates and jointly controlled entities	—	—	445	—	91	536
Increase in fair value of available-for-sale financial assets	—	—	180	—	—	180
Net income not recognised in the consolidated income statement	—	—	808	67	91	966
Profit for the year	—	—	—	2,540	353	2,893
Total recognised income for the year	—	—	808	2,607	444	3,859
Issue of shares on exercise of share options, net of share issue expenses of HK$0.3 million	2	173	—	—	—	175
Issue of shares in lieu of dividends	4	782	—	—	—	786
Issue of shares for purchase of land use rights	8	1,419	—	—	—	1,427
Acquisition of subsidiaries	—	—	29	—	645	674
Capital contributions by minority shareholders of subsidiaries	—	—	—	—	175	175
Share-based payments	—	—	81	—	—	81
Transfer to reserves	—	—	177	(177)	—	—
Dividends paid	—	—	—	(1,151)	(210)	(1,361)
At 31 December 2006	233	11,540	2,405	6,743	2,522	23,443
Representing:						
Reserves	233	11,540	2,405	5,902		
Proposed dividend	—	—	—	841		
At 31 December 2006	233	11,540	2,405	6,743		

31 Reserves (Continued)

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

	Attributable to the shareholders of the Company				Minority interest	Total
	Share capital HK$'million	Share premium HK$'million	(note 31(b)) 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
Share of reserves of associates and jointly controlled entities	—	—	29	—	—	29
Realisation of reserves upon disposal of associates	—	—	2	(2)	—	—
Realisation of reserves upon disposal of an available-for-sale financial asset	—	—	(17)	—	—	(17)
Exchange differences from translation of financial statements of subsidiaries, associates and jointly controlled entities	—	—	223	—	21	244
Increase in fair value of available-for-sale financial assets	—	—	39	—	—	39
Net income not recognised in the consolidated income statement	—	—	276	(2)	21	295
Profit for the year	—	—	—	2,364	169	2,533
Total recognised income for the year	—	—	276	2,362	190	2,828
Issue of shares on exercise of share options, net of share issue expenses of HK$0.2 million	1	52	—	—	—	53
Issue of shares in lieu of dividends	4	629	—	—	—	633
Deemed acquisitions	—	—	—	—	(15)	(15)
Capital contributions by minority shareholders of subsidiaries	—	—	—	—	130	130
Share-based payments	—	—	32	—	—	32
Transfer to reserves	—	—	323	(323)	—	—
Dividends paid	—	—	—	(1,013)	(67)	(1,080)
At 31 December 2005	219	9,166	1,310	5,464	1,468	17,627
Representing:						
Reserves	219	9,166	1,310	4,711		
Proposed dividend	—	—	—	753		
At 31 December 2005	219	9,166	1,310	5,464		

31 Reserves (Continued)

(b) Other reserves

	Group					
	Share-based compensation reserve HK$'million	(note (i)) Capital reserves (Goodwill) HK$'million	Investment revaluation reserve HK$'million	Translation reserve HK$'million	(note (ii)) Statutory reserves HK$'million	Total HK$'million
At 1 January 2006	36	(142)	203	242	971	1,310
Share of reserves of associates and jointly controlled entities	—	—	243	—	—	243
Realisation of reserves upon disposal of jointly controlled entities	—	—	—	—	(2)	(2)
Realisation of reserves upon deemed disposal of partial interest in an associate	—	—	(2)	—	—	(2)
Realisation of reserves upon disposal of an available-for-sale financial asset	—	—	(56)	—	—	(56)
Exchange adjustments	—	—	—	445	—	445
Increase in fair value of available-for-sale financial assets (note 23(c))	—	—	180	—	—	180
Share-based payments (note 9)	81	—	—	—	—	81
Transfer from retained earnings	—	—	—	—	177	177
Acquisition of subsidiaries	—	—	29	—	—	29
At 31 December 2006	117	(142)	597	687	1,146	2,405
At 1 January 2005	4	(144)	152	19	648	679
Share of reserves of associates and jointly controlled entities	—	—	29	—	—	29
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)
Exchange adjustments	—	—	—	223	—	223
Increase in fair value of available-for-sale financial assets (note 23(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

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.

31 Reserves (Continued)

(c) Reserves

	Company				
	Share premium HK$'million	Share-based compensation reserve HK$'million	(note) Capital reserve HK$'million	Retained earnings HK$'million	Total HK$'million
At 1 January 2006	**9,166**	**36**	**2,340**	**1,100**	**12,642**
Issue of shares on exercise of share options, net of share issue expenses of HK$0.3 million	**173**	**—**	**—**	**—**	**173**
Share-based payments	**—**	**80**	**—**	**—**	**80**
Profit for the year	**—**	**—**	**—**	**1,591**	**1,591**
Dividend paid	**782**	**—**	**—**	**(1,151)**	**(369)**
Issue of shares for purchase of land use rights (note 24)	**1,419**	**—**	**—**	**—**	**1,419**
At 31 December 2006	**11,540**	**116**	**2,340**	**1,540**	**15,536**
Represented by:					
Reserves	**11,540**	**116**	**2,340**	**699**	**14,695**
Proposed final dividend	**—**	**—**	**—**	**841**	**841**
	11,540	**116**	**2,340**	**1,540**	**15,536**
At 1 January 2005	8,485	4	2,340	1,504	12,333
Issue of shares on exercise of share options, net of share issue expenses of HK$0.2 million	52	—	—	—	52
Share-based payments	—	32	—	—	32
Profit for the year	—	—	—	609	609
Dividend paid	629	—	—	(1,013)	(384)
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

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.

32 Other financial liabilities

	Group		Company	
	2006 **HK$'million**	2005 HK$'million	**2006** **HK$'million**	2005 HK$'million
Short-term bank loans				
– unsecured	**1,337**	456	**479**	—
– secured (note (a))	**73**	21	**—**	—
Long-term bank loans, wholly repayable within five years				
– unsecured	**2,975**	2,802	**—**	—
– secured (note (a))	**17**	69	**—**	—
Long-term bank loans, not wholly repayable within five years, unsecured	**458**	1,069	**—**	—
	4,860	4,417	**479**	—
Loans from a minority shareholder of a subsidiary (note (b))	**62**	62	**—**	—
Listed Notes Payable (note (c))	**3,865**	3,852	**—**	—
	8,787	8,331	**479**	—
Less: amounts due within one year included under current liabilities	**(2,705)**	(539)	**(479)**	—
Non-current portion	**6,082**	7,792	**—**	—

Notes:

(a) Other financial liabilities include secured bank loans of HK$90 million (2005: HK$90 million). Bank loans of HK$60 million (2005: HK$90 million) are secured by mortgage debenture over all assets of certain subsidiaries with aggregated carrying value of HK$411 million (2005: HK$416 million) including freehold land and buildings with an aggregate carrying value of HK$11 million (2005: HK$11 million). Bank loans of HK$30 million (2005: Nil) are secured by property, plant and equipment with net book value at 31 December 2006 of HK$73 million (2005: Nil). Other financial liabilities drawn by subsidiaries of the Group of HK$5,908 million (2005: HK$6,375 million) are secured by corporate guarantees provided by the Company.

(b) Loans from minority shareholders of a subsidiary are unsecured, interest free and are repayable on demand.

(c) Listed Notes Payable represents US$500 million, 5.375% guaranteed listed notes maturing in 2015.

(d) The Group has undrawn bank loan facilities amounting to HK$5,533 million (2005: HK$3,105 million).

32 Other financial liabilities (Continued)

Notes: (Continued)

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

	Bank borrowings		Listed Notes Payable		Loans from minority shareholders of subsidiaries		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'million	HK$'million	**HK$'million**	HK$'million	**HK$'million**	HK$'million	**HK$'million**	HK$'million
Within 1 year	**2,643**	477	**—**	—	**62**	62	**2,705**	539
Between 1 and 2 years	**256**	1,295	**—**	—	**—**	—	**256**	1,295
Between 2 and 5 years	**1,503**	1,576	**—**	—	**—**	—	**1,503**	1,576
Wholly repayable within 5 years	**4,402**	3,348	**—**	—	**62**	62	**4,464**	3,410
Not wholly repayable within 5 years	**458**	1,069	**3,865**	3,852	**—**	—	**4,323**	4,921
	4,860	4,417	**3,865**	3,852	**62**	62	**8,787**	8,331

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

	Bank borrowings				Listed Notes Payable	
	Group		Company		Group	
	2006	2005	**2006**	2005	**2006**	2005
Hong Kong dollar	**4.15% to 4.90%**	3.86% to 5.19%	**4.25% to 4.4007%**	—	**—**	—
Renminbi	**5.00% to 5.76%**	4.70% to 5.27%	**—**	—	**—**	—
United States dollar	**—**	4.28% to 4.34%	**—**	—	**5.47%**	5.47%
Other currencies	**9.12%**	8.69%	**—**	—	**—**	—

(g) Except for the bank borrowings not wholly repayable within one year of HK$2,217 million and the Listed Notes Payable of HK$3,865 million, the carrying amounts of the other financial liabilities approximate their fair values as at 31 December 2006. The fair values of the bank borrowings not wholly repayable within one year and the Listed Notes Payable were HK$1,800 million (2005: HK$3,217 million) and HK$3,785 million (2005: HK$3,766 million) respectively. The fair value of bank borrowings not wholly repayable within one year was determined by discounting the future cash flows at the current market interest rate available to the Group and the fair value of the Listed Notes Payable was determined with reference to quoted market price.

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

	Group		Company	
	2006	2005	**2006**	2005
	HK$'million	HK$'million	**HK$'million**	HK$'million
Hong Kong dollar	**3,250**	3,231	**479**	—
Renminbi	**1,612**	1,140	**—**	—
United States dollar	**3,865**	3,870	**—**	—
Other currencies	**60**	90	**—**	—
	8,787	8,331	**479**	—

33 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 income tax account is as follows:

	2006 **HK$ million**	2005 HK$ million
At 1 January	**(120)**	(116)
Exchange adjustments	**(3)**	(1)
Acquisition of subsidiaries	**(90)**	—
Deferred taxation charged to income statement (note 12)	**(8)**	(3)
At 31 December	**(221)**	(120)

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$167 million (2005: HK$90 million) to carry forward against future taxable income. The unrecognised tax losses of HK$99 million (2005: HK$78 million) can be carried forward infinitively. The remaining HK$68 million (2005: HK$12 million) expires in the following years:

	2006 **HK$ million**	2005 HK$ million
2008	**5**	5
2009	**3**	3
2010	**4**	4
2011	**56**	—
	68	12

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

Deferred tax liabilities	**Accelerated tax depreciation allowance**	
	2006 **HK$'million**	2005 HK$'million
At 1 January	**(155)**	(156)
Exchange adjustments	**(3)**	—
Acquisition of subsidiaries	**(90)**	—
Credited to income statement	**5**	1
At 31 December	**(243)**	(155)

33 Deferred taxation (Continued)

Deferred tax assets	Provision for doubtful debts and inventories		Impairment of assets		Total	
	2006 **HK$'million**	2005 HK$'million	**2006** **HK$'million**	2005 HK$'million	**2006** **HK$'million**	2005 HK$'million
At 1 January	**12**	12	**23**	28	**35**	40
Exchange adjustments	**—**	—	**—**	(1)	**—**	(1)
Charged to income statement	**(2)**	—	**(11)**	(4)	**(13)**	(4)
At 31 December	**10**	12	**12**	23	**22**	35

34 Creditors and accruals, non-current payable

	Group		Company	
	2006 **HK$'million**	2005 HK$'million	**2006** **HK$'million**	2005 HK$'million
Trade creditors (note (a))	**510**	369	**—**	—
Amount due to an intermediate holding company (note (b))	**3**	3	**—**	—
Amounts due to fellow subsidiaries (note (b))	**658**	17	**639**	—
Amounts due to associates (note (b))	**7**	1	**—**	—
Amounts due to minority shareholders of subsidiaries (note (b))	**—**	18	**—**	—
	1,178	408	**639**	—
Other payable and accruals	**1,414**	876	**18**	15
	2,592	1,284	**657**	15
Less: non-current portion	**(320)**	—	**(320)**	—
	2,272	1,284	**337**	15

34 Creditors and accruals, non-current payable (Continued)

Notes:

(a) Included in trade creditors at 31 December 2006 is an amount due to minority shareholders of a subsidiary totalling HK$34 million (2005: HK$10 million).

The ageing analysis of the trade creditors is as follows:

	2006 HK$'million	2005 HK$'million
0 – 30 days	**438**	237
31 – 60 days	**29**	96
61 – 120 days	**10**	4
Over 120 days	**33**	32
	510	369

(b) The amounts are unsecured, interest free and repayable on demand. As at 31 December 2005, an amount due to a minority shareholder of subsidiaries of HK$18 million was unsecured, bore interest at HIBOR plus 0.5% per annum and was repayable on demand.

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

	Group		Company	
	2006 HK$'million	2005 HK$'million	**2006 HK$'million**	2005 HK$'million
Hong Kong dollar	**871**	114	**639**	—
Renminbi	**150**	149	**—**	—
United States dollar	**107**	70	**—**	—
Other currencies	**50**	75	**—**	—
	1,178	408	**639**	—

35 Consolidated cash flow statement

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

	2006 HK$'million	2005 HK$'million
Operating profit	731	570
Adjustments for:		
Depreciation and amortisation	378	196
Net gains on disposal of associates and jointly controlled entities	(1)	(95)
Gain on disposal of other financial assets	(61)	(35)
Loss on disposal of property, plant and equipment	—	2
Income received from held-to-maturity investments	(9)	(9)
Increase in fair value of investment properties	(55)	(101)
Increase in fair value of other financial assets at fair value through profit or loss	(7)	—
Loss on deemed disposal of partial interest in an associate	152	—
Share-based payments	81	32
Operating profit before working capital changes	1,209	560
(Increase)/decrease in inventories	(72)	65
Increase in debtors, deposits and prepayments	(426)	(197)
Increase in creditors and accruals	129	21
Net cash inflow from operations	840	449

35 Consolidated cash flow statement (Continued)

(b) Purchase of subsidiaries

	2006 HK$'million	2005 HK$'million
The fair value of assets acquired and liabilities assumed:		
Property, plant and equipment	539	—
Investment properties	9	—
Leasehold land and land use rights	814	—
Other financial assets	26	—
Inventories	4	—
Debtors, deposits and prepayments	41	—
Bank balances and cash	72	—
Creditors and accruals	(182)	—
Other financial liabilities	(253)	—
Taxation payable	(9)	—
Deferred tax liabilities	(90)	—
Minority interest	(645)	—
	326	—
Change in fair value credited to assets revaluation reserve	(29)	—
Interest in an associates previously accounted for	(155)	—
	142	—
Goodwill	(134)	—
	8	—
Satisfied by:		
Cash	8	—
Analysis of the net inflow in respect of the purchase of subsidiaries:		
Cash consideration paid	(8)	—
Bank balances and cash in hand acquired	72	—
Net cash inflow in respect of the purchase of subsidiaries	64	—

The subsidiaries acquired during the year utilised HK$29 million (2005: Nil) and HK$164 million (2005: Nil) for investing activities and financing activities respectively. The subsidiaries also contributed to the Group's net operating cash flows of HK$151 million (2005: Nil) for the year.

36 Commitments

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

	2006 HK$'million	2005 HK$'million
Authorised but not contracted	**1,611**	1,826
Contracted but not provided for	**3,597**	3,453
	5,208	5,279

(b) Capital commitments for investments

	2006 HK$'million	2005 HK$'million
Contracted but not provided for		
Investments	**85**	227
Port projects	**144**	260
	229	487

(c) Pursuant to a sale and purchase agreement dated 14 November 2006 with fellow subsidiaries of the Group, the Company agreed to acquire additional 40% equity interests of Shenzhen Mawan Port Service Co., Ltd., Shenzhen Mawan Wharf Co., Ltd. and Shenzhen Mawan Terminals Co., Ltd., all are subsidiaries of the Group, an additional 34% equity interest of Shenzhen Haixing Harbour Development Co., Ltd., ("SHHD") a subsidiary of the Group and a piece of land in Shekou, Shenzhen, PRC at a total consideration of approximately HK$1,634 million. The total consideration will be satisfied by cash of approximately HK$446 million and the remaining by issuance of approximately 50,988,000 ordinary shares of the Company. As at the date of approval of these financial statements, the transaction has not yet been completed.

(d) In accordance with a notice from Shenzhen Municipal Government on 13 October 2006, a sea channel will be constructed in the western part of Shenzhen, PRC. Certain subsidiaries of the Group, the beneficiaries of the new sea channel, are required to contribute part of the construction cost. The construction cost attributable to these subsidiaries is approximately HK$172 million. The construction is expected to be completed by October 2007.

(e) Commitments under operating leases

At 31 December 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:

	2006 HK$'million	2005 HK$'million
Within one year	**79**	63
In the second to fifth year inclusive	**22**	29
	101	92

36 Commitments (Continued)

(f) Future operating lease receivables

At 31 December 2006, the Group had future aggregate lease receivables under non-cancellable operating leases for land and buildings as follows:

	2006 **HK$'million**	2005 HK$'million
Within one year	**30**	13
In the second to fifth year inclusive	**6**	8
After the fifth year	**10**	1
	46	22

37 Business combinations

During the year, the Group entered into an agreement with a fellow subsidiary, which held 34% interest in SHHD, a then associate of the Group prior 1 January 2006. 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 above mentioned 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$328 million and net profit of HK$31 million to the Group for the year ended 31 December 2006.

37 Business combinations (Continued)

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 associates	(275)
Change in fair value credited to assets revaluation reserve	29

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 interest	(10)	(10)
	409	921
Minority interest		(617)
Net identifiable assets deemed to be acquired		304

38 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.

38 Related party transactions (Continued)

In addition to the related party information shown in other parts of 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 2006:

(a) Balances and transactions with the CMG Group

	Note	**2006 HK$'million**	2005 HK$'million
Sales of goods to	(i)		
– associates		**669**	501
– a fellow subsidiary		**8**	4
Rental income from	(ii)		
– an intermediate holding company		**16**	16
– fellow subsidiaries		**11**	8
Interest income from	(iii)		
– a fellow subsidiary		**—**	3
– a jointly controlled entity		**1**	22
Rental expenses paid to fellow subsidiaries	(ii)	**77**	41
Service fee paid to fellow subsidiaries	(iv)	**7**	6

Notes:

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

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

(iii) Interest income was charged at interest rates as specified in note 22(c) to the financial statements on the outstanding amounts due from the jointly controlled entities.

(iv) The fellow subsidiaries provided barges to bring ships into ports operated by the Group and provided cargo management and paint shipping services to the Group. The service fees were charged by reference to market rates.

(v) In December 2005, the Company agreed to purchase certain pieces of land in Shekou, Shenzhen, PRC from a fellow subsidiary at a total consideration of HK$2,066 million. During the year, HK$1,427 million was settled by issuance of the Company's shares (note 24).

(vi) On 3 April 2006, the Group entered into a share transfer agreement with China Nanshan Development (Group) Inc., an associate of the Group, to acquire 55% equity interest in Shenzhen Haiqin Engineering Supervision & Management Co., Ltd at a consideration of approximately HK$8 million.

The balances with entities within the CMG Group as at 31 December 2006 are disclosed in notes 27 and 34 to the financial statements.

38 Related party transactions (Continued)

(b) Transactions with other Stated-controlled Enterprises

During the year, the Group engaged certain State-controlled Enterprises in the construction of ports and related facilities amounting to approximately HK$779 million (2005: HK$904 million).

As at 31 December 2006, bank balances deposited in State-controlled banks amounted to HK$281 million (2005:HK$260 million). During the year ended 31 December 2006, interest income from State-controlled banks amounted to HK$12 million (2005: HK$34 million).

(c) Transactions with minority shareholders of subsidiaries:

	Note	**2006** **HK$'million**	2005 HK$'million
Sales of goods	(i)	**170**	156
Rental income	(ii)	**3**	—
Royalty paid	(iii)	**58**	40
Sourcing service expense	(iv)	**2**	4
Service expense	(v)	**8**	—
Interest expense	(vi)	**3**	1

Notes:

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

(ii) Rental income was charged at a fixed amount per month in accordance with respective tenancy agreements.

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

(iv) Sourcing service was charged, based on percentages of the purchase price payable to a subsidiary of the Group for the unfinished paint products and negotiated on an arm-length basis.

(v) Service expense was charged in accordance with the agreement and negotiated on an arm-length basis.

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

The balances with minority shareholders of subsidiaries are disclosed in notes 27, 32 and 34 to the financial statements.

38 Related party transactions (Continued)

(d) Key management compensation

	2006 HK$'million	2005 HK$'million
Salaries and other short-term employee benefits	7	9
Share-based payments	9	5
	16	14

39 Subsequent events

(a) Pursuant to a sale and purchase agreement dated 14 December 2006, Swire Pacific Limited and P&O Dover (Holdings) Limited agreed to sell their 40% equity interests in Shekou Container Terminals Limited ("SCT I") and 39.2% equity interests in Shekou Container Terminals (Phase II) Company Limited ("SCT II") to the Company at a total consideration of HK$3,168 million.

On 14 December 2006, the Company entered into agreement with Modern Terminals Limited ("MTL") in relation to the rationalisation of interests in SCT I, SCT II and Shekou Container Terminals (Phase III) Company Limited ("SCT III"). Under this agreement, the Company and MTL will inject all of their equity interests in SCT I, SCT II and SCT III to a newly set up subsidiary ("Mega SCT") of which the Company and MTL will initially hold 70% and 30% equity interest respectively. MTL will pay the Company a total of HK$3,168 million in connection to the above arrangement. With the above mentioned agreement the Company has granted to MTL a put option to sell all of its 30% equity interest in Mega SCT to the Company a consideration of HK$3,960 million within one year after the transaction is completed.

The transactions were completed on 22 February 2007. As at 31 December 2006, SCT I and SCT II are jointly controlled entities and SCT III is a wholly owned subsidiary of the Group and upon the completion of the transactions, SCT I and SCT II became the subsidiaries of the Group.

Up to the date of approval of these financial statements, there is insufficient financial information available for the Group to identify and determine the fair values to be assigned to SCT I's and SCT II's identifiable assets acquired, liabilities and contingent liabilities assumed for the purpose of allocation of purchase consideration and estimation of goodwill.

(b) On 16 March 2007, the National People's Congress approved the Enterprise Income Tax Law of the PRC (the new "EIT Law"). The new EIT Law increases the corporate income tax rate for foreign invested enterprises from 10% to 15% to 25% with effect from 1 January 2008. The new EIT Law also provides for preferential tax rates, tax incentives for prescribed industries and activities, grandfathering provisions as well as determination of taxable profit. As at the date of these financial statements, detailed measures concerning these items have yet to be issued by the State Council. Consequently, the Group is not in a position to assess the impact, if any, to the carrying value of deferred tax assets and liabilities as at 31 December 2006. The Group will continue to evaluate the impact when more detailed regulations are announced.

40 Particulars of principal subsidiaries

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

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

Name of subsidiary	Place of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of issued capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Bitto Limited	British Virgin Island	US$1	100%	—	Provision of financial services to group companies
China Merchants Container Services Limited	Hong Kong	HK$500,000	—	100%	Provision of container terminal services and port transportation
China Merchants Holdings (Pacific) Limited ("CMHP") [1]	Singapore	S$426,888, 000	—	71.92%	Investment holding
China Merchants International Terminals (Ningbo) Limited	British Virgin Island	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 Logistics (Qingdao) Co., Ltd #	PRC	US$12,000,000	—	100%	Provision of container terminal services and port transportation
China Merchants International Container Terminal (Qingdao) Co., Ltd #	PRC	US$194,300,000	—	100%	Provision of container terminal services and ports transportation
China Merchants Port Services (Shenzhen) Company Limited	PRC	RMB550,000,000	—	100%	Provision of terminal services and ports transportation
China Merchants (CIMC) Holdings Limited	Hong Kong	HK$2	100%	—	Investment holding and securities trading

40 Particulars of principal subsidiaries (Continued)

Name of subsidiary	Place of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of issued capital/ registered capital held by the Company Directly	Indirectly	Principal activities
Hai Hong Industry (Shenzhen) Co Ltd #1	PRC	HK$30,700,000	—	100%	Manufacture and sales of paint products
Hempel-Hai Hong (China) Limited	Hong Kong	HK$106,000,000	—	64%	Sales of paint products
Hempel-Hai Hong Coatings (Kunshan) Company Limited #	PRC	HK40,000,000	—	64%	Manufacture and sales of paint products
Hempel-Hai Hong Coatings (Shenzhen) Company Limited #	PRC	HK40,000,000	—	64%	Manufacture and sales of paint products
Hempel-Hai Hong Coatings (Yantai) Company Limited #	PRC	RMB18,604,652	—	64%	Manufacture and sales of paint products
Hempel-Coatings (Shenzhen) Company Limited #	PRC	RMB20,000,000	—	64%	Manufacture and sales of paint products
Shenzhen Mawan Port Service Co., Ltd. ^1	PRC	RMB200,000,000	—	30.0%	Operation of berth No. 5 in Mawan, Shenzhen, PRC
Shenzhen Mawan Wharf Co., Ltd. ^1	PRC	RMB200,000,000	—	30.0%	Operation of berth No. 0 in Mawan, Shenzhen, PRC
Shenzhen Mawan Terminals Co., Ltd. ^1	PRC	RMB335,000,000	—	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 ^	PRC	RMB1,000,000,000	—	60%	Operation of berths No. 3 to No. 6 in the Zhangzhou Economic Development Zone, Fujian Province, PRC
Zhangzhou China Merchants Tugboat Company Limtied ^	PRC	RMB15,000,000	—	70%	Operation of tugboat in the Zhangzhou Economic Development Zone, Fujian Province, PRC
Shenzhen Haixing Harbour Development Co., Ltd. ^1	PRC	US$15,151,500	—	33%	Ports and container terminal business

40 Particulars of principal subsidiaries (Continued)

Name of subsidiary	Place of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of issued capital/ registered capital held by the Company Directly	Indirectly	Principal activities
Shenzhen Huxing Tug Service Co., Ltd ^1	PRC	RMB2,000,000	—	55%	Operation of tugboats
Shenzhen Haiqin Engineering Supervision & Management Co., Ltd. ^ 1	PRC	RMB3,000,000	—	55%	Provision of services on ports construction
Treasure Group Investment Limited	British Virgin Island	US$50,000	100%	—	Investment holding
Alliance Field Limited	British Virgin Island	US$50,000	—	100%	Investment holding
Billion Winner Limited	British Virgin Island	US$50,000	—	100%	Investment holding
Oriental Palace Limited	British Virgin Island	US$50,000	—	100%	Investment holding
安通捷碼頭倉儲服務（深圳）有限公司 #1	PRC	HK$100,000,000	—	100%	Holding of a piece of land in Shekou, PRC
安速捷碼頭倉儲服務（深圳）有限公司 #1	PRC	HK$100,000,000	—	100%	Holding of a piece of land in Shekou, PRC
安運捷碼頭倉儲服務（深圳）有限公司 #1	PRC	HK$30,000,000	—	100%	Holding of a piece of land in Shekou, PRC
漳洲招商局廈門灣港務有限公司 ^1	PRC	RMB80,000,000	—	60%	Provision of container terminal services and ports transportation
Shekou Container Terminals (Phase III) Company Limited #	PRC	RMB1,276,000,000	—	100%	Operation of berths No.5 to No.7 in Shekou, PRC

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

\# Foreign investment enterprises

^ Sino-foreign joint ventures

41 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.

Name of associate	Place of incorporation/ registration and operation	Proportion of issued capital/ registered capital held by the Company Directly	Indirectly	Principal activities
Asia Airfreight Terminals Company Limited [1]	Hong Kong	—	20%	Airfreight
China International Marine Containers (Group) Co., Ltd. (B shares listed in Mainland China) [1]	PRC	6.52%	16.232%	Design, manufacture and sales of dry freight containers and refrigerated containers
China Nanshan Development (Group) Incorporation ^ [1]	PRC	—	37.04%	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
Shanghai International Ports (Group) Co., Ltd. (A shares listed in Mainland China) ^ [1]	PRC	—	26.539%	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

42 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.

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
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 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

42 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
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
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 Network Co. Limited ^	RMB5,000,000	62.5%	Provision of computer network services
China Merchants Svitzer (Qingdao) Towage Co., Ltd ^ 1	RMB27,000,000	51%	Operation of tugboats

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

^ Sino-foreign joint ventures