



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

Stock Code : 00144



# 2009

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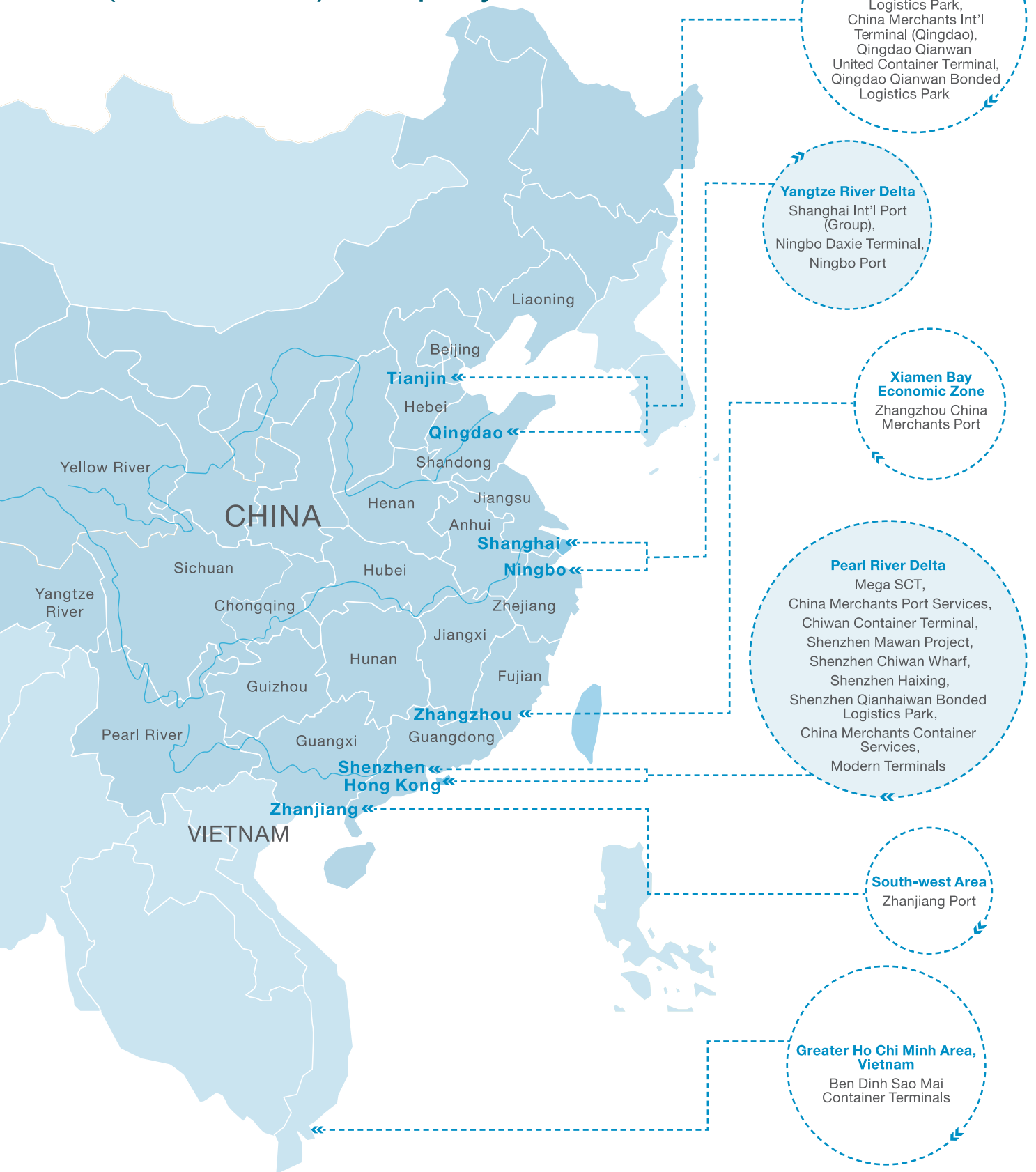
# Financial Highlights

	2009 HK\$'million	2008 HK\$'million	Changes
<b>Consolidated income statement highlights</b>			
<b>Revenue<sup>1</sup></b>	<b>17,286</b>	28,167	(38.6%)
<b>Profit attributable to shareholders of the Company</b>	<b>3,238</b>	3,706	(12.6%)
Non-recurrent gains, net of tax <sup>2</sup>	<b>(649)</b>	(394)	64.7%
<b>Recurrent profit</b>	<b>2,589</b>	3,312	(21.8%)
<b>Earnings per share (HK cents)</b>			
Basic	<b>133.18</b>	152.97	(12.9%)
Diluted	<b>133.10</b>	152.43	(12.7%)
<b>Dividend per share (HK cents)</b>			
Interim dividend	<b>25.00</b>	28.00	(10.7%)
Final dividend	<b>32.00</b>	40.00	(20.0%)
	<b>57.00</b>	68.00	(16.2%)
<b>Consolidated statement of financial position highlights</b>			
Total assets	<b>52,468</b>	50,493	3.9%
Capital and reserves attributable to the shareholders of the Company	<b>33,563</b>	30,280	10.8%
Net interest bearing debts <sup>3</sup>	<b>11,191</b>	11,264	(0.6%)
<b>Consolidated statement of cash flows highlights</b>			
Net cash inflow from operating activities	<b>2,759</b>	3,717	(25.8%)
Net cash inflow from provision of finance to associates, jointly controlled entities and other financial assets	<b>2</b>	57	(96.5%)
<b>Recurrent net cash inflow</b>	<b>2,761</b>	3,774	(26.8%)

	2009 HK\$'million	2008 HK\$'million	Changes
<b>Revenue<sup>1</sup></b>			
Ports operations	11,503	12,727	(9.6%)
Ports-related operations	5,751	15,408	(62.7%)
Other operations	32	32	—
<b>Total</b>	<b>17,286</b>	28,167	(38.6%)
<b>EBITDA<sup>4</sup></b>			
Ports operations	5,857	6,322	(7.4%)
Ports-related operations	630	767	(17.9%)
Other operations	200	101	98.0%
Discontinued operations	—	319	—
<b>EBITDA</b>	<b>6,687</b>	7,509	(10.9%)
Unallocated net income <sup>6</sup>	382	220	73.6%
Net interest expenses <sup>5</sup>	(901)	(1,028)	(12.4%)
Taxation <sup>5</sup>	(687)	(829)	(17.1%)
Depreciation and amortisation <sup>5</sup>	(2,024)	(1,846)	9.6%
<b>Profit for the year</b>	<b>3,457</b>	4,026	(14.1%)
Minority interest	(219)	(320)	(31.6%)
<b>Profit attributable to shareholders of the Company</b>	<b>3,238</b>	3,706	(12.6%)

1. Include revenue of the Company, its subsidiaries and share of revenue of its associates and jointly controlled entities.
2. Include gain on disposal of interest in a subsidiary of HK\$492 million (2008: HK\$33 million), increase in fair value of investment properties, net of tax, of HK\$157 million (2008: HK\$62 million), gain on deemed disposal of partial interest in a jointly controlled entity of HK\$15 million in 2008, gain on disposal of an available-for-sale financial asset of HK\$280 million in 2008 and additional tax credit of HK\$4 million for change in tax rate in 2008.
3. Interest bearing debts less cash and cash equivalents.
4. Earnings before net interest expenses, taxation, depreciation and amortisation, unallocated income less expenses and minority interest, ("Defined Earnings") for the Company and its subsidiaries, and its share of Defined Earnings of associates and jointly controlled entities.
5. Include the respective items of the Company and its subsidiaries, and its share of the respective sums of associates and jointly controlled entities.
6. Include expenses for corporate function and gain on disposal of interests in subsidiaries.

# Key Ports Operations of China Merchants Holdings (International) Company Limited





# Corporate Profile



China Merchants Holdings (International) Company Limited (“CMHI”) is the leading port investor and operator in China.

At present, CMHI’s investments and operations span across China, including Hong Kong, Shenzhen, Shanghai, Ningbo, Qingdao, Tianjin, Zhanjiang and Xiamen Bay, and Vietnam.



Top Ten Container Ports in China - 2009

Unit: million TEUs

Port	CMHI Presence	2009	09 vs 08 Change
1. Shanghai		25.00	-10.8%
2. Hong Kong		21.04	-14.1%
3. Shenzhen		18.25	-14.7%
4. Guangzhou		11.19	+4.9%
5. Ningbo		10.50	-3.9%
6. Qingdao		10.26	+2.4%
7. Tianjin		8.70	+2.4%
8. Xiamen		4.68	-7.0%
9. Dalian		4.55	+1.1%
10. Lianyungang		3.02	+1.3%

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

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

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





## Major Milestones in 2009

### January

On 5 January 2009, the disposal of China Merchants Holdings (International) Company Limited's ("CMHI") entire 64% equity interest in Hempel-Hai Hong (China) Limited was completed.

### February

On 6 February 2009, CMHI announced, through a wholly-owned subsidiary, to have acquired an additional 25.025 million B shares in Shenzhen Chiwan Wharf Holdings Limited ("Shenzhen Chiwan") on market at an average price of HK\$7.35 per share for a total consideration of HK\$184 million, representing an approximately 3.9% of its issued shares. Upon completion of the acquisition, the subsidiary's interest in Shenzhen Chiwan has been increased to approximately 8%.

### July

On 10 July 2009, the Shenzhen Qianhaiwan Bonded Port Zone, within which CMHI is an operator, was checked and then approved by the National Joint Inspection Team. Its Phase I was bonded and has started its operation officially.





## August

On 6 August 2009, Shekou Container Terminals Ltd. ("SCT") and Conductix-Wampfler Group jointly held a press conference on its latest achievement in converting diesel-driven rubber-tyred gantry crane into electricity-driven and officially announced the delivery and commencement of service of the first automatic connection device with global patented technology jointly developed by them. The Group is a pioneer in application of such device in large-scale container terminals in China. Since then, SCT has made available a total solution for converting diesel-driven machines into electricity-driven in our container terminals, achieving significant economic benefits and environmental protection effects.

## November

On 12 November 2009, CMHI and the Port of Long Beach signed a memorandum of understanding for comprehensive strategic cooperation on "green ports" to promote mutual exchange of green technologies on environmental protection.

On 18 November 2009, China Merchants International Cold Chain (Shenzhen) Company Limited and OOCL (HK) Ltd. officially signed a framework cooperation agreement on direct shipping business of imported frozen products into western Shenzhen and cold chain project.

## December

On 3 December 2009, each of CMHI and its terminals, SCT and Chiwan Container Terminal Co., Ltd. ("CCT"), was officially awarded ISO14001 and ISO28000 certificates. SCT and CCT were among the first batch of container terminal companies in China which were awarded with ISO28000 certificate, signifying the remarkable achievements attained by CMHI in terminal environment and supply chain safety management.

On 18 December 2009, China Merchants International Container Terminal (Qingdao) Co., Ltd., a wholly-owned subsidiary of CMHI, and Qingdao New Qianwan Container Terminal Co., Ltd. signed an agreement to establish a new joint venture company in which each party held 50% equity interest, respectively, for the joint operation of 9 container berths located in Qianwan, Qingdao, with total operating assets of approximately RMB6.2 billion. This joint venture company has the right to develop another 6 container berths located on the shoreline next to the existing ones.

## Chairman's Statement



The Group's corporate achievement depends on, on the one hand, the trends of global trade and of the Chinese economy and, on the other, efforts dedicated by our staff. The Group's profit for the year did not escape a decline due to the unfavorable macroeconomic environment precipitated from the economic and financial crisis that prevailed in the last two years. Towards countering the negative impact caused by the crisis thus avoiding a substantial decline in business all staff of the Group have made valuable contributions to the Group's performance in 2009. The market has also expressed understanding and concern towards the operations of the Group amid the economic crisis. I would like to take this opportunity to express my sincere appreciation to all shareholders, business partners and parties who care about and have supported the Group's development and business during the year. I would also like to send my heartfelt gratitude to all staff of the Group for their hard work and tremendous efforts put in, without which the Group could not have achieved what it did this year.

It gives me great pleasure to present the Group's annual report and audited financial statements for the year ended 31 December 2009.

The year of 2009 had been a particularly challenging one for the Group.

Global economy and trade, severely impacted by the financial crisis, declined in 2009. The World Economy Outlook published by the International Monetary Fund ("IMF") in January 2010 expects world trade volume to fall by approximately 12.3% in 2009, the first decline ever since 1982. The significant shrinkage in international trade had not only caused a hefty blow on the ports and maritime sectors but also dragged the Baltic Dry Index ("BDI") massively down. Along with the depressed performance of container operations at ports globally was the deterioration, of varying magnitude, in container through-put volumes recorded by all the top ten container ports in the world, with the exception of the Guangzhou Port in China.

The economic recession in Europe, the United States, Japan and other countries as well as China's economic growth having somewhat slowed down have resulted in China's foreign trade grow negatively at rates larger than anticipated. China's total aggregated exports dropped 16.0%, casting an obvious and devastating impact on its export-oriented container port industry. Against such a macroeconomic environment, the Group's operations have not been spared the blow precipitated by the global economic downturn.

In the year under review, in the face of the negative impact brought about by the weakened demand at external markets on its container ports operations, in addition to continuing the Group's efforts to elevate the overall efficiency of its services so as to anchor its customer base, the Group has succeeded in decelerating the decline in operating earnings through the adoption of various internal, reinforced measures such as redeploying and integrating resources as well as up-grading technical applications. Notwithstanding the decline in its operating results in 2009, the Group has demonstrably overcome challenges resulted from market changes caused by the once-in-a-century global economic crisis.

## Operating results

In 2009, the profit attributable to shareholders of the Company amounted to HK\$3,238 million, representing a decrease of 12.6% over that of last year. Of this amount, recurrent profit totaled to HK\$2,589 million, down 21.8% when compared to that for the same period of last year. The proportion of EBITDA derived from the Group's core ports operations, relative to the Group's total, increased to 87.6% from 84.2% for the same period last year.

In 2009, the Group recorded revenue of HK\$3,588 million, representing a decrease of 47.5 % year-on-year.

### Dividends

The Board of Directors has resolved to propose at the forthcoming Annual General Meeting the payment of a final dividend of 32 HK cents per share which, together with the interim dividend already paid, will give a total dividend of 57 HK cents per share for the whole year (giving a payout ratio of 42.8%). Subject to the approval by shareholders at the forthcoming general meeting, the final dividend will be payable on or around 16 July 2010 to shareholders whose names appear on the register of members of the Company as at 25 May 2010.

### Review for the year


China's total import and export trade, depressed by the weakened global trade, has declined by 13.9% in 2009. Statistics of the General Administration of Customs of the PRC revealed that bilateral trade volume between China and each of its four major trading partners, the European Union, the United States, Japan and the ASEAN, has all fallen. Of these volume declines, that for each of the European Union, the United States and Japan recorded a double-digit drop. Although the year-on-year decrease in the trade volume of China with its major trading partners narrowed in the second half of the year and even reversed to a positive growth in the fourth quarter, the consecutive and sharp deterioration registered in the first three quarters were sufficiently evident to reflect the contraction in China's trade volumes for the year. Consequently, all ports of sizeable scale in Mainland China recorded negative growth in the year under review in their throughput of containers handled. Data of relevance for 2009 gathered within China's transportation industry indicate that the aggregate throughput of containers handled by ports of sizeable scale in Mainland China reached approximately 121 million TEUs, a year-on-year decrease of 5.8%.

In 2009, the throughput of containers handled by the Group reflected for the first time a year-on-year decline. Container throughput handled by the Group's ports totaled 43.87 million TEUs in the year, a year-on-year decrease of 13.1%. Driven by China's domestic demand, the bulk cargoes handled by the Group for the year reached 232 million tonnes in total, representing a year-on-year increase of 10.0%.

Hindered by a sluggish container shipping market, the Group's container manufacturing business, China International Marine Container (Group) Co., Ltd. ("CIMC Group"), of which the Group is the largest shareholder, has basically suspended its dry box manufacturing business during the year. In the year, the CIMC Group recorded an annual dry box sale of 60,400 TEUs, refrigerated box sale of 30,400 units and special box sale of 43,200 units respectively, representing a year-on-year drop of 95.1%, 56.0% and 66.5% respectively. Weakened European and American markets have also caused the sale of the CIMC Group's special road vehicles to fall by 7.6% to 97,400 units as compared with last year.

In 2009, in an effort that aimed to decelerate the falling operating earnings so as to safeguard the interests of the Group's investors, the Group has adopted a number of measures to slow down, depending on local and specific circumstances and market conditions, its investment programmes unless where the expansion was committed and essential, and to exercise strict control over costs and expenses through enhanced resource integration and intensified technological upgrading. Through the implementation and execution of a series of specific measures, the Group's results in managing its operating costs were remarkable, resulting in its cash cost having declined more than its revenue, which in turn helped prevent its operating profit from sliding more than it should whilst ensuring a higher efficiency platform from which the Group's operations can work when its business recovers in the future, thereby providing more room for higher profitability.





Meanwhile, the unit energy consumption of the Group's operation decreased further in 2009. The Group's efforts in port environmental performances and supply chain safety performances were recognized by international certification organizations (such as having obtained the ISO14001 and ISO28000 certifications), which marked another milestone for the Group in establishing and maintaining environmentally-friendly and cost-effective ports.

Remaining as the Group's continuing and key task are the integration and alignment of its business operating capacities at the Western Shenzhen Port Zone. These efforts, which aim to elevate the Group's overall competitiveness at West Shenzhen Zone, leverage on the combined capabilities of the ports at the location that, in turn, will help to expand market and to tackle market challenges for all the ports. In the year under review, the integration of the Group's container handling and bulk cargo handling operations at the Western Shenzhen Port area evidenced a systematic roll-out, aided alongside by increasingly smoothed coordination and cooperation between the ports' commercial and operating functions, thereby effectively securing the Group's share of container handling business in Shenzhen. With enhanced cooperation among operating units, the Group's bulk cargo throughput in Shenzhen achieved an increase of 12.9%.

The Group continued its efforts in 2009 to actively develop the integrated logistics service business at its ports. During the year, 14 river-trade terminals at three cities were added to the South China shuttle barge services network anchored at the Western Shenzhen Port Zone. As for sea-rail connectivity stemmed from Western Shenzhen, following upon the launch of the Changsha route in 2008, container train routes linking Western Shenzhen with respectively another five cities were added in 2009, thus ensuring the further reaching out of the

Western Shenzhen Port Zone into the Mainland hinterland. With the respective commencement during the year of the Qianwan Bonded Port Zone in Qingdao and the Qianhaiwan Bonded Port Zone in Shenzhen, both of which have been granted multiple function policies, the Group expects to derive benefits from these two operations.

The Group's unit in Shekou engaging in cold storage activities, China Merchants International Cold Chain (Shenzhen) Company Limited ("CM Cold Chain"), have entered into strategic co-operation relationships with a number of international shipping companies. Capitalising on the policies granted to Shenzhen Qianhaiwan Bonded Port Zone, CM Cold Chain intends to develop a nation-wide logistics service for frozen produce. The Group views the provision of this service not only as an extension of, and supplemental to, the specialized services currently provided at the Bonded Port Zone, but also as complementary to the Group's efforts to developing itself into providing a comprehensive range of logistics services.

At the end of 2009, the Group's subsidiary, China Merchants International Container Terminal (Qingdao) Co., Ltd. entered into a joint venture agreement with Qingdao New Qianwan Container Terminal Co., Ltd., marking the entering into a substantive stage of the cooperation between the Group and Qingdao Port Group Co., Ltd. and its partners. The Group believes that such cooperation will turn a new page for the Group's container business in Qingdao.

The container terminal projects in Vung tau, Vietnam and Colombo, Sri Lanka in which the Group took part in negotiation during 2009 have evidenced a number of key negotiation milestones. The development thus far was in line with the Group's expectation. Currently, progress for the two projects are being carried out as scheduled.

In 2009, the transfer by the Group of its equity interests in Hempel-Hai Hong (China) Limited was completed. This transfer marked the final step in the Group's asset-streamlining efforts to dispose of its paint assets as part of its established goal to focus on ports operations.

### Future prospects

While there are varying views towards how the global economy will trend in 2010, what cannot be refuted is the consensus reached by most governments of the need to prevent the global economy from further deteriorating and in turn to inject state resources so as to revitalize the global economy. Recent signs seem to suggest the world's economy is recovering. Against the likelihood of certain governments intending to gradually withdraw their financial support thus resulting in the global economy take longer time to rebound, the Group is of the belief that the global economy has bottomed and may even have begun to gradually come out from the trough and that the negative impact brought about by the sharp decline in world trade and the collapse of confidence in the market is gradually diminishing.

Data released by the National Bureau of Statistics of China revealed that China realized an economic growth of 8.7% in 2009, signifying the solid foundation on which China stands and which will support China's economic recovery. Barring the surfacing of any new factors that may trigger significant turmoil in the World's economy in 2010, the Group believes that China will be well positioned to achieve yet again another year of high economic growth. It is particularly encouraging for the Group to note that China's total foreign trade, year-on-year, started to grow again since November and December 2009, having declined consecutively for the previous twelve months. Moreover, the total foreign trade in December 2009 alone registered the third highest record in history, while the bilateral trade with the ASEAN also broke a new record and that with the United States reached its second highest level in history. Although it is hard to precisely predict the growth rate of China's foreign trade in 2010, it is certain that China's foreign trade will grow in 2010 along with global economic recovery and the emergence of favorable factors such as increased inventory level expected of major importer and of consumer countries, and the full rolling out of the China-ASEAN Free Trade Zone since January 2010. These factors combined will further boost the development of China's foreign trade.

In recent years, apart from improving the panning out of the coastal ports network, the Group has also committed to integrating internal resources, optimising cost structure and increasing operational efficiency. In this regard, that the Group has established and developed related ancillary businesses with which to support the Group's core business of its ports, thus providing room to expand the capability of the Group's ports operation. As the largest port operator in mainland China, the Group possesses a solid base in its port business. Anchored upon its core operations in container box handling and bulk cargo handling covering both domestic and foreign trade, the Group has integrated into providing related logistics services such as barge shuttle network, sea-rail connectivity, and bonded logistics parks adjacent to and in collaboration with its



port operations. The Group firmly believes that the establishment of these integrated logistics service will in turn enhance the capability of its core ports business. Furthermore, the close equity-based relationship between the Group and respectively a number of port groups in China not only will lead to a deepened co-ordination between equity partners but also could pave a viable platform for possible further co-operation in future.

Whilst the Group has suffered an unprecedented decline in its ports business in 2009, the Group is of the view that China's domestic demand for continuing economic development and the comprehensive competitive advantage Chinese export products commands will have a determinant effect on its import demand for bulk cargoes and will support China's exports. These combined will support the continuing growth of the Group's businesses in container handling and bulk cargo handling. On the other hand, the Group's ongoing efforts that started in recent years in seeking internal refinements through resource optimization and operation improvement have been and will continue to significantly improve its comprehensive efficiency. This, coupled with prudent financial policies, has in turn enhanced the Group's ability to respond constructively to operational risks and environmental changes. The Group believes that, bearing in mind the anticipated recovery in global economy and trade, the Group is well positioned to capture the benefits in the next phase of development.

## Investor relations

The Group as always places great emphasis on investor relations and is fully committed to ensuring a high level of transparency be maintained with the investment community. Of prime importance is the prompt release to the investment community of relevant corporate information - from corporate activities, operation data, to matters of financial interests.

Through various communications channels such as media, networks, road-shows and direct exchanges with investors or through the intermediates, the Group has effected, and will continue to effect, useful dialogues with the investment market. The Group regards the need to maintain frequent and effective communications with investors as an important routine, through which it aims to gain increasing level of confidence of the investment community.

## Credit rating

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



### Appreciation

The Group's corporate achievement depends on, on the one hand, the trends of global trade and of the Chinese economy and, on the other, efforts dedicated by our staff. The Group's profit for the year did not escape a decline due to the unfavorable macroeconomic environment precipitated from the economic and financial crisis that prevailed in the last two years. Towards countering the negative impact caused by the crisis thus avoiding a substantial decline in business all staff of the Group have made valuable contributions to the Group's performance in 2009. The market has also expressed understanding and concern towards the operations of the Group amid the economic crisis. I would like to take this opportunity to express my sincere appreciation to all shareholders, business partners and parties who care about and have supported the Group's development and business during the year. I would also like to send my heartfelt gratitude to all staff of the Group for their hard work and tremendous efforts put in, without which the Group could not have achieved what it did this year.

**Dr. Fu Yuning**

*Chairman*

Hong Kong, 31 March 2010







MSC LORETTA  
PANAMA





# Management Discussion and Analysis







### Business review

That the United States, European Union and Japan, the world's top three economies, went into recession as a combined result of the global financial crisis, weakened economy and fragile consumer confidence have caused overseas demand to shrink, which in turn cast a material adverse impact on China's import and export. China's total foreign trade decreased consecutively for 12 months between November 2008 and October 2009. According to statistics released by the General Administration of Customs of the PRC, both China's import and export trades recorded decreases in the year 2009, and its total foreign trade fell by 13.9%. Foreign trade volume between China and its four major trading partners, namely European Union, the United States, Japan and ASEAN, dropped 14.5%, 10.6%, 14.2% and 7.9% respectively. China's processing trade in 2009 fell 13.7% when compared to that of 2008.

Dampened by weaker global trading activities, China's container throughput fell in 2009. According to publicly available information, the aggregate throughput volume of coastal ports of sizeable scale in China in 2009 amounted to approximately 121 million TEUs, down 5.8% from that of the previous year. In the year under review, the Group's ports operations were affected accordingly, recording a container throughput handled of 43.87 million TEUs, a decline of 13.1% year-on-year. The Group's bulk cargo handling operations have benefited from China's increasing demand for bulk cargo import and recorded a throughput of 232 million tonnes, an increase of 10.0% year-on-year.

In response to the impact of the economic downturn, the Group adopted as its priority tasks for the year the expanding of customer base and cost control, and achieved encouraging results. However, the setback in China's foreign trade brought about by the economic crisis has turned out to be more severe than expected, and the resultant decline in container throughput handled together with a lowering in investment returns have led to an overall fall in the Group's profit for 2009.

For the year ended 31 December 2009, the profit attributable to the shareholders of the Company amounted to HK\$3,238 million, representing a decrease of 12.6% year-on-year. Of this amount, recurring profit was HK\$2,589 million, a decrease of 21.8%. The Group's core segment of ports operations recorded an EBITDA of HK\$5,857 million, representing a decrease of 7.4% year-on-year. The share of EBITDA from this segment relative to the Group's total in 2009 rose to 87.6%, up from 84.2% of last year.

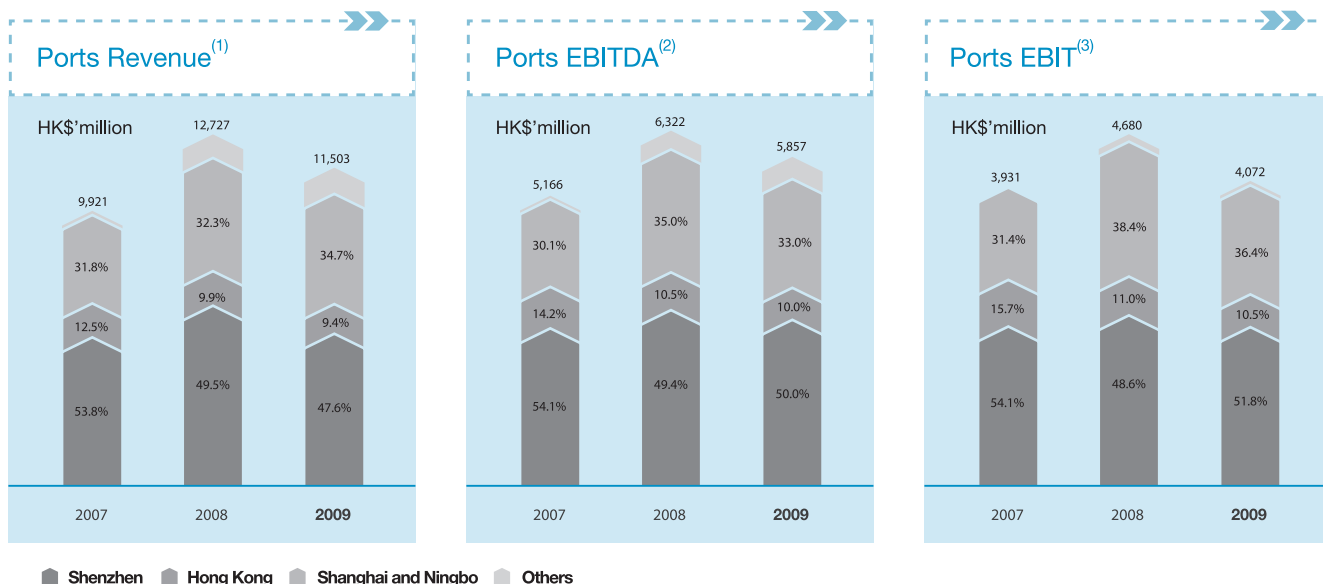
In 2009, revenue of the Group amounted to HK\$3,588 million, representing a decrease of 47.5% year-on-year. Of this amount, HK\$3,556 million was contributed by the Group's core ports operations, which representing a decrease of 13.3% year-on-year.

**Ports operations**

In 2009, EBIT derived from the Group’s ports operations amounted to HK\$4,072 million, representing a decrease of 13.0% year-on-year. The share of EBIT from this segment relative to the Group’s total rose to 87.2%, up from 82.6% of last year.

The port projects in which the Group is interested handled a total container throughput volume of approximately 43.87 million TEUs, a decrease of 13.1% year-on-year. Of this volume, those handled by the Group’s ports in Mainland China were approximately 38.10 million TEUs, a decrease of 12.6% year-on-year. Western Shenzhen Port Zone handled 9.43 million TEUs, a decrease of 18.6%. Shanghai International Port (Group) Co., Ltd.(“SIPG”)

recorded a container throughput of 25 million TEUs, a decrease of 10.8%. Ningbo Daxie China Merchants International Terminals Co., Ltd recorded a throughput of 1.19 million TEUs, an increase of 9.3%. Tianjin Five Continents International Container Terminal Co., Ltd. handled 1.94 million TEUs, an increase of 0.1%. Zhangzhou China Merchants Port Co., Ltd (“Zhangzhou Port”) recorded a throughput of 0.31 million TEUs, a decrease of 13.0%. China Merchants International Container Terminal (Qingdao) Co., Ltd.(“Qingdao Port”) recorded a throughput of 19,000 TEUs. Zhanjiang Port (Group) Co., Ltd.(“Zhanjiang Port Group”) handled 0.21 million TEUs, a decrease of 14.4%. The Group’s port projects in Hong Kong recorded a total throughput of 5.77 million TEUs, a decrease of 16.4%.



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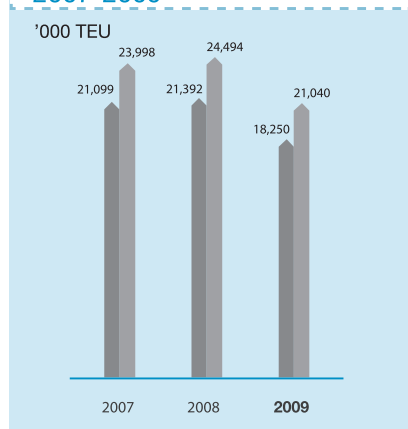


### Container throughput of the Group's port operations (by location)

	2009 (000' TEU)	2008 (000' TEU)	y-o-y change
Western Shenzhen	9,427	11,582	-18.6%
Hong Kong	5,768	6,898	-16.4%
Yangtze River Delta	26,192	29,103	-10.0%
Bohai Rim	1,960	2,300	-14.8%
Southeastern Coastal	315	362	-13.0%
Southwestern Coastal	206	240	-14.4%

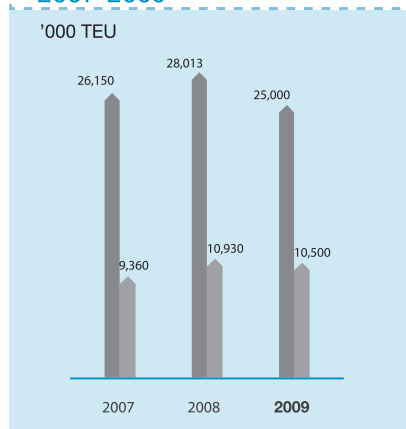
Compared to the rapid growth in 2008, the decline in the throughput handled by the Group's port operations in Western Shenzhen in 2009 was higher than that of the average of Shenzhen's ports. This was mainly due to the significant growth achieved by the Group's ports in Western Shenzhen during 2008, particularly the increase in the scheduled routes for Asia-Europe, which resulted in a growth rate for Western Shenzhen's ports of almost 4 percentage point higher than Shenzhen's average. In the 4th quarter of 2008, however, the sharp shrinkage in container throughput handled by the Group's ports in Western Shenzhen in the last quarter of 2008 due to rapid weakening of economies in Europe and Asia following upon the spreading of the global economic crisis to these areas had not only caused the growth in container throughput in 2008 to substantially narrow but also continued into 2009 such that the Group's port operations in Western Shenzhen suffer more than that of the entire Shenzhen. In 2009, the market share of the Group's port projects in Shenzhen decreased from 54.1% in 2008 to approximately 51.7%, a level similar to that of 2007.

#### Container throughput in Shenzhen and Hong Kong 2007-2009



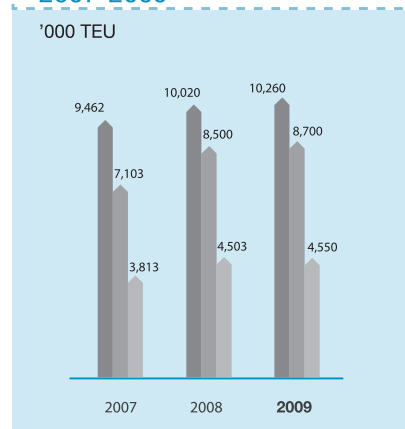
■ Shenzhen ■ Hong Kong

#### Container throughput in Shanghai and Ningbo 2007-2009



■ Shanghai ■ Ningbo

#### Container throughput in Qingdao, Tianjin and Dalian 2007-2009



■ Qingdao ■ Tianjin ■ Dalian

## Management Discussion and Analysis

Driven by the growth in the volume of bulk cargoes handled such as iron ores, crude oil and soybeans, the Group's bulk cargo handling operations recorded a throughput of 232 million tonnes in 2009, an increase of 10.0% year-on-year. Of these, the throughput of Western Shenzhen Port Zone was 37.48 million tonnes, an increase of 12.9%; the throughput of Zhangzhou Port was 7.17 million tonnes, an increase of 23.0%; the throughput of Zhanjiang Port Group was 61.31 million tonnes, an increase of 9.4%; Qingdao Port and SIPG also recorded varying growth with their throughput reaching 0.94 million tonnes and 125 million tonnes respectively.

To cope with changes in market conditions, the Group continued to put great effort into broadening its customer base in 2009. On this front, in addition to improving service efficiency and retaining shipping company customers, the Group has focused on further widening inter-modal networks like South China shuttle barge services and the sea-rail connectivity. Leveraging on the geographical advantage of Western Shenzhen Port Zone's proximity, the Group has, in an on-going effort to expand the Group's reach-out in the Pearl River waterway, managed to enlarge the coverage of South China shuttle barge services from 32 river trade terminals across 14 cities in 2008 to 46 river trade terminals across 17 cities in 2009. Other than the launch of Hunan Changsha route in 2008, container train routes from Western Shenzhen respectively to Liling and Zhuzhou in Hunan, Nanchang in Jiangxi, Shaoguan in Guangdong and Kunming in Yunnan were also launched during 2009, thus further extending Western Shenzhen's reach-out through improved sea-to-rail inter-modal connectivity. Such waterway and sea-rail connectivity has collectively greatly enhanced the capability of the Group's port operations in Shenzhen in penetrating Pan Pearl River and inland areas. Even though the throughput volume derived from the South China shuttle barge service has in 2009 failed to produce the same growth rate as that produced by all the sea-rail routes combined, due to the negative impact caused by macro-economic factors common to most coastal terminals in China, the Group is confident that the South China shuttle barge network will generate synergistic benefit to the Group in tandem with the recovery of the port industry.

Cost control was another priority task for the Group in 2009. During the year, the four key areas on which Group focused in containing cost entailed operating cost, capital cost, tax expenses and administrative expenses. Through resource integration and technological improvements, the Group has sought to optimise its operating cost structure and applied more stringent control over its Capex spending, whilst slowed down its investment in certain projects in response to changes in market environment. These measures collectively resulted in the Group's cash cost and fees for the year having declined more than the fall in its revenue, which has helped to decelerate the fall of its operating profit.

At the same time as cost control measures were implemented, the Group has also intensified its endeavour in establishing and complying with HSE standards (Health, Safety and Environment) in conforming to the trend towards future port development. In 2009, the Group's efforts in environment management and supply chain safety management were recognized by international certification organizations. The Group considers the establishing of green ports, in preparation for future challenges, as a key component to enhance its competitiveness, and has implemented a series of measures for improvement in this respect. The Group believes that the results of HSE accomplishment achieved in 2009 will be a driving force for the sustainable development of the Group's port operations.

Shenzhen Qianhaiwan Bonded Port Zone and Qingdao Qianwan Bonded Port Zone commenced operation in 2009. Equipped with policies granted to bonded port zones, the Group's logistics operations within these port zones are expected to further facilitate the capabilities of the foreign trade container operations at respectively Qingdao Container Terminal and the Western Shenzhen Port Zone.

The Group's unit in Shekou engaging in cold storage activities, China Merchants International Cold Chain (Shenzhen) Company Limited ("CM Cold Chain"), began during the year to actively offer integrated cold storage services for frozen produce from North America, in its endeavour to establish Shekou as an



international cold link hub at Western Shenzhen. Strategic co-operation relationships have been entered into with a number of international shipping companies. Capitalising on the policies granted to Shenzhen Qianhaiwan Bonded Port Zone, CIM Cold Chain intends to develop a nation-wide logistics service for frozen produce. The Group views the provision of this service not only as an extension of, and supplemental to, the specialized services currently provided at the Bonded Port Zone, but also as complementary to the Group's efforts to developing itself into providing a comprehensive range of logistics services.

The Group entered into cooperation with Qingdao Port Group Co., Ltd. ("Qingdao Port Group") through joint venture with Qingdao New Qianwan Container Terminal Co., Ltd. in late 2009. Not only has this joint venture realised the "strong-strong" alliance between the Group and the Qingdao Port Group and the latter's equity partners, it has also marked a new phase for the Group's port operations in the Bohai-Rim region. In 2009, the Group also concluded certain negotiations relating to terminal investment projects in Vietnam and Sri Lanka, thus laying a firm ground for the eventual formalisation of co-operation relationship between the Group and the respective parties in these two countries.

### Ports-related operations

In 2009, the contribution of the ports-related operations to the Group's EBIT amounted to HK\$398 million, a decrease of 32.0% year-on-year.

The financial crisis has caused the shipping industry to suffer losses. According to estimations made by the International Monetary Fund ("IMF"), global trade volume fell by approximately 12.0% in 2009, the first such decline in the past 17 years. In the face of reduced cargo flows, all shipping companies had reduced their transportation capacity as a means to cut costs and hence to minimise losses, which led to the significant drop in demand for newly-built container boxes. As a result, China

International Marine Containers (Group) Co., Ltd. ("CIMC Group") basically suspended its dry box business during the year, with an annual dry box sale of 60,400 TEUs, refrigerated box sale of 30,400 units and special box sale of 43,200 units respectively, representing a year-on-year drop of 95.1%, 56.0% and 66.5% respectively. Weakened European and American markets have also caused the sales of the CIMC Group's special road vehicles to fall by 7.6% to 97,400 units as compared with last year.

In 2009, the transfer by the Group of its equity interests in Hempel-Hai Hong (China) Limited was completed. This transfer marked the final step in the Group's asset-streamlining efforts to dispose of its paint assets as part of its established goal to focus on ports operations.

### Liquidity and treasury policies

As at 31 December 2009, the Group had approximately HK\$3,206 million in cash, 57.8% of which was denominated in Hong Kong dollars, 11.6% in United States dollars, 29.8% in Renminbi and 0.8% in other currencies.

The Group mainly derived its funding sources from both its operating activities related to ports and ports-related businesses, and investment returns from associates and jointly controlled entities. Together these two sources contributed more than HK\$2,759 million in total.

During the year, the Group's capital expenditure amounted to HK\$1,006 million while the Group continued to adhere to a prudent financial policy and had maintained a sound financial position by holding appropriate level of cash to meet its operating requirements. In addition, as a significant portion of the its bank loans were medium- to long-term borrowings, together with adequate undrawn bilateral facilities, the Group does not anticipate any difficulty in refinancing its short-term loans, the pressure for repaying the short-term loans is limited.

### Share capital and financial resources

As at 31 December 2009, the Company had 2,432,749,023 shares in issue. During the year, the Company issued 551,000 new shares upon the exercise of share options and received HK\$11 million as a result. Other than the above-mentioned newly issued shares, the Company issued 8,762,181 shares under the Company's scrip dividend scheme.

As at 31 December 2009, the Group's net gearing ratio (net interest-bearing debts divided by net assets attributable to the Company's shareholders) was approximately 33.3%.

Considering the currency mix of its assets and liabilities and that significant depreciation of Renminbi is not expected, the Group had not entered into any specific hedging arrangements for its foreign currency investments during the year.

### As at 31 December 2009, the Group's outstanding interest-bearing debts were analyzed as below:

	2009 HK\$'million	2008 HK\$'million
Floating-rate bank borrowings which are repayable (note):		
Within 1 year	1,795	1,175
Between 1 and 2 years	394	896
Between 2 and 5 years	1,123	1,582
Not wholly repayable within 5 years	79	79
	<b>3,391</b>	3,732
Fixed-rate listed notes payables are repayable:		
In 2013	2,312	2,307
In 2015	3,862	3,857
In 2018	1,528	1,525
	<b>7,702</b>	7,689
Loans from the ultimate holding company	<b>2,566</b>	2,649
Loans from an intermediate holding company	<b>738</b>	—

Note: All bank borrowings are unsecured except for HK\$7 million (2008: Nil).



**The interest bearing debts are denominated in the following currencies:**

	2009					2008			
	Bank borrowings HK\$' million	Listed notes payable HK\$' million	Loans from an intermediate holding company HK\$' million	Loans from the ultimate holding company HK\$' million	Total HK\$' million	Bank borrowings HK\$' million	Listed notes payable HK\$' million	Loans from the ultimate holding company HK\$' million	Total HK\$' million
HKD & USD	2,926	7,702	—	—	10,628	3,081	7,689	—	10,770
RMB	465	—	738	2,566	3,769	651	—	2,649	3,300
	3,391	7,702	738	2,566	14,397	3,732	7,689	2,649	14,070

**Assets charge**

As at 31 December 2009, the Company did not have any charge over its assets. However, bank loans of HK\$7 million borrowed by a subsidiary were secured by its property, plant and equipment with net book value as at 31 December 2009 of HK\$47 million.

**Employees and remuneration**

As at 31 December 2009, the Group employed 4,352 full time staff, of which 58 worked in Hong Kong, and the remaining 4,294 were in the PRC. The remuneration paid for the full year amounted to HK\$523 million, representing 21.4% of the total operating expenses of the Group. The remuneration policy of the Group is reviewed every year and appropriate adjustments are made to staff's remuneration with reference to their performance, the conditions of the human resources market and the general economy.

The Group also provides internal training to its staff to enable them to achieve self-improvement and to enhance their job-related skills. Moreover, the Group offers year-end bonus as a reward to its staff for their efforts and contribution. The Group also operates a share option scheme, under which qualified staff may exercise their options at an agreed price. The remuneration of directors has been determined with reference to individual's duties, responsibilities and experience, and to prevailing market conditions.

**Future prospects**

The World Economy Outlook in January 2010 issued by the IMF in January 2010 projects that, in 2010, global economy is expected to grow by 3.9% and global trade volume, by 5.8%. These figures are higher than those forecast by IMF in October 2009, reflecting a relatively stronger confidence in the world's economic recovery. The Group is also pleased to see China's foreign trade reverse to a growth and upward trend in the last two months in 2009, with month-on-month growth recorded. While it remains premature to judge that the global economy will rapidly rebound in the near term, all signs point to the direction that the global economy is on, or has entered into, the recovery track.

## Management Discussion and Analysis

Insofar as China's foreign trade is concerned, it is still subject to the effect of uncertainties in the coming year, such as protectionism surfacing, the speed and extent of economic recovery at different developed countries, the post-crisis consumption attitude and savings-structure, and the appreciation of Renminbi, all of which will affect the performance of China's foreign trade. However, from a practical perspective, the tax refund schemes implemented since 1 June 2009, viewed from the position of supporting Chinese exports, are unlikely to reduce in the short term, whilst Renminbi to remain stable will probably be the main trend going forward. In addition, the China-ASEAN Free Trade Area is expected to provide further boost to China's foreign trade. The Group is of the view that, while recovery of China's foreign trade in 2010 may not proceed smoothly, the Group remains cautiously optimistic about the overall growth trend.

To cope with challenges emerging in the new year, the Group will continue to strengthen its competitiveness through on-going efforts to ensure internal improvements and to expand its port service network via vertical and lateral integration, thereby equipping the Group with a solid platform from which to further develop on a sustainable and healthy basis. In this regard, the Group will further intensify the integration of Western Shenzhen Port Zone, improve resources synergies and utilization efficiency; continue to strengthen cost control while tightening its supervision over external supplier-partners of human resources; execute prudent and reasonable control over investments; enhance its interaction and cooperation with customers in the ports and shipping sectors including local port groups; continue to conduct thorough analysis on the industry and the market so as to timely capture strategic investment opportunities; anchored upon its core ports operations, expand the range of its port value-added services and integrate its comprehensive port logistics services by leveraging on existing resources and/or network such as terminals network, sea-rail inter-modal network and inland container station network; and pursue the development of its overseas projects in a steady way.

Having established itself as the largest port operation enterprise in Mainland China, the Group commands competitive advantage in terms of resource deployment, business development, support and coordination of ancillary networks, operating experience, human resources and financial management, all of which avail the Group with the capability to achieve better results. Although external uncertainties affecting ports operations are expected to still prevail and 2010 will probably be another challenging year, the Group firmly believes that it will achieve satisfying operating results aided by the implementation of policies and measures clearly established.

The Group's goal is to optimise benefits for shareholders. Looking forward, the Group will capitalise on its dominant position in the industry and, through the use of its port resources alongside economic recovery, bring about elevated profitability and return on equity, thus landing the Group at another level of betterment at this post-crisis era.

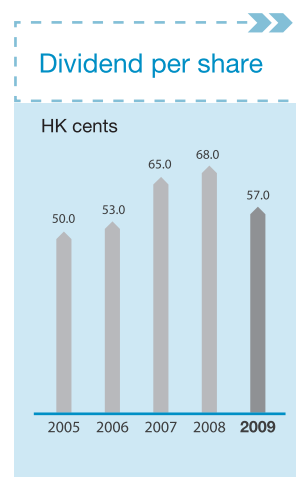
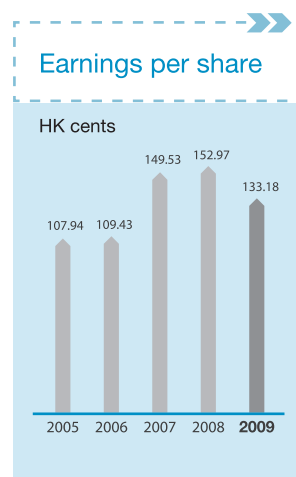
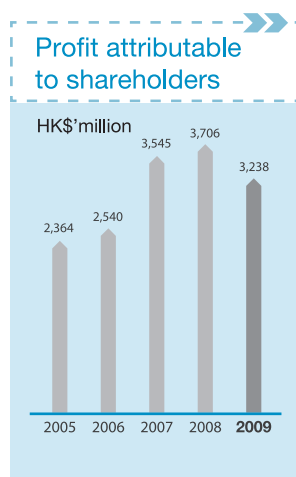
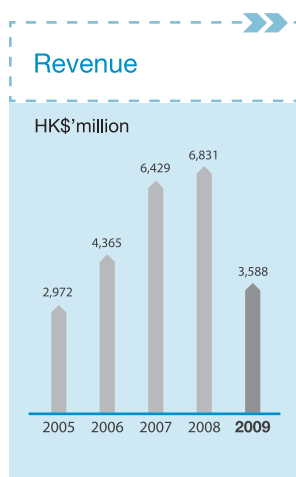


## Five-year Financial Summary



## Five-year Financial Summary

	2009 HK\$'million	2008 HK\$'million	2007 HK\$'million	Restated 2006 HK\$'million	Restated 2005 HK\$'million
<b>RESULTS</b>					
Revenue	3,588	6,831	6,429	4,365	2,972
Profit before taxation	3,735	4,315	4,037	2,992	2,587
Profit for the year	3,457	4,026	3,895	2,893	2,533
Minority interest	219	320	350	353	169
Profit attributable to shareholders	3,238	3,706	3,545	2,540	2,364
<b>ASSETS AND LIABILITIES</b>					
Non-current assets	45,783	45,278	41,790	32,058	24,442
Net current (liabilities)/assets	(130)	(1,687)	(5,756)	(1,970)	1,132
Total assets less current liabilities	45,653	43,591	36,034	30,088	25,574
Non-current liabilities	10,034	10,877	7,559	6,645	7,947
Minority interest	2,056	2,434	1,633	2,522	1,468
Capital and reserves attributable to the shareholders of the Company	33,563	30,280	26,842	20,921	16,159
<b>RETURN TO SHAREHOLDERS</b>					
Earnings per share					
– Basic (HK cents)	133.18	152.97	149.53	109.43	107.94
– Diluted (HK cents)	133.10	152.43	148.62	109.07	107.45
Dividend per share (HK cents)	57.00	68.00	65.00	53.00	50.00



# Corporate Governance Report

The Board of Directors (“Board”) is pleased to present this Corporate Governance Report in the Company’s Annual Report for the year ended 31 December 2009. In November 2004, The Stock Exchange of Hong Kong Limited (“Stock Exchange”) promulgated the Code on Corporate Governance Practices (“CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) which sets out the corporate governance principles (“Principles”) and the code provisions (“Code Provisions”) with which listed issuers are expected to follow and comply.

The Board is committed to upholding a high standard of corporate governance practices and business ethics with the firm belief that they are essential for maintaining and promoting investors’ confidence and maximising shareholders’ returns. The Board reviews its corporate governance practices from time to time in order to meet the rising expectations of stakeholders and comply with increasingly stringent regulatory requirements, and to fulfill its commitment to excellence in corporate governance.

## Corporate Governance

In the opinion of the Directors, save as disclosed below, the Company has complied with the Code Provisions set out in the CG Code contained in Appendix 14 to the Listing Rules throughout the year ended 31 December 2009.

### Code Provision A.2.1

Dr. Fu Yuning, the Chairman of the Company, has also been acting as the Managing Director of the Company with effect from 31 May 2005. With effect from 26 March 2010, Mr. Hu Jianhua has been re-designated as Managing Director of the Company in place of Dr. Fu Yuning. Dr. Fu remains as Chairman of the Company.

The current practices of the Company will be reviewed and updated regularly to reflect as much as possible the latest best practices in corporate governance.

## Board of Directors

The Board of the Company comprises:

### Executive Directors

Fu Yuning (Chairman)  
Li Yinquan  
Hu Zheng  
Meng Xi  
Su Xingang  
Yu Liming  
Hu Jianhua (Managing Director)  
Wang Hong  
Liu Yunshu (appointed on 3 June 2009)  
To Wing Sing (resigned on 3 June 2009)

### Independent Non-executive Directors

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

The five Independent Non-executive Directors are persons of high calibre, with academic and professional qualifications in the fields of accounting, law, banking and business management. With their experience gained from senior positions held in other companies, they provide strong support towards the effective discharge of the duties and responsibilities of the Board. Each Independent Non-executive Director has given an annual confirmation of his independence to the Company, and the Company considers these Directors to be independent under Rule 3.13 of the Listing Rules.



## Corporate Governance Report

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

Name of Director	Number of board meetings attended during the Director's term of office in 2009	Attendance rate
Fu Yuning	3/4	75%
Li Yinquan	2/4	50%
Hu Zheng	2/4	50%
Meng Xi	3/4	75%
Su Xingang	3/4	75%
Yu Liming	3/4	75%
Hu Jianhua	4/4	100%
Wang Hong	4/4	100%
Liu Yunshu (note 1)	1/2	50%
To Wing Sing (note 2)	2/2	100%
Tsang Kam Lan	4/4	100%
Kut Ying Hay	3/4	75%
Lee Yip Wah Peter	4/4	100%
Li Kwok Heem John	4/4	100%
Li Ka Fai David	4/4	100%

Notes:

1. Mr. Liu Yunshu was appointed as an Executive Director of the Company with effect from 3 June 2009.
2. Mr. To Wing Sing resigned from the position of Executive Director of the Company with effect from 3 June 2009.

There was no material financial, business, family or other relevant relationship among members of the Board.

The Board formulates overall strategy of the Group, monitors its financial performance and maintains effective supervision over the management. The Board members are fully committed to their roles and have acted in good faith to

maximise the shareholders' value in the long run, and have aligned the Group's goals and directions with the prevailing economic and market conditions. Daily operations and administration are delegated to the management.

At least 14 days' notice of all regular board meetings is given to all Directors and they can include matters for discussion in the agenda if the need arises. The Company Secretary or his assistant assists the Chairman in preparing the agenda for meetings and ensures that all relevant rules and regulations are followed. The agenda and the accompanying board papers are sent to all Directors at least 3 days before the date of every board meeting so that the Directors have the time to review the documents. Minutes of every board meeting are circulated to all Directors for their perusal prior to confirmation of the minutes at or before the following board meeting.

Every board member is entitled to have access to board papers and related materials and has unrestricted access to the advice and services of the Company Secretary or his assistant, and has the liberty to seek external professional advice if so required. The Company Secretary or his assistant continuously updates all Directors on the latest development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practice.

### Directors' securities transactions

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

### Chairman and Managing Director

The Chairman of the Board is responsible for the leadership and effective running of the Board and the Managing Director is delegated with the authorities to manage the business of the Group in all aspects effectively. With effect from 26 March 2010, the Chairman of the Company is Dr. Fu Yuning and the Managing Director of the Company is Mr. Hu Jianhua.

### Appointment and Re-election of Directors

According to Article 91 of the Articles of Association of the Company, at each annual general meeting one-third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.

The Company has fixed the term of appointment for Independent Non-executive Directors to a specific term of three years. They are also subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with Article 91 of the Articles of Association of the Company.

According to Article 97 of the Articles of Association of the Company, the Board has the power to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. In considering the appointment of a Director, the Board will take into account the professional qualifications, experience in relevant industries, management expertise and the potential contribution of such Director to advance the overseas expansion plan of the Company.

### Remuneration Committee

The Remuneration Committee of the Company comprises one Executive Director and five Independent Non-executive Directors.

The Remuneration Committee was formed in January 2005. One meeting was held in 2009. The attendance of each member is set out as follows:

Name of member	Number of meetings attended in 2009	Attendance rate
Fu Yuning* (Chairman of the Remuneration Committee)	0*/1	0%
Tsang Kam Lan	1/1	100%
Kut Ying Hay	1/1	100%
Lee Yip Wah Peter	1/1	100%
Li Kwok Heem John	1/1	100%
Li Ka Fai David	1/1	100%

\* meeting attended by Mr. Hu Jianhua on behalf of Dr. Fu.

During the year, the Remuneration Committee has reviewed the remuneration of the Directors and senior management with reference to the nature of their work, complexity of the responsibilities and performance. No Director took part in any discussion about his own remuneration.

The Company has adopted a share option scheme on 20 December 2001, which serves as an incentive to attract, retain and motivate talented eligible staff, including the Directors. Details of the share option scheme are set out on pages 41 to 44 of the Report of the Directors. The emolument payable to Directors will depend on their respective contractual terms under employment contracts, if any, and as recommended by the Remuneration Committee. Details of the Directors' remuneration are set out in note 10 to the financial statements.

## Corporate Governance Report

The major roles and functions of the Company's Remuneration Committee are as follows:

1. to make recommendations to the Board on the Company's policy and structure for the remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing the policy on such remuneration;
2. to have the delegated responsibilities to determine the specific remuneration packages of all Executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment. Factors which will be taken into consideration include but are not limited to salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration;
3. to review and approve performance-based remuneration by reference to corporate goals and objectives set by the Board from time to time;
4. to review and approve the compensation payable to Executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;
5. to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;
6. to make recommendations to the Board on the remuneration for Independent Non-executive Directors;
7. to ensure that no Director or any of his associates is involved in deciding his own remuneration;
8. to consult the Chairman and/or the Managing Director about their proposals relating to the remuneration of Executive Directors. Members of the Remuneration Committee shall have access to professional advice if considered necessary; and
9. to consider other issues as determined by the Board.

### Accountability and Audit

The Directors are responsible for overseeing the preparation of accounts of each financial period, which should give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the financial statements for the year ended 31 December 2009, the Directors have selected suitable accounting policies and have applied them consistently, adopted appropriate Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable, and have prepared the financial statements on the going concern basis.

The statement of the auditor of the Company about the reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on page 53.

## Audit Committee

The Audit Committee of the Company comprises all of the five Independent Non-executive Directors of the Company.

The Audit Committee meets at least twice a year. Two meetings were held during the year. The minutes of the Audit Committee meetings were tabled at Board meetings for Directors to take note and for action by the Board where appropriate. The attendance of each member of the Audit Committee at meetings held during the year is set out as follows:

Name of member	Number of meetings attended in 2009	Attendance rate
Tsang Kam Lan (Chairman of the Audit Committee)	2/2	100%
Kut Ying Hay	2/2	100%
Lee Yip Wah Peter	2/2	100%
Li Kwok Heem John	2/2	100%
Li Ka Fai David	2/2	100%

During the meetings held in 2009, the Audit Committee had performed the following work:

- (i) reviewed the financial reports for the year ended 31 December 2008 and for the six months ended 30 June 2009;
- (ii) reviewed the effectiveness of internal control system;
- (iii) reviewed the external auditor's statutory audit plan and engagement letter;
- (iv) reviewed the management letter from the external auditor in relation to the audit of the Group for the year ended 31 December 2008;
- (v) reviewed and recommended for approval by the Board the 2009 audit scope and fees; and
- (vi) reviewed the connected transactions entered into by the Group during the year.

The major roles and functions of the Audit Committee are as follows:

1. to be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;
2. to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences and ensure co-ordination where more than one audit firm is involved;
3. to develop and implement policy on the engagement of an external auditor to supply non-audit services. For this purpose, external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;
4. to monitor the integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In this regard, in reviewing the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports before submission to the Board, the committee should focus particularly on:

## Corporate Governance Report

- (i) any changes in accounting policies and practices;
  - (ii) major judgmental areas;
  - (iii) significant adjustments resulting from audit;
  - (iv) the going concern assumptions and qualifications;
  - (v) compliance with accounting standards; and
  - (vi) compliance with the Listing Rules and other legal requirements in relation to financial reporting;
5. In regard to (4) above:
  - (i) members of the committee must liaise with the Board, senior management and the committee must meet, at least once a year, with the Company's auditor; and
  - (ii) the committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's staff responsible for accounting and financial reporting function, compliance officer or auditor;
6. to review the Company's financial controls, internal controls and risk management systems;
7. to discuss the system of internal control and ensure that management has discharged its duty to have an effective internal control system including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function and their training programmes and budget;
8. to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;
9. to discuss problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss (in the absence of management where necessary);
10. to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of controls and management's response;
11. to review the Company's statement on internal control systems (where one is included in the annual report) prior to endorsement by the Board;
12. where an internal audit function exists to review the internal audit programme, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function;
13. to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
14. to report to the Board on the matters set out in provision of terms of reference of the committee;
15. to review the Group's financial and accounting policies and practices; and
16. to consider other issues, as determined by the Board.



### Auditor's Remuneration

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

Services rendered	Fees paid/payable HK\$'million
Audit services	9
Non-audit services (Tax advisory and compliance services)	1
Total	10

### Internal Control

It is the responsibility of the Board to ensure that the Group maintains sound and effective internal controls to safeguard the shareholders' investment and the Group's assets.

The internal control system of the Group comprises a well-established organisational structure and comprehensive policies and standards. Areas of responsibilities of each business and operational unit are clearly defined to ensure effective checks and balances.

The key procedures that the Board established to provide effective internal controls are as follows:

- A distinct organisation structure exists with defined lines of authority and control responsibilities;
- An unified and comprehensive auditing and management accounting system for the Group is in place to prepare financial and operational performance indicators to the management and the relevant financial information for reporting and disclosure purpose; for maintaining proper accounting records; and for ensuring the reliability of financial information used within the business or for publication;

- A centralised management system in respect of external investment, equity transfer and assets disposal is in place. Investment Assessment Committee together with the Investment Management Department are responsible for the Group's investment exposure analysis, and for monitoring the level of investment exposures faced by the Group. A set of processing procedures for examination and approval is implemented by our headquarter on the acquisitions and disposals of assets by the operating units under the Group;
- Systems and procedures are also in place to identify, measure, manage and control risks including reputation, legal, strategic, credit, guarantee, taxation, market, operational and project construction risks. Exposure to risks of implementation and development of strategies, changes in policies and legal proceedings is monitored by the Group's officer in charge of strategic research together with the Business Development Department. Exposure to risks of the Group's credit, guarantee, taxation and use of funds is monitored by the Group's officer in charge of financial management together with the Financing Management Department and Finance Management Department and the operating and other risks management units. Exposure to risks of market, operation and change of operation environment relating to the Group's business is monitored by the Group's officer in charge of business and operation management together with the Business and Operation Management Department and Information Management Department and the operating units. Exposure to risks of the Group's project construction, equipment and bulk materials procurement is monitored by the Group's officer in charge of project management together with the Project Management Department. In addition, procedures are designed to ensure compliance with applicable laws, rules and regulations;

## Corporate Governance Report

- Policies and procedures are designed for safeguarding assets against unauthorised use or disposition. The procedures provide reasonable but not absolute assurance against material errors, losses or fraud;
- A Policy on Handling and Dissemination of Price-Sensitive Information is established, setting out the guiding principles, procedures and internal controls for the handling and dissemination of price-sensitive information in a timely manner in such a way that it does not place any person in a privileged dealing position and allows time for the market to price the shares of the Company to reflect the latest available information; and
- Audit Committee reviews reports (including management letter) submitted by external auditors to the Group's management in connection with the annual audit and internal audit reports submitted by the person in charge of the Group's Internal Audit Department.

The Board and the Audit Committee, assess the effectiveness of the Group's internal control system which covers all material controls, including financial, investing, marketing, operation, project construction and regulations compliance and risk management functions and consider the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget on an annual basis. The Group's Internal Audit Department conducts independent reviews of risks associated with and controls over various operations and activities. Significant findings on internal controls are reported regularly to the Audit Committee each year.

### Communications with Shareholders and Investors

The Board recognises the importance of good communications with all shareholders. The Company's annual general meeting is a valuable forum for the Board to communicate directly with the shareholders. The Chairman of the Board as well as Chairmen of the Audit and Remuneration Committees (or their duly appointed delegates) together with the external auditor are present to answer shareholders' questions. An annual general meeting circular which sets out relevant information of the proposed resolutions is distributed to all shareholders at least 20 clear business days before the annual general meeting. For the 2009 annual general meeting of the Company held on 2 June 2009, the Chairman demanded that all resolutions proposed at the meeting to be passed by poll and explained the procedures for demanding and conducting a poll at the beginning of the meeting. The results of the poll were published on the websites of the Company and the Stock Exchange.

A key element of effective communication with shareholders and investors is the prompt and timely dissemination of information in relation to the Group. The Company has announced its annual and interim results in a timely manner, which were well before the time limits as laid down in the Listing Rules.

The management personnel responsible for investor relations held regular meetings with equity research analysts, fund managers and institutional shareholders and investors.

The 2010 annual general meeting of the Company will be held at the Ball Room, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Tuesday, 25 May 2010 at 9:30 a.m.

# Directors and Senior Management

## Directors

### Dr. Fu Yuning

aged 53, is the Chairman of the Company and a Director and the President of China Merchants Group Limited. He graduated from Dalian Institute of Technology in the PRC with a Bachelor Degree in Port and Waterway Engineering. He also obtained a Doctorate Degree in Offshore Engineering from Brunel University, United Kingdom and worked as a Post-Doctorate research fellow. He is an Independent Non-executive Director of Integrated Distribution Services Group Limited and Sino Land Company Limited, both are listed on The Stock Exchange of Hong Kong Limited. Besides, he is the Chairman of China Merchants Energy Shipping Company Limited, shares of which are listed on the Shanghai Stock Exchange, the Chairman of China International Marine Containers (Group) Limited, shares of which are listed on the Shenzhen Stock Exchange, a Non-executive Director of China Merchants Bank Co., Ltd, shares of which are listed on both the Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited, and an Independent Non-executive Director of CapitaLand Limited, shares of which are listed on Singapore Exchange Limited. On 4 July 2008, he resigned as the Chairman and Executive Director of China Merchants China Direct Investments Limited, shares of which are listed on The Stock Exchange of Hong Kong Limited. He was appointed to the Board of Directors on 8 January 1999, and was appointed as the Chairman of the Company on 1 February 2000. He was the Managing Director of the Company for the period from 31 May 2005 to 25 March 2010.

### Mr. Li Yinquan

aged 54, is the Vice President and the Chief Financial Officer of China Merchants Group Limited. He graduated from the Shaanxi Institute of Finance and Economics with a Bachelor of Economics, and holds a Master in Economics from The People's Bank of China Graduate School in Beijing. He also

holds a Master in Banking and Finance from the FinAfrica Institute in Milan, Italy. Prior to joining the China Merchants Group Limited in 2000, he worked in the Agricultural Bank of China from 1985 to 1999 where his last position was Deputy General Manager of the Hong Kong branch. On 4 July 2008, he was appointed as the Chairman and Executive Director of China Merchants China Direct Investments Limited, shares of which are listed on The Stock Exchange of Hong Kong Limited. Besides, he is the Director of China Merchants Energy Shipping Company Limited, shares of which are listed on the Shanghai Stock Exchange and Non-executive Director of China Merchants Bank Co., Ltd, shares of which are listed on both the Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited. He was appointed to the Board of Directors as Executive Director on 20 June 2001.

### Mr. Hu Zheng

aged 54, is the Vice President of China Merchants Group Limited, concurrently serving as Chairman of China Merchants Logistics Holding Co., Ltd., Officer of Management Committee of China Merchants Zhangzhou Development Zone and Vice Chairman of China Merchants Zhangzhou Development Zone Co., Ltd. Moreover, he is Vice Chairman of The Hong Kong Chinese Enterprises Association, China Association of Purchasing and Logistics and China Association of Communications Enterprises Management. He obtained a Master Degree in Business Administration from Murdoch University, Australia and holds a professional title of "Senior Economist". Mr. Hu successively served as the Secretary of the General Office of the Ministry of Communications, Secretary of the board of directors, General Manager of the Executive Department, Assistant President and General Legal Counsel of China Merchants Group Limited, and No. 1 Deputy General Manager of China Merchants Shekou Industrial Zone Company Limited. He was appointed to the Board of Directors as Executive Director on 29 June 2004.

## Directors and Senior Management

### Mr. Meng Xi

aged 53, is the Vice President of China Merchants Group Limited. He graduated from the Beijing Construction Engineering College and was awarded “Senior Engineer” in the PRC. He joined the China Merchants Group Limited in 1983 and was formerly the Deputy General Manager of China Merchants Shekou Industrial Zone Company Limited, Deputy General Manager of Enterprises and Projects Division, General Manager of Management Information Division, General Manager of Strategic Planning Department of China Merchants Group Limited. Mr. Meng has extensive experience in the field of management of enterprises, strategic investment, management information system and strategic planning. He was appointed to the Board of Directors as Executive Director on 20 June 2001.

### Mr. Su Xingang

aged 51, is the Vice President and the Chief Economist of China Merchants Group Limited. He graduated from Ship Navigation and Harbour Superintendency Administration Specialty of Navigation Department of Dalian Maritime University. He holds the professional title of “Senior Engineer”. He is a Director of China Merchants Energy Shipping Company Limited, shares of which are listed on the Shanghai Stock Exchange, the Chairman of China LNG Shipping (Holdings) Limited, and a Director and Vice Chairman of Shanghai International Port (Group) Company Limited, shares of which are listed on the Shanghai Stock Exchange. Before joining China Merchants Group Limited, he served as Deputy Division Chief of Department of Transportation Administration, Assistant Director General of Department of Water Transportation of Ministry of Communications, Vice President of China Changjiang National Shipping (Group) Corp., Deputy Director General, Director General of Department of Water Transportation of Ministry of Communications. He was appointed to the Board of Directors as Executive Director on 25 May 2007.

### Mr. Yu Liming

aged 47, is the Vice Chief Economist of China Merchants Group Limited. He graduated from the South China University of Science and Technology in 1982. He holds a PhD Degree at the Business School of Fudan University, the PRC. He studied in The International Institute of Infrastructural Hydraulic and Environmental Engineering (IHE), Delft University of Holland and Port of Rotterdam from 1987 to 1988. He joined China Merchants Group Limited in 1984 and has extensive experience in the field of strategic planning, mergers and acquisitions, port management and construction business. He was appointed to the Board of Directors as Executive Director on 8 January 1999.

### Mr. Hu Jianhua

aged 47, is the Managing Director of the Company. He joined the Company in 2007. He graduated from the Dalian University of Technology in the PRC with a Bachelor Degree in Port and Waterway Engineering. He then obtained his Master Degree in Construction Management at the University of Birmingham of the United Kingdom and his Doctor Degree in Business Administration at the University of South Australia. Before joining the Company, he was General Manager of Overseas Business Department of China Harbour Engineering Company Group, Managing Director of Hong Kong Zhen Hua Engineering Co., Ltd, Deputy Chief Economist cum General Manager of Overseas Division of China Harbour Engineering Company Group, Managing Director of China Harbour Engineering Company Limited. Having vast experience in ports, roads and bridges engineering and construction overseas and corporate management in China, Mr. Hu is also a fellow member of the Hong Kong Institution of Engineers (FHKIE) and fellow member of Institution of Civil Engineering Surveyors of the United Kingdom (FInstCES) respectively. He was appointed to the Board of Directors as Executive Director on 25 May 2007, and was appointed as the Managing Director of the Company on 26 March 2010.

#### **Mr. Wang Hong**

aged 47, is the General Manager of Strategy and Research Department of China Merchants Group Limited and a Director of China Merchants Holdings (Hong Kong) Company Limited. He is also a Director of China International Marine Containers (Group) Co., Ltd., shares of which are listed on Shenzhen Stock Exchange. He graduated from Dalian Maritime University in the PRC in Marine Engineering in 1982, as a holder of Master of Business Administration of Graduate School of Beijing University of Science and Technology, and a holder of PhD of Management of Graduate School of China Academy of Social Science. Mr. Wang successively served as Engineer in COSCO Guangzhou, General Manager of Shipping Department, General Manager of Finance and Accounting Department, and Vice President of China Communications Import & Export Corp., Managing Director of Hoi Tung Marine Machinery Suppliers Ltd., General Manager of Performance Evaluation Department and Human Resources Department of China Merchants Group Limited. He was the Deputy Managing Director and Chief Operational Officer of the Company, the Vice Chairman of Shanghai International Port (Group) Co., Ltd., shares of which are listed on the Shanghai Stock Exchange and the Chairman of China Merchants Holdings (Pacific) Limited, shares of which are listed on Singapore Exchange Limited. Mr. Wang has extensive experience in shipping industry, international trading, financing and accounting, human resource management. He was appointed to the Board of Directors as Executive Director on 11 May 2005.

#### **Mr. Liu Yunshu**

aged 45, joined the Company in 2004 and is the Executive Director and Deputy General Manager of the Company. He obtained his Master of Business Administration at Roosevelt University of America. Mr. Liu has vast experience in ports and logistics industries. Before joining the Company, he was a Director and the Deputy General Manager of Shenzhen Shekou China Merchants Port Services Co., Ltd., the Vice Chairman and General Manager of Shenzhen Shekou Anda Industry Co. Ltd., a Director and the Chief Operating Officer of China Merchants Logistics Group Co., Ltd. Mr. Liu is currently a committee member of Member Association (Logistics enterprises) of China Communication and Transportation Association and the Vice Chairman of Shenzhen Ports Association. He was appointed to the Board of Directors as Executive Director on 3 June 2009.

#### **Mr. Tsang Kam Lan**

aged 78, was formerly the Managing Director of Bank of China Group Insurance Company Limited, BOC Group Life Assurance Company Limited and Sun Chung Estate Co., Ltd. and the Deputy Managing Director of Kiu Kwong Investment Corporation Ltd., the Chairman of Bank of China Group Investment Ltd., Bank of China Group Securities Limited and Hopewell Power (China) Limited, the General Manager of The China & South Sea Bank Limited, Hong Kong Branch, the Deputy General Manager of The Kwangtung Provincial Bank Hong Kong Branch, and the Deputy Chief Executive of Bank of China Hong Kong and Macau Regional Office. He was appointed to the Board of Directors as Independent Non-executive Director on 6 June 1992.

#### **Mr. Kut Ying Hay**

aged 55, is a practising solicitor and a notary public in Hong Kong and the sole proprietor of Messrs. Kut & Co. He is also a solicitor of the Supreme Court of England and Wales, the Supreme Court of Victoria, Australia, and the Supreme Court of Singapore, and is an associate member of the Institute of Chartered Arbitrators and the Institute of Arbitrators, Australia. He was appointed by the Hong Kong Government as a member of the Board of Review for the period from 1995 to 1998. He has also been appointed by the Ministry of Justice of the PRC as a China Appointed Attesting Officer. He is an Independent Non-executive Director of China Merchants China Direct Investments Limited, shares of which are listed on The Stock Exchange of Hong Kong Limited. He was appointed to the Board of Directors as Independent Non-executive Director on 6 June 1992.



## Directors and Senior Management

### Mr. Lee Yip Wah Peter

aged 67, is a solicitor. He is also a Non-executive Director of SHK Hong Kong Industries Limited (formerly known as Yu Ming Investments Limited), an Independent Non-executive Director of Sinotrans Shipping Limited. Both the said companies are listed on The Stock Exchange of Hong Kong Limited. He was appointed to the Board of Directors as Independent Non-executive Director on 20 June 2001.

### Mr. Li Kwok Heem John

aged 54, was a partner at PricewaterhouseCoopers, Certified Public Accountants. He graduated from the Imperial College of the University of London with a Bachelor of Science degree and also obtained a Master of Business Administration degree from the Wharton School of Business of the University of Pennsylvania. He is a Fellow of The Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants. Mr. Li is the Immediate Past Chairman of the United Christian Medical Service and the United Christian Hospital, a member of the Board of the Hospital Governing Committee of Pamela Youde Nethersole Eastern Hospital and Alice Ho Mui Ling Nethersole Hospital, and a member of the Board of Trustees of Chung Chi College, the Chinese University of Hong Kong. He was appointed to the Board of Directors as Independent Non-executive Director on 8 October 2004.

### Mr. Li Ka Fai David

aged 55, is currently the deputy managing partner of Li, Tang, Chen & Co., CPA (Practising). He is also a fellow of the Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants, UK as well as The Institute of Chartered Secretaries and Administrators, UK and an associate member of The Institute of Chartered Accountants in England and Wales. He is an Independent Director and Chairman of audit committee of China Vanke Company Limited, a company listed on the Shenzhen Stock Exchange, an Independent Non-executive Director and Chairman of audit committee of China-Hongkong Photo Products Holdings Limited and Cosmopolitan International Holdings Limited, both are listed on The Stock Exchange of Hong Kong Limited. Mr. Li is an Independent Non-executive Director and member of audit committee of AVIC International Holding (HK) Limited (formerly known as CATIC International Holdings Limited). He was appointed to the Board of Directors as Independent Non-executive Director on 1 June 2007.

## Senior Management

### Mr. Ni Lulun

aged 49, joined the Company in 2005 as the Deputy General Manager of the Company where he is in charge of business development and investment research. He graduated from the Department of Port Mechanics of Shanghai Maritime Institute with a Bachelor of Engineering degree in 1982, and he then pursued his Master Degree at the Department of Water Transportation Management. Mr. Ni obtained a PhD Degree at the Department of Maritime Studies, University of Wales Institute of Science and Technology and obtained a post-doctoral research fellowship at the School of Management of Shanghai Jiaotong University. Between 1989 and 1991, he was a lecturer and an associate professor of the School of Management, Shanghai Fudan University. Mr. Ni joined China Nanshan Development (Group) Inc. in 1992 where he served several senior management positions. Before joining the Company, he was the Deputy General Manager of the Business Development Department of China Merchants Group Limited.

### Ms. Wong Sin Yue Cynthia

aged 58, joined the Company in 2004 and is the Deputy General Manager of the Company, responsible for finance. She holds a Master of Business Administration Degree from the University of East Asia in Macau. Prior to joining the Company, she took various senior positions at reputable international investment banks including Société Générale, Deutsche Morgan Grenfell, Samuel Montague and Bear Stearns Asia for over 15 years, during which period she had advised more than 50 companies in Greater China and Asia in their equity, equity finance or equity-related activities. She was a Non-executive Director of China Merchants Holdings (Pacific) Limited, shares of which are listed on Singapore Exchange Limited. She holds the office of Independent Non-

executive Director in China Gas Holdings Limited, shares of which are listed on The Stock Exchange of Hong Kong Limited.

### Mr. Luo Huilai

aged 47, joined the Company in December 2000 and is the Deputy General Manager of the Company. He is also the Managing Director of CMH International (China) Investment Co., Ltd., in charge of information technology management and production safety management of the Company. He graduated from the Huadong Petroleum Institute with a Bachelor of Engineering, majoring in petroleum storage and transportation in 1982, then obtained his EMBA from the College of Business Administration at Zhejiang University. He has vast experience in port management and port operation. He was the General Manager and Senior Engineer of Qinhuangdao Port Affairs (No. 1) Company, Deputy General Manager and then Managing Director of China Merchants Container Services Limited, and Chairman cum Chief Executive Officer of China Merchants International Container Terminal Co., Ltd, Ningbo Daxie.

### Mr. Zhang Rizhong

aged 41, joined the Company in 2005 and is the Financial Controller of the Company, responsible for finance and internal control and audit. He holds a Master of Business Administration degree from The University of Westminster of UK, and graduated with a Bachelor degree of Economics from The Central Finance and Economics University in the PRC. He is a Member of Association of Chartered Certified Accountants. With over 18 years in Finance and Accounting area, he has extensive experience in finance management. Before joining the Company, he was Deputy General Manager of Financial Department of China Merchants Group, Financial Controller of China Merchants Holdings (UK) Co. Ltd, and a director of several companies.

## Directors and Senior Management

### Mr. Bai Jingtao

aged 44, Senior Engineer, joined the Company in 2009 and is the Deputy General Manager of the Company. He graduated from Tianjin University in Department of Hydraulics with a Bachelor's degree in Port and Channel Engineering in 1986, then studied at Graduate School of Wuhan University of Technology and Graduate School of Shanghai Maritime University and obtained a Master's degree in Management Sciences and Engineering and a Doctorate in Transport and Communications Planning and Management. Mr. Bai successively served as an assistant engineer in Planning and Design Institute of the Ministry of Communications of the PRC, an officer in Department of Engineering Management and Department of Infrastructure Management of the Ministry of Communications, Deputy Director and Director in Department of Infrastructure Management and Department of Water Transport of the Ministry of Communications, Deputy General Manager of China Merchants Zhangzhou Development Zone and Director-General of Zhangzhou Port Service Authority, Deputy Director-General of Xiamen Port Authority and Deputy General Director of Construction Headquarters of Hangcang Free Trade Port Area. Mr. Bai has extensive experience in engineering construction, planning and management of water transport.

### Ms. Bian Yimei

aged 47, Senior Engineer, joined the Company in 2006 and is currently the Assistant General Manager of the Company. Ms. Bian graduated from Dalian Institute of Technology with a Bachelor degree of Port Engineering. She also obtained a Master of Business Administration Degree from the University

of South Australia. Prior to joining this Company, she served as the Secretary of the General Office of the Ministry of Communication of the PRC, the Deputy Director of the Comprehensive Planning Department of the Ministry of Communication of the PRC, the Manager of the Administration and Human Resources Department of Huajian Transportation Economic Development Centre, and the Officer of the Human Resources Department of China Merchants Group, etc. With the long history of working in the government departments in the area of port planning, she has acquired rich and extensive experience in corporate management.

### Mr. Deng Weidong

aged 42, joined the Company in July 2009 and is the Assistant General Manager of the Company and the General Manager of Commercial and Strategic Planning Department. He graduated from Najing University with a PhD of Physical Geography in 1994. He obtained a master degree of Marine Management from Dalhousie University, Canada in September 2002. He has vast experience in port management and port operation. Prior to joining the Company, he worked in Administration Bureau of Hainan Yangpu Economic Development Zone, and he was the General Manager of Business Development Department of China Nanshan Development (Group) Incorporation and the Deputy General Manager of Chiwan Container Terminal.

# Report of the Directors

The Board is pleased to present the Company's annual report together with the audited financial statements for the year ended 31 December 2009.

## Principal activities and geographical analysis of operations

The Company is an investment holding company. The principal activities of its subsidiaries, associates and jointly controlled entities are set out in notes 43 to 45 to the financial statements, respectively.

An analysis of the Group's performance for the current year by operating segments is set out in note 6 to the financial statements.

## Results and appropriations

The results of the Group for the year are set out in the consolidated income statement on page 55.

The Board had declared an interim dividend of 25 HK cents per share, totalling HK\$607 million, which was paid on 27 November 2009.

The Directors have resolved to recommend the payment of a final scrip dividend of 32 HK cents per share, totalling HK\$779 million for the year ended 31 December 2009 by way of an issue of new shares with an alternative to the shareholders to elect to receive the final dividend (or part thereof) in cash in lieu of such allotment (2008: scrip dividend of 40 HK cents per share by way of issue of new shares equivalent with cash alternative), payable on or around 16 July 2010 to the shareholders whose names appear on the Register of Members of the Company as at the date of the 2010 Annual General Meeting (the "Scrip Dividend Scheme").

Subject to the approval by shareholders in the 2010 Annual General Meeting, a circular containing details of the Scrip Dividend Scheme together with the relevant election form will be sent to shareholders on or around 7 June 2010. The Scrip Dividend Scheme is conditional upon the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") of the listing of and permission to deal in the new shares to be issued pursuant thereto. It is expected that the final dividend warrants and certificates for the new shares will be despatched to shareholders on or around 16 July 2010.

## Charitable Donations

HK\$4.2 million donation was made by the Group during the year (2008: Nil).

## Reserves

Details of the movements in reserves of the Group and the Company during the year are set out in note 31 the financial statements.

## Property, plant and equipment

Details of the movements in property, plant and equipment of the Group and the Company are set out in note 18 to the financial statements.

## Share capital

Details of the movements in share capital of the Company are set out in note 30 to the financial statements.

## Distributable reserves

Distributable reserves of the Company as at 31 December 2009, as defined under section 79B of the Hong Kong Companies Ordinance, amounted to HK\$2,402 million (2008: HK\$3,001 million).



# Report of the Directors

## Five year financial summary

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 24.

## Purchase, sale or redemption of shares

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

## Directors

The Directors in 2009 were:

### Executive Directors:

Dr. Fu Yuning (*Chairman*)  
Mr. Li Yinquan  
Mr. Hu Zheng  
Mr. Meng Xi  
Mr. Su Xingang  
Mr. Yu Liming  
Mr. Hu Jianhua (*Managing Director*)  
Mr. Wang Hong  
Mr. Liu Yunshu (appointed on 3 June 2009)  
Mr. To Wing Sing (resigned on 3 June 2009)

### Independent Non-executive Directors:

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

In accordance with Article 91 of the Company's Articles of Association (the "Articles"), Mr. Li Yinquan, Mr. Su Xingang, Mr. Hu Jianhua, Mr. Wang Hong and Mr. Tsang Kam Lan will retire from the Board at the forthcoming annual general

meeting but, being eligible, will offer themselves for re-election. Pursuant to Article 97 of the Articles, Mr. Liu Yunshu shall retire from office at the AGM and shall be eligible and offer himself for re-election.

Four of the Independent Non-executive Directors have been appointed for a term of three years commencing on 22 March 2008 and an Independent Non-executive Director has been appointed for a term of three years commencing on 1 June 2007. In addition, the appointment of each of the Independent Non-executive Directors is subject to retirement by rotation in accordance with the Articles.

The Company has received annual confirmations from each of the Independent Non-executive Directors in relation to their independence to the Company and considers that each of the Independent Non-executive Directors is independent of the Company.

### Directors' service contracts

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

### Directors' interests in contracts

No contracts of significance in relation to the Group's business to which the Company, its holding companies, its fellow subsidiaries or its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### Directors' interests in securities

As at 31 December 2009, the interests of the Directors of the Company in the securities of the Company and its associated corporations, within the meaning of Part XV of the

Securities and Futures Ordinance (the "SFO"), as recorded in the register maintained by the Company under Section 352 of the SFO were as follows:

### Shares and Share Options in the Company

Name of Director	Capacity	Nature of interest	Number of shares held in the Company	Number of shares in the Company subject to share options granted	Percentage of aggregate long position in shares held to the issued share capital as at 31 December 2009
Dr. Fu Yuning	Beneficial owner	Personal interest	539,029	400,000	0.0386%
Mr. Li Yinquan	Beneficial owner	Personal interest	—	450,000	0.0185%
Mr. Hu Zheng	Beneficial owner	Personal interest	—	700,000	0.0288%
Mr. Meng Xi	Beneficial owner	Personal interest	—	200,000	0.0082%
Mr. Su Xingang	Beneficial owner	Personal interest	—	350,000	0.0144%
Mr. Yu Liming	Beneficial owner	Personal interest	350,000	500,000	0.0349%
Mr. Wang Hong	Beneficial owner	Personal interest	506,989	150,000	0.0270%
Mr. Liu Yunshu	Beneficial owner	Personal interest	—	400,000	0.0164%
Mr. Lee Yip Wah Peter	Beneficial owner	Personal interest	145,146	—	0.0060%
Mr. Li Kwok Heem John	Interest of spouse	Family interest	1,453,742	—	0.0598%
			2,994,906	3,150,000	0.2526%

Save as disclosed above and based on the register maintained by the Company under section 352 of the SFO, as at 31 December 2009, none of the Directors or chief executive of the Company or any of their associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required, pursuant to section 352 of the SFO, to be entered in the register or which are required, pursuant to the Model Code for Securities Transactions by Directors of

Listed Companies in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), to be notified to the Company and the Stock Exchange.

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

## Report of the Directors

### Share option scheme

At an Extraordinary General Meeting of the Company held on 20 December 2001 (the “Adoption Date”), the shareholders of the Company adopted the share option scheme (the “Share Option Scheme”) and a previous share option scheme was terminated on the same date. Under the Share Option Scheme the Board may, at their discretion, invite any director or employee of the Company or any of its subsidiaries or associates (“Eligible Persons”), to take up options to subscribe for fully paid ordinary shares in the Company subject to the terms and conditions stipulated therein.

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

Details of the Share Option Scheme are as follows:

#### (i) Purpose

The purpose of the Share Option Scheme is to provide the Company with a flexible means of incentivising, rewarding, remunerating, compensating and/or providing benefits to Eligible Persons.

#### (ii) Qualifying participants

Any Eligible Person.

### (iii) Maximum number of shares

#### (1) 10% limit

Subject to (iii) (2) and (iii) (3) below, the total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any options granted under the share option scheme of the Company adopted on 26 June 1992 and terminated on 20 December 2001 (“Terminated Scheme”) must not in aggregate exceed 10% of the shares in issue as at the Adoption Date. Options lapsed in accordance with the terms of the Share Option Scheme and the Terminated Scheme will not be counted for the purpose of calculating the 10% limit.

#### (2) Refreshing the 10% limit

Subject to (iii)(5) below if applicable, the Board may, with the approval of the shareholders in general meeting “refresh” the 10% limit under (iii) (1) above (and may further “refresh” such limit once refreshed in accordance with the provisions of this rule), provided that the total number of shares which may be issued upon the exercise of all options to be granted under the Share Option Scheme and options granted under the Terminated Scheme under the limit as refreshed shall not exceed 10% of the shares in issue at the date on which the shareholders approve the “refreshed” limit. Options previously granted under the Share Option Scheme and the Terminated Scheme (including those outstanding, cancelled, lapsed or exercised in accordance with the terms of the relevant schemes) will not be counted for the purpose of calculating the limit as “refreshed”.

**(3) Exceeding the 10% limit**

The Board may grant option to any Eligible Person or Eligible Persons specifically identified by them which would cause the limit under (iii) (1) above (including, for the avoidance of doubt, any such limit as “refreshed” under (iii) (2) above) to be exceeded, but only with the approval of the shareholders of the Company in general meeting, and subject always to (iii) (5) below.

**(4) Individual limit**

(a) Subject to (iii)(4)(b) below (and subject always to (iii) (5) below), the Board shall not grant any option (the “Relevant Options”) to any Eligible Person which, if exercised, would result in such Eligible Person becoming entitled to subscribe for such number of shares as, when aggregated with the total number of shares already issued or to be issued to him under all options granted to him in the 12-month period up to and including the offer date of the Relevant Options, exceed 1% of the shares in issue at such date.

(b) Notwithstanding (iii)(4)(a) above, the Board may grant options to any Eligible Person or Eligible Persons causing the limit under (iii)(4)(a) above in relation to such Eligible Person to be exceeded, but only with the approval of the shareholders of the Company in general meeting (with such Eligible Person and his associates abstaining from voting), and subject always to (iii)(5) below.

**(5) 30% maximum limit**

The number of shares which may be issued upon exercise of all outstanding options granted and not yet exercised under the Share Option Scheme and the Terminated Scheme to Eligible Persons must not exceed 30% of the shares in issue from time to time.

**(iv) Option period**

Subject to certain provisions, an option under the Share Option Scheme which is vested and has not lapsed may be exercised at any time up to the expiry of 10 years (or less, as the case may be) from the date of grant of the option. The exercise of the options may be subject to any conditions imposed by the Board at the time of offer. The rules of the Share Option Scheme do not contain specific provisions for the minimum period which an option must be held before exercise or performance targets applicable to the options.

**(v) Payment on acceptance of option**

Option-holders are not required to pay for acceptance of an option.

**(vi) Exercise price**

The subscription price for the shares in respect of which options are granted shall not be less than the higher of the closing price of the shares as stated in the Stock Exchange’s daily quotations sheet on the offer date, the average closing price of the shares as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the offer date and the nominal value of the shares.

**(vii) The remaining life of the Share Option Scheme**

The life of the Share Option Scheme is 10 years commencing on the Adoption Date and ending on 19 December 2011.

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

As at 31 March 2010, the total number of shares which may be issued pursuant to the exercise of options granted under the Share Option Scheme was 29,943,000 shares.



## Report of the Directors

As at 31 March 2010, the total number of shares available for issue under the Share Option Scheme was 130,547,238 shares, which represented approximately 5.37% of the total issued share capital of the Company as at the same date.

Details of the share options outstanding at 31 December 2009 which have been granted under the Share Option Scheme are as follows:

Name	Date of grant	Exercise price HK\$	Options held as at 1 January 2009	Options granted during the year	Options exercised during the year	Options lapsed/cancelled during the year	Other changes during the year	Options held as at 31 December 2009
<b>Directors</b>								
Dr. Fu Yuning	25 May 2006	23.03	400,000	—	—	—	—	400,000
Mr. Li Yinquan	27 October 2004	11.08	50,000	—	—	—	—	50,000
	25 May 2006	23.03	400,000	—	—	—	—	400,000
Mr. Hu Zheng	27 October 2004	11.08	300,000	—	—	—	—	300,000
	25 May 2006	23.03	400,000	—	—	—	—	400,000
Mr. Meng Xi	25 May 2006	23.03	200,000	—	—	—	—	200,000
Mr. Su Xingang	25 May 2006	23.03	350,000	—	—	—	—	350,000
Mr. Yu Liming	25 May 2006	23.03	500,000	—	—	—	—	500,000
Mr. Wang Hong	25 May 2006	23.03	150,000	—	—	—	—	150,000
Mr. Liu Yunshu	25 May 2006	23.03	—	—	—	—	400,000 <sup>1</sup>	400,000
Mr. To Wing Sing	25 May 2006	23.03	100,000	—	—	—	(100,000) <sup>2</sup>	—
			2,850,000	—	—	—	300,000	3,150,000
<b>Continuous contract employees</b>								
(i)	The Group							
		27 October 2004	11.08	1,530,000	—	(100,000)	—	1,430,000
		25 May 2006	23.03	13,702,000	—	(361,000)	(180,000)	12,861,000
		21 June 2006	20.91	150,000	—	—	—	150,000
(ii)	The CMHK Group							
		11 October 2002	4.985	100,000	—	—	—	100,000
		27 October 2004	11.08	1,058,000	—	—	—	1,058,000
		25 May 2006	23.03	11,734,000	—	(90,000)	—	11,644,000
			28,274,000	—	(551,000)	(180,000)	(300,000)	27,243,000
			31,124,000	—	(551,000)	(180,000)	—	30,393,000

### Notes:

- Mr. Liu Yunshu was appointed as an Executive Director of the Company with effective from 3 June 2009.
- Mr. To Wing Sing resigned as an Executive Director of the Company on 3 June 2009 and was appointed as a senior consultant and corporate management consultant of the Company on 3 June 2009 and 1 January 2010, respectively.
- The above outstanding share options can be exercised at any time during a period of 10 years commencing on the date of grant of the options.
- The weighted average closing market price per share immediately before the date on which the share options were exercised was HK\$27.59.
- No share options were granted during the year.

## Substantial shareholders

As at 31 December 2009, the following persons, other than a Director or chief executive of the Company, have interest or short position in the shares and underlying shares of the Company as recorded in the register of the Company required to be kept under section 336 of the SFO:

## Long Positions

Name of Substantial Shareholder	Capacity	Ordinary Shares held	Percentage of total issued Shares
China Merchants Group Limited	Interest of Controlled Corporation	1,352,647,266 <sup>(1,2,3)</sup>	55.60%
China Merchants Steam Navigation Company Limited	Interest of Controlled Corporation	1,349,647,266 <sup>(2)</sup>	55.48%
China Merchants Holdings (Hong Kong) Company Limited	Interest of Controlled Corporation	1,349,647,266 <sup>(2)</sup>	55.48%
China Merchants Union (BVI) Limited	Beneficial Owner	1,332,525,504 <sup>(2)</sup>	54.77%
Davis Selected Advisers, L.P. (d/b/a: Davis Advisors)	Investment Manager	145,910,554	6.00%

### Notes:

- Each of China Merchants Steam Navigation Company Limited and China Merchants Shekou Industrial Zone Company Limited is wholly-owned by China Merchants Group Limited ("CMG"). CMG is deemed to be interested in 1,352,647,266 shares, which represents the aggregate of 1,349,647,266 shares deemed to be held by China Merchants Steam Navigation Company Limited (see Note 2 below) and 3,000,000 shares deemed to be held by China Merchants Shekou Industrial Zone Company Limited (see Note 3 below).
- China Merchants Holdings (Hong Kong) Company Limited is wholly-owned by China Merchants Steam Navigation Company Limited. Each of China Merchants Union (BVI) Limited and China Merchants International Finance Company Limited is in turn wholly-owned by China Merchants Holdings (Hong Kong) Company Limited.  
  
China Merchants Steam Navigation Company Limited is deemed to be interested in 1,349,647,266 shares which are deemed to be held by China Merchants Holdings (Hong Kong) Company Limited. Such shares represent the aggregate of 1,332,525,504 shares beneficially held by China Merchants Union (BVI) Limited and 17,121,762 shares beneficially held by Best Winner Investment Limited.
- As Best Winner Investment Limited is wholly-owned by China Merchants International Finance Company Limited, China Merchants International Finance Company Limited is deemed to be interested in the 17,121,762 shares beneficially held by Best Winner Investment Limited.  
  
Top Chief Company Limited is wholly-owned by China Merchants Shekou Industrial Zone Company Limited and Orienture Holdings Company Limited is in turn wholly-owned by Top Chief Company Limited. China Merchants Shekou Industrial Zone Company Limited is deemed to be interested in the 3,000,000 shares which are deemed to be held by Top Chief Company Limited. Such shares represent the 3,000,000 shares beneficially held by Orienture Holdings Company Limited.

## Report of the Directors

### Short Positions

Nil

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

### Connected transactions

During the year ended 31 December 2009, the Group entered into the following transactions, which constituted connected transactions under the Listing Rules, and are required to be disclosed in accordance with Chapter 14A of the Listing Rules:

- (a) On 6 February 2009, Keen Field Enterprises Limited ("Keen Field"), a wholly-owned subsidiary of the Company, acquired an aggregate of 25,025,030 B shares in Shenzhen Chiwan Wharf Holdings Ltd. ("Shenzhen Chiwan"), representing approximately 3.9% interest in Shenzhen Chiwan. Shenzhen Chiwan is a joint stock limited company established under the laws of the PRC, whose B shares and A shares are listed on the Shenzhen Stock Exchange. The acquisition was effected through brokers at the price of HK\$7.35 per B share with a total consideration of HK\$183,950,000. After the acquisition, the Company holds, through Keen Field and another wholly-owned subsidiary, approximately 8% interest in Shenzhen Chiwan. The Directors of the Company believe that the acquisition will bring strategic benefits to the Group in that not only does it contribute incremental earnings to the Group, it will also enhance the Group's presence in the Shenzhen Western Port Area. The acquisition falls under Rule 14A.13(1)(b)(i) of the Listing Rules as the acquisition involves the Company acquiring an interest in Shenzhen Chiwan, a substantial shareholder (being China Nanshan Development (Group) Incorporation) of which is a controller (as defined under the Listing Rules).
- (b) On 5 March 2009, Antongjie Port and Warehouse Services (Shenzhen) Company Limited, a wholly-owned subsidiary of the Company, entered into a land use right confirmation contract with China Merchants Shekou Industrial Zone Company Limited ("CMSIZ") to purchase the land use right in respect of a parcel of land situated at Mawan Road West, Shenzhen Qianhaiwan Logistics Park, Nanshan District, Shenzhen, with a total site area of 26,659.37 square metres for a total cash consideration of RMB37,323,118. The parcel of land is designated for development of port, logistics and related use. The Shenzhen Qianhaiwan Logistics Park has been an important strategic area for the provision of logistics services and operations of the Group and the Directors of the Company believe that the purchase of the land is in line with the Group's strategy to expand in port and port-related business, and is important to maintain the Group's sustainable growth and will strengthen the Group's position in Shenzhen. CMSIZ is a wholly-owned subsidiary of China Merchants Group Limited ("CMG"), the ultimate holding company of the Company and hence CMSIZ is a connected person of the Company.

- (c) On 5 May 2009, China Merchants International Cold Chain (Shenzhen) Company Limited (“CMCCL”), a 70%-owned subsidiary of the Company, entered into a land use right confirmation contract with CMSIZ to purchase the land use right in respect of a parcel of land situated at the Shenzhen Qianhaiwan Logistics Park, Nanshan District, Shenzhen, with a total site area of 50,779.31 square metres for a total cash consideration of approximately RMB76,168,965. The parcel of land is designated for warehouse and storage purpose. The Shenzhen Qianhaiwan Logistics Park has been an important strategic area for the provision of logistics services and operations of the Group and the Directors of the Company believe that the purchase of the land is in line with the Group’s strategy to expand in port and port-related business, and is important to maintain the Group’s sustainable growth and will strengthen the Group’s position in Shenzhen. CMSIZ is a wholly-owned subsidiary of CMG and hence CMSIZ is a connected person of the Company.
- (d) On 24 September 2009, Chinaberry Limited, a wholly-owned subsidiary of the Company, entered into a share sale agreement with SVITZER Far East Pte. Ltd. (“Svitzer”) to acquire 49% equity interest in China Merchants Svitzer (Qingdao) Towage Company Limited (“Qingdao Towage”) for a total consideration of US\$1,466,008. Prior to the acquisition, Qingdao Towage was owned as to 51% by China Merchants International Container Terminal (Qingdao) Co., Ltd., a wholly-owned subsidiary of the Company. Accordingly, after the acquisition, Qingdao Towage became a wholly-owned subsidiary of the Company. The provision of tug and towing services by Qingdao Towage is crucial as they facilitate the Company’s terminal, container and bulk-cargo vessels operations. The Directors of the Company believe that increasing the Company’s interest in Qingdao Towage and obtaining full control over its business would be beneficial to its operations and will further expand the Group’s port and port-related business. Svitzer is a substantial shareholder of Qingdao Towage, which prior to the acquisition was a subsidiary of the Company. Accordingly, Svitzer is a connected person of the Company.
- (e) On 30 December 2009, China Merchants Port Services (Shenzhen) Company Limited (“SCMPS”) entered into a share transfer agreement with Yiu Lian Dockyards Limited and Qinhuangdao Shipping Services Company (“Qinhuangdao Shipping”) to acquire an additional 7.2875% equity interests in Shenzhen Lianda Tug Services Co., Ltd. (“Shenzhen Lianda”) from Qinhuangdao Shipping for a cash consideration of RMB7,859,970. Prior to the acquisition, SCMPS held 53% of Shenzhen Lianda. After the acquisition, the holding of SCMPS in Shenzhen Lianda increased to 60.2875%. In view of the impressive operating results of Shenzhen Lianda since its establishment, the Directors of the Company believe that the acquisition will contribute to the Group’s sustainable growth and will strengthen its position in the port-related services industry in Shenzhen. As Qinhuangdao Shipping is a substantial shareholder of Shenzhen Lianda, which in turn is a subsidiary of the Company, Qinhuangdao Shipping is a connected person of the Company.



## Report of the Directors

(f) Details of the continuing connected transactions of the Group for the year ended 31 December 2009 are set out below:

Name of party	Nature of transaction	Note	Income/ (expenses) HK\$'000
China Merchants Shekou Industrial Zone Property Company Limited ("CMSIZ1")	Rental of properties charged to the Group	(i)	(4,638)
China Merchants Shekou Industrial Zone Company Limited ("CMSIZ")	Rental of a piece of land in Shekou charged to the Group	(ii)	(2,069)
China Merchants Holdings (Hong Kong) Company Limited ("CMHK") Hong Kong Ming Wah Shipping Company Limited ("Ming Wah")	Rental of certain properties in Hong Kong charged by the Group	(iii)	31,908
Shenzhen Nanyou (Group) Company Limited ("Shenzhen Nanyou")	Rental of a piece of land in Nanshan charged to the Group	(iv)	(1,623)
CMSIZ	Rental of a piece of land in Nanshan charged to the Group	(v)	(13,877)
CMSIZ	Rental of 23 parcels of land in Shekou charged to the Group	(vi)	(75,817)
CMSIZ	Rental of a parcel of land in Shekou charged to the Group	(vii)	(876)
Shenzhen Chiwan Logistics Limited ("SCL")	Port-zone container horizontal transportation and related services charged to the Group	(viii)	(14,763)
Euroasia Dockyard Enterprise and Development Limited ("Euroasia")	Rental of a piece of land at Tsing Yi Terminal charged to the Group	(ix)	(13,050)
China Merchants Maritime & Logistics (Shenzhen) Ltd. ("CMML")	Usage fees for utilising centralised cargo inspection center paid to CMML	(x)	0

Notes:

- (i) On 20 May 1989, Shekou Container Terminals Limited (“SCT1”) entered into a lease agreement with CMSIZ1 for a term of 30 years to lease a piece of land in Shekou. As at 1 April 2009, the annual rental payable was HK\$4,923,841. The land leased under the lease agreement is crucial to the operation of SCT1 as all its port facilities and equipment are currently affixed to it. SCT1 is a 75%-owned subsidiary of the Company. CMSIZ1 is an indirect wholly-owned subsidiary of CMG and is therefore a connected person of the Company.
- (ii) On 23 February 1990, CMSIZ entered into a lease agreement with South-China Cold Storage & Ice Co., Ltd. (now renamed as China Merchants International Cold Chain (Shenzhen) Company Limited) (“South China”) for a term of 25 years, commencing from 1 May 1990, to lease a piece of land in Shekou Industrial Zone. Rental is charged at RMB91 per square meter per annum for the period from 1 January 2008 to 31 December 2010. Rental under the lease agreement is subject to adjustment every three years. The Directors are of the view that the transaction contemplated under the lease agreement is in line with the Group’s strategy to expand in port and port-related business. South China is an indirect non wholly-owned subsidiary of the Company. CMSIZ is an indirect wholly-owned subsidiary of CMG. Accordingly, the lease agreement constitutes a continuing connected transaction for the Company.
- (iii) Universal Sheen Investment Limited (“Universal Sheen”), a wholly-owned subsidiary of the Company, agreed on 25 April 2008 to renew the transactions contemplated under certain expired tenancy agreements by entering into three tenancy renewal agreements, with CMHK and Ming Wah, each of them is a wholly-owned subsidiary of CMG, the ultimate holding company of the Company. Under the tenancy renewal agreements, Universal Sheen agreed to continue the leases of certain office space for a term of three years commencing on 1 February 2008 (subject to early termination by mutual agreement of the parties). According to the tenancy renewal agreements, the monthly rentals of the two properties leased to CMHK are HK\$1,646,976 and HK\$185,312, respectively. The monthly rental of the property leased to Ming Wah is HK\$826,720. The Directors believe that the tenancy under the tenancy renewal agreements will generate steady, recurrent and satisfactory rental income for the Company.
- (iv) On 30 April 2008, Shenzhen Nanyou entered into a lease agreement with CMML to lease a piece of land in Shenzhen Qianhaiwan Logistics Park, Nanshan District, Shenzhen with a total area of 18,332.30 square meters. The lease agreement will expire on 31 December 2010. Rental is charged at RMB88.80 per square meter per annum. The Directors are of the view that the transaction contemplated under the lease agreement is in line with the Group’s strategy to expand in port and port-related business and will strengthen the Group’s position in Shenzhen. Shenzhen Nanyou is a 76%-owned subsidiary of CMG. Accordingly, Shenzhen Nanyou is a connected person of the Company.
- (v) On 30 April 2008, CMSIZ entered into a lease agreement with CMML to lease a piece of land in Shenzhen Qianhaiwan Logistics Park, Nanshan District, Shenzhen, with a total area of 121,330.70 square meters. The lease agreement is for a term of 20 months commencing on 1 May 2008 and ending on 31 December 2009. Rental is charged at RMB100.80 per square meter per annum. On 12 November 2009, CMSIZ entered into a further lease agreement with CMML to extend the lease for a term of two years commencing from 1 January 2010 at a rental of RMB48 per square meter per annum with an aggregate rental of RMB5,823,873.60 per annum. The Directors are of the view that the transaction contemplated under the lease agreement is beneficial to the Group and assists in maintaining the Group’s sustainable growth. CMSIZ is an indirect wholly-owned subsidiary of CMG. Accordingly, CMSIZ is a connected person of the Company.
- (vi) China Merchants Port Services (Shenzhen) Company Limited (“SCMPS”) entered into nine lease agreements with CMSIZ on 24 July 2008 pursuant to which SCMPS agreed to lease 23 parcels of land in the Shekou Industrial Park and certain property assets from CMSIZ, with a term commencing on 1 August 2008. Six of the lease agreements expired on 31 December 2009 and the remaining three lease agreements will expire on 31 December 2010. Total rental to be charged by CMSIZ under the nine lease agreements for the period from 1 August 2008 to 31 December 2010 is RMB99,385,228. On 12 November 2009, SCMPS entered into six new lease agreements with CMSIZ to lease 20 parcels of land in the Shekou Industrial Park for a term of two years commencing on 1 January 2010 for a total rental not

## Report of the Directors

exceeding RMB64,517,544.11. The Directors are of the view that the transactions contemplated under the lease agreements are in line with the Group's strategy to expand in port and port-related business, in particular, in providing warehouse services. CMSIZ is an indirect wholly-owned subsidiary of CMG. Accordingly, CMSIZ is a connected person of the Company.

- (vii) SCMPs entered into a lease agreement with CMSIZ on 18 August 2008 pursuant to which SCMPs agreed to lease a parcel of land in the Shekou Industrial Park for the period from 1 September 2008 to 31 December 2010 at a total rental charge of RMB1,802,316. SCMPs entered into a further lease agreement with CMSIZ on 12 November 2009 to lease a parcel of land in the Shekou Industrial Park for a term of two years commencing from 1 January 2010 and at an annual rental of RMB722,659.56. The Directors are of the view that the transactions contemplated under the lease agreements are in line with the Group's strategy to expand in port and port-related business. CMSIZ is an indirect wholly-owned subsidiary of CMG. Accordingly, CMSIZ is a connected person of the Company.
- (viii) Shenzhen Mawan Port Services Co., Ltd. and Shenzhen Mawan Terminals Co., Ltd. (together, the "Mawan Companies"), each of them being an indirect subsidiary of the Company, entered into a contractor agreement with SCL on 14 January 2009 pursuant to which the Mawan Companies appointed SCL as a contractor in relation to the provision by SCL of various port-zone container horizontal transportation services and other related services to the Mawan Companies for a term of one year commencing from 1 January 2009 for a service fee not exceeding RMB20 million and at an average market unit price of RMB14 per TEU. The contractor agreement was extended for a further term of one year commencing from 1 January 2010 pursuant to an agreement entered into among the Mawan Companies and SCL on 30 December 2009 for a service fee not exceeding RMB17.7 million and at an average market unit price of RMB11.64 per TEU. The Directors are of the view that the Group can benefit from SCL's expertise in container horizontal transportation and the contractor agreements will result in cost savings for the operations of the Mawan Companies. SCL is a subsidiary of Chiwan Container Terminal Co., Ltd. ("CCT"), and CCT is in turn a subsidiary of Shenzhen Chiwan which is a substantial shareholder of several subsidiaries of the Company. Accordingly, SCL is a connected person of the Company.

- (ix) China Merchants Container Services Limited ("CMCS"), an indirect wholly-owned subsidiary of the Company, entered into a cooperation agreement with Euroasia on 19 March 2009 to lease a piece of land in Tsing Yi from Euroasia with a total area of 679,704 square meters and a term of 14 months, commencing from 1 November 2008 and at a total rental of HK\$16,431,160. As the cooperation agreement expired on 31 December 2009, CMCS entered into a new cooperation agreement with Euroasia on 12 November 2009 to extend the lease for a term of two years commencing from 1 January 2010 and at a rental of HK\$13,050,316.80 per annum. The Directors are of the view that the transactions contemplated under the cooperation agreements are in line with the Group's strategy to expand in port and port-related business. As Euroasia is an indirect wholly-owned subsidiary of CMG, it is a connected person of the Company.
- (x) CMML entered into four asset utilisation agreements with each of CCT, Shekou Container Terminals Ltd. ("SCT"), SCMPs and Shenzhen Haixing Harbour Development Company Limited ("Haixing"), in relation to the use of the centralised cargo inspection center in Shenzhen Western Port operated by CMML. Each of the asset utilisation agreements has a term of three years commencing from 1 January 2009 and the annual usage fee charged by CMML to each of CCT, SCT, SCMPs and Haixing shall not exceed RMB5,250,000, RMB8,700,000, RMB600,000 and RMB450,000, respectively. The Directors are of the view that the sharing and utilisation of the resources and facilities in the centralised cargo inspection center in Shenzhen Western Port will increase the efficiency of the Group's port and logistics services. Each of SCT, SCMPs and Haixing is a subsidiary of the Company. CMML is an associate of Shenzhen Chiwan and is a connected person of the Company. CCT is a subsidiary of Shenzhen Chiwan and is also a connected person of the Company.

(g) The Independent Non-executive Directors have reviewed the continuing connected transactions set out in paragraph (f) of this section above. In their opinion, these transactions were:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms; and
- (iii) in accordance with the relevant agreements governing such transactions and on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Independent Non-executive Directors further opined that:

- (i) in respect of the lease by CMSIZ1 to the Group, details of which are set out in note (i) to paragraph (f) of this section, the aggregate rental has not exceeded HK\$4,639,774, the annual cap for the year ended 31 December 2009;
- (ii) in respect of the lease by CMSIZ to South China of a piece of land in Shekou, details of which are set out in note (ii) to paragraph (f) of this section, the aggregate rental has not exceeded RMB1,823,720, the annual cap for the year ended 31 December 2009;
- (iii) in respect of the lease by Universal Sheen to CMHK and Ming Wah of certain properties in Hong Kong, details of which are set out in note (iii) to paragraph (f) of this section, aggregate rental received for the year ended 31 December 2009 based on the tenancy renewal agreements has not exceeded annual cap of HK\$31,908,096;

(iv) in respect of the lease by Shenzhen Nanyou to CMML of a piece of land in Nanshan, details of which are set out in note (iv) to paragraph (f) of this section, the aggregate rental has not exceeded RMB1,627,908, the annual cap for the year ended 31 December 2009;

(v) in respect of the lease by CMSIZ to CMML of a piece of land in Nanshan, details of which are set out in note (v) to paragraph (f) of this section, the aggregate rental has not exceeded RMB12,230,135, the annual cap for the year ended 31 December 2009.

(vi) in respect of the lease by CMSIZ to SCMPS of 23 parcels of land in Shekou, details of which are set out in note (vi) to paragraph (f) of this section, the aggregate rental has not exceeded RMB68,571,949, the annual cap for the year ended 31 December 2009;

(vii) in respect of the lease by CMSIZ to SCMPS of a parcel of land in Shekou, details of which are set out in note (vii) to paragraph (f) of this section, the aggregate rental has not exceeded RMB772,421, the annual cap for the year ended 31 December 2009;

(viii) in respect of the provision of port-zone container horizontal transport services and other related services, details of which are set out in note (viii) to paragraph (f) of this section, the aggregate amount of service fees has not exceeded RMB20 million, the annual cap for the year ended 31 December 2009;



## Report of the Directors

- (ix) in respect of the lease of piece of land by Euroasia to CMCS, details of which are set out in note (ix) to paragraph (f) of this section, the aggregate rental has not exceeded HK\$16,431,160, the cap for the 14-month period ended 31 December 2009; and
- (x) in respect of the utilisation by the Group of the centralised cargo inspection center in Shenzhen Western Port operated by CMML, the total usage fees paid by each of CCT, SCT, SCMPS and Haixing have not exceeded RMB5,250,000, RMB8,700,000, RMB600,000 and RMB450,000, respectively, being the relevant annual caps for the year ended 31 December 2009.

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

- (i) have received the approval of the Company's Board of Directors;
- (ii) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and
- (iii) where applicable, have not exceeded the caps as disclosed in previous announcements.

### Management contracts

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

### Major customers and suppliers

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

At no time during the year had the Directors, their associates or any shareholder (whom to the knowledge of the Directors own(s) more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

### Public float

Based on the information that is publicly available to the Company and within the knowledge of its Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

### Subsequent event

Details of subsequent event of the Company are set out in note 42 to the financial statements.

### Auditor

The financial statements have been audited by PricewaterhouseCoopers who would retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board

**Dr. Fu Yuning**

*Chairman*

Hong Kong, 31 March 2010

# Independent Auditor's Report



羅兵咸永道會計師事務所

**PricewaterhouseCoopers**  
22nd Floor Prince's Building  
Central, Hong Kong

## **INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CHINA MERCHANTS HOLDINGS (INTERNATIONAL) COMPANY LIMITED**

*(Incorporated in Hong Kong with limited liability)*

We have audited the consolidated financial statements of China Merchants Holdings (International) Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 55 to 147, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **Directors' responsibility for the financial statements**

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Independent Auditor's Report

### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

### **PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 31 March 2010

# Consolidated Income Statement

For the year ended 31 December 2009

	Note	2009 HK\$ million	2008 HK\$ million
<b>Continuing operations</b>			
Revenue	5	3,588	4,135
Cost of sales	8	(2,055)	(2,163)
Gross profit		1,533	1,972
Other gains, net	7	190	497
Other income	7	206	48
Administrative expenses	8	(388)	(582)
Operating profit		1,541	1,935
Finance income	11	16	43
Finance costs	11	(668)	(627)
Finance costs - net	11	(652)	(584)
Share of profits less losses of			
Associates	22	2,226	2,565
Jointly controlled entities	23	128	98
Profit before taxation		3,243	4,014
Taxation	12	(278)	(220)
Profit for the year from continuing operations		2,965	3,794
<b>Discontinued operation</b>			
Profit for the year from discontinued operation	13	492	232
Profit for the year		3,457	4,026

## Consolidated Income Statement

For the year ended 31 December 2009

	Note	2009 HK\$'million	2008 HK\$'million
Attributable to:			
Shareholders of the Company			
- continuing operations		2,746	3,558
- discontinued operation		492	148
		<b>3,238</b>	3,706
Minority interest			
- continuing operations		219	236
- discontinued operation		—	84
		<b>219</b>	320
Profit for the year		<b>3,457</b>	4,026
Dividends	15	<b>1,386</b>	1,644
Earnings per share for profit attributable to shareholders of the Company			
From continuing operations			
- basic (HK cents)	16	<b>112.94</b>	146.84
- diluted (HK cents)		<b>112.87</b>	146.32
From discontinued operation			
- basic (HK cents)		<b>20.24</b>	6.13
- diluted (HK cents)		<b>20.23</b>	6.11



# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	Note	2009 HK\$'million	2008 HK\$'million
Profit for the year		3,457	4,026
Other comprehensive income:			
Realisation of investment revaluation reserve upon disposal of an available-for-sale financial asset		—	(269)
Realisation of reserves upon disposal of subsidiaries	37(c)	(19)	—
Share of investment revaluation reserves of associates		186	(946)
Share of capital reserve of an associate		56	—
Exchange differences from translation of financial statements of subsidiaries, associates and jointly controlled entities		38	1,527
Increase/(decrease) in fair value of available-for-sale financial assets	24(b)	1,023	(5)
Share of net actuarial gains/(losses) on defined benefit plans of associates and a jointly controlled entity		121	(102)
Total other comprehensive income, net of tax		1,405	205
Total comprehensive income for the year		4,862	4,231
Total comprehensive income for the year attributable to:			
- shareholders of the Company		4,645	3,796
- minority interest		217	435
		4,862	4,231

# Consolidated Statement of Financial Position

As at 31 December 2009

	Note	2009 HK\$'million	2008 HK\$'million
<b>ASSETS</b>			
Non-current assets			
Goodwill	17	2,513	2,513
Property, plant and equipment	18	10,844	12,921
Investment properties	19	919	744
Leasehold land and land use rights	20	7,039	7,426
Interests in associates	22	18,787	17,392
Interests in jointly controlled entities	23	2,742	2,646
Other financial assets	24	2,837	1,609
Prepayment	25	68	—
Deferred tax assets	33	34	27
		<b>45,783</b>	45,278
Current assets			
Inventories	26	40	41
Debtors, deposits and prepayments	27	886	684
Cash and cash equivalents	28	3,206	2,806
		<b>4,132</b>	3,531
Assets of disposal group classified as held for sale			
	13	—	1,684
Non-current assets held for sale	29	2,553	—
		<b>2,553</b>	1,684
		<b>6,685</b>	5,215
Total assets			
		<b>52,468</b>	50,493

## Consolidated Statement of Financial Position

As at 31 December 2009

	Note	2009 HK\$'million	2008 HK\$'million
<b>EQUITY</b>			
Capital and reserves attributable to shareholders of the Company			
Share capital	30	243	242
Reserves		32,541	29,069
Proposed dividend		779	969
		<b>33,563</b>	30,280
Minority interest		2,056	2,434
Total equity		<b>35,619</b>	32,714
<b>LIABILITIES</b>			
Non-current liabilities			
Other financial liabilities	32	9,298	10,246
Deferred tax liabilities	33	736	631
		<b>10,034</b>	10,877
Current liabilities			
Creditors and accruals	34	1,593	2,355
Loans from the ultimate holding company	35	2,566	2,649
Loans from an intermediate holding company	36	738	—
Other financial liabilities	32	1,857	1,237
Taxation payable		61	19
		<b>6,815</b>	6,260
Liabilities of disposal group classified as held for sale	13	—	642
		<b>6,815</b>	6,902
Total liabilities		<b>16,849</b>	17,779
Total equity and liabilities		<b>52,468</b>	50,493
Net current liabilities		<b>(130)</b>	(1,687)
Total assets less current liabilities		<b>45,653</b>	43,591

**Dr. Fu Yuning**  
Director

**Mr. Hu Jianhua**  
Director

# Statement of Financial Position

As at 31 December 2009

	Note	2009 HK\$'million	2008 HK\$'million
<b>ASSETS</b>			
Non-current assets			
Property, plant and equipment	18	—	1
Interests in subsidiaries	21	<b>27,069</b>	26,778
Interest in an associate	22	—	325
Interest in a jointly controlled entity	23	<b>3</b>	3
		<b>27,072</b>	27,107
Current assets			
Debtors, deposits and prepayments	27	<b>7</b>	12
Advances to subsidiaries	21	<b>195</b>	—
Cash and cash equivalents	28	<b>2,048</b>	1,685
		<b>2,250</b>	1,697
Total assets		<b>29,322</b>	28,804
<b>EQUITY</b>			
Capital and reserves attributable to shareholders of the Company			
Share capital	30	<b>243</b>	242
Reserves	31(b)	<b>18,552</b>	18,748
Proposed dividend	31(b)	<b>779</b>	969
Total equity		<b>19,574</b>	19,959

## Statement of Financial Position

As at 31 December 2009

	Note	2009 HK\$'million	2008 HK\$'million
<b>LIABILITIES</b>			
Non-current liabilities			
Other financial liabilities	32	—	309
Advances from subsidiaries	21	<b>8,874</b>	7,896
		<b>8,874</b>	8,205
Current liabilities			
Creditors and accruals	34	<b>224</b>	640
Advance from a subsidiary	21	<b>650</b>	—
		<b>874</b>	640
Total liabilities		<b>9,748</b>	8,845
Total equity and liabilities		<b>29,322</b>	28,804
Net current assets		<b>1,376</b>	1,057
Total assets less current liabilities		<b>28,448</b>	28,164

**Dr. Fu Yuning**

Director

**Mr. Hu Jianhua**

Director



# Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Attributable to the shareholders of the Company				Minority interest	Total
	Share capital	Share premium	Other reserves (note 31(a))	Retained earnings		
	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million
At 1 January 2009	242	14,186	5,117	10,735	2,434	32,714
Comprehensive income						
Profit for the year	—	—	—	3,238	219	3,457
Other comprehensive income						
Realisation of reserves upon disposal of subsidiaries (note 37(c))	—	—	(148)	129	—	(19)
Share of investment revaluation reserves of associates	—	—	186	—	—	186
Share of capital reserves of an associate	—	—	56	—	—	56
Exchange differences from translation of financial statements of subsidiaries, associates and jointly controlled entities	—	—	40	—	(2)	38
Increase in fair value of available-for-sale financial assets	—	—	1,023	—	—	1,023
Share of net actuarial gains on defined benefit plans of associates and a jointly controlled entity	—	—	—	121	—	121
Total other comprehensive income, net of tax	—	—	1,157	250	(2)	1,405
Total comprehensive income for the year	—	—	1,157	3,488	217	4,862
Transactions with owners						
Issue of shares on exercise of share options, net of share issue expenses	—	11	—	—	—	11
Issue of shares in lieu of dividends	1	202	—	—	—	203
Transfer to reserves	—	—	150	(150)	—	—
Disposal of subsidiaries (note 37(c))	—	—	—	—	(375)	(375)
Purchase of additional interest in a subsidiary	—	—	—	—	(9)	(9)
Dividends paid	—	—	—	(1,576)	(211)	(1,787)
Total transactions with owners for the year	1	213	150	(1,726)	(595)	(1,957)
At 31 December 2009	243	14,399	6,424	12,497	2,056	35,619

## Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Attributable to the shareholders of the Company				Minority interest	Total
	Share capital	Share premium	Other reserves (note 31(a))	Retained earnings		
	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million
At 1 January 2008	241	13,821	3,791	8,989	1,633	28,475
Comprehensive income						
Profit for the year	—	—	—	3,706	320	4,026
Other comprehensive income						
Realisation of investment revaluation reserve upon disposal of an available-for-sale financial asset (note 7)	—	—	(269)	—	—	(269)
Realisation of reserves upon disposal of subsidiaries (note 37(c))	—	—	(16)	16	—	—
Share of investment revaluation reserves of associates	—	—	(946)	—	—	(946)
Exchange differences from translation of financial statements of subsidiaries, associates and jointly controlled entities	—	—	1,412	—	115	1,527
Decrease in fair value of available-for-sale financial assets	—	—	(5)	—	—	(5)
Share of net actuarial losses on defined benefit plans of associates and a jointly controlled entity	—	—	—	(102)	—	(102)
Total other comprehensive income, net of tax	—	—	176	(86)	115	205
Total comprehensive income for the year	—	—	176	3,620	435	4,231
Transactions with owners						
Issue of shares on exercise of share options, net of share issue expenses	—	39	—	—	—	39
Issue of shares in lieu of dividends	1	326	—	—	—	327
Capital contributions by minority shareholders of subsidiaries	—	—	—	—	48	48
Transfer to reserves	—	—	116	(116)	—	—
Purchase of a subsidiary (note 37(b))	—	—	—	—	28	28
Partial disposal of subsidiaries (note 39)	—	—	1,034	—	651	1,685
Dividends paid	—	—	—	(1,758)	(361)	(2,119)
Total transactions with owners for the year	1	365	1,150	(1,874)	366	8
At 31 December 2008	242	14,186	5,117	10,735	2,434	32,714

# Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Note	2009 HK\$'million	2008 HK\$'million
<b>Cash flows from operating activities</b>			
Net cash inflow from operations	37(a)	1,627	2,463
Hong Kong profits tax paid		—	(4)
PRC corporate income tax paid		(55)	(127)
Withholding tax paid on dividends received		(92)	—
Dividends received from associates and jointly controlled entities		1,279	1,385
Net cash generated from operating activities		2,759	3,717
<b>Cash flows from investing activities</b>			
Interest income received		16	43
Proceeds from disposal of property, plant and equipment and land use rights		38	16
Proceeds from disposal of available-for-sale financial assets		—	460
Proceeds from disposal of subsidiaries, net of cash disposed	37(c)	775	65
Loans repaid by an associate, jointly controlled entities and an investee		—	55
Income received from held-to- maturity investments		2	2
Purchase of property, plant and equipment and land use rights		(1,206)	(1,990)
Purchase of subsidiaries, net of cash acquired	37(b)	(9)	(17)
Purchase of additional interest in subsidiaries		(9)	—
Acquisitions of interests in associates and jointly controlled entities		—	(540)
Acquisitions of available-for-sale financial assets		(208)	(1,115)
Net cash used in investing activities		(601)	(3,021)
Net cash inflow before financing activities carried forward		2,158	696

## Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Note	2009 HK\$'million	2008 HK\$'million
Net cash inflow before financing activities brought forward		2,158	696
<b>Cash flows from financing activities</b>			
Net proceeds from exercise of share options		11	39
Net proceeds from new listed notes payable		—	3,859
Proceeds from new other financial liabilities		1,716	6,989
Loans from the ultimate holding company		1,645	1,680
Loans from an intermediate holding company		2,440	—
Capital contributions from minority shareholders of subsidiaries		—	48
Dividends paid		(1,374)	(1,431)
Dividends paid to minority shareholders of subsidiaries		(211)	(339)
Interest paid		(675)	(640)
Repayment of other financial liabilities		(2,272)	(8,994)
Repayment of loans from the ultimate holding company		(1,702)	—
Repayment of loans from an intermediate holding company		(1,702)	—
Net cash (used in)/generated from financing activities		(2,124)	1,211
Increase in cash and cash equivalents		34	1,907
Cash and cash equivalents at 1 January		3,171	1,230
Effect of foreign exchange rate changes		1	34
		3,206	3,171
Cash and cash equivalents at 31 December		3,206	2,806
Cash and cash equivalents of disposal group classified as held for sale	13	—	365
		3,206	3,171

# Notes to the Financial Statements

## 1 General information

China Merchants Holdings (International) Company Limited (the “Company”) and its subsidiaries (hereinafter collectively referred as to the “Group”) are principally engaged in ports and ports-related operations. The Company is a limited liability company incorporated in Hong Kong and has its listing on The Stock Exchange of Hong Kong Limited. As at 31 December 2009, China Merchants Group Limited (“CMG”), directly or indirectly, held 55.60% issued share capital of the Company. The immediate holding company is China Merchants Union (BVI) Limited, a company incorporated in British Virgin Islands. The Directors regard CMG, a company registered in the People’s Republic of China (“PRC”), as being the ultimate holding company. The address of the Company’s registered office is 38/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

These consolidated financial statements are presented in Hong Kong dollars, unless otherwise stated. These consolidated financial statements have been approved for issue by the Directors on 31 March 2010.

## 2 Summary of significant accounting policies

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

### (a) Basis of preparation

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

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

#### (i) New Standards and amendments to Standards that are effective in 2009 and have been adopted by the Group

- HKAS 1 (Revised) “Presentation of financial statements”. The revised standard prohibits the presentation of items of income and expenses (that is, ‘non-owner changes in equity’) in the statement of changes in equity, requiring ‘non-owner changes in equity’ to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.
- HKAS 23 (Revised) “Borrowing costs”. It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The amendment has no significant impact on the Group’s accounting policies as the Group’s existing accounting policy on borrowing costs comply with the amended requirements.



## 2 Summary of significant accounting policies (Continued)

### (a) Basis of preparation (Continued)

- (i) **New Standards and amendments to Standards that are effective in 2009 and have been adopted by the Group (Continued)**
- HKFRS 2 (Amendment) “Share based payment” - Vesting conditions and cancellation. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The adoption of the revised standard does not have any significant impact on the Group’s financial statements.
  - HKFRS 7 (Amendment) “Financial Instruments - Disclosures”. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.
  - HKFRS 8 “Operating segments”. HKFRS 8 replaces HKAS 14 “Segment reporting”. The new standard requires a ‘management approach’, under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented. In addition, the segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision-maker. Goodwill is allocated by management to groups of cash-generating units on a segment level. The adoption of HKFRS 8 has not resulted in any changes in allocation of goodwill or additional goodwill impairment. There are no further impacts on the measurement of the Group’s assets and liabilities. Comparatives for 2008 have been restated.
- (ii) **Amendments to Standards and interpretations to existing Standards that are effective in 2009 but do not have any significant impact to the Group**
- HKAS 32 and HKAS 1 (Amendment) “Puttable financial instruments and obligations arising on liquidation”
  - HKFRS 1 and HKAS 27 (Amendment) “Cost of an investment in a subsidiary, jointly controlled entity or associate”
  - HK(IFRIC)-Int 9 (Amendment) “Reassessment of embedded derivatives” and HKAS 39 (Amendment) “Financial instruments: Recognition and measurement”
  - HK(IFRIC)-Int 13 “Customer loyalty programmes”
  - HK(IFRIC)-Int 15 “Agreements for the construction of real estate”
  - HK(IFRIC)-Int 16 “Hedges of a net investment in a foreign operation”
  - HK(IFRIC)-Int 18 “Transfer of assets from customers”
  - The first annual improvements project to HKFRSs issued in October 2008 by HKICPA, except for amendment to HKFRS 5

## Notes to the Financial Statements

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

#### (a) Basis of preparation (Continued)

##### (iii) Amendment to Standard that is not effective in 2009 but has been early adopted by the Group

- HKAS 24 (Revised) “Related party disclosures” (effective from 1 January 2011). The amendment introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government-related entities and the government. Those disclosures are replaced with a requirement to disclose: (i) the name of the government and the nature of their relationship; (ii) the nature and amount of any individually-significant transactions; and (iii) the extent of any collectively-significant transactions qualitatively or quantitatively. It also clarifies and simplifies the definition of a related party. The Group has early adopted the exemption for disclosures of transactions among government-related entities and the government retrospectively in 2009.

##### (iv) Amendments to or new Standards that are not effective in 2009 and have not been early adopted by the Group

- HKAS 27 (Revised) “Consolidated and separate financial statements”. The revised standard requires the effects of all transactions with minority interest to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. In this respect, there is no change from the Group’s existing accounting policy. The standard also specifies the accounting treatment when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (Revised) prospectively to transactions when control is lost starting from 1 January 2010.
- HKFRS 3 (Revised) “Business combinations”. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s net assets. When a business combination achieved in stages, the acquiree should remeasure its previously held interest in the acquiree at its fair value at the date of control is obtained, recognising a gain/loss in the income statement. All acquisition-related costs should be expensed. The Group will adopt HKFRS 3 (Revised) prospectively to all business combinations starting from 1 January 2010.

## 2 Summary of significant accounting policies (Continued)

### (a) Basis of preparation (Continued)

#### (iv) Amendments to or new Standards that are not effective in 2009 and have not been early adopted by the Group (Continued)

- HKFRS 9 “Financial instruments”. Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity’s business model is to hold the asset to collect the contractual cash flows, and the asset’s contractual cash flows represent only payments of principal and interest (that is, it has only ‘basic loan features’). All other debt instruments are to be measured at fair value through profit or loss. All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment. The Group will adopt HKFRS 9 starting from 1 January 2013.
- The Group is in the process of making an assessment of the impact of the following new Standards, amendments to Standards and interpretations to existing Standards upon initial application. It is expected that these new Standards, amendments to Standards and interpretations to existing Standards are unlikely to have a significant impact on the Group’s results of operations and financial position.

		Effective for annual periods beginning on or after
HKAS 32 (Amendment)	Classification of rights issue	1 February 2010
HKAS 39 (Amendment)	Eligible hedge items	1 July 2009
HKFRS 1 (Amendment)	Additional exemptions for first time adopters	1 January 2010
HKFRS 2 (Amendment)	Group cash-settled share-based payment transaction	1 January 2010
HK(IFRIC)-Int 14	Prepayments of a minimum funding requirement	1 January 2011
HK(IFRIC)-Int 17	Distribution of non-cash assets to owners	1 July 2009
HK(IFRIC)-Int 19	Extinguishing financial liabilities with equity instruments	1 July 2010

## Notes to the Financial Statements

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

#### (a) Basis of preparation (Continued)

##### (v) HKICPA's improvements to HKFRS

Amendment to HKFRS 5 as part of the HKICPA's first annual improvements project to HKFRS has been published in October 2008 and HKICPA's second annual improvements project to HKFRS have been published in May 2009. These improvements to HKFRS have introduced certain amendments to those standards set out below. These amendments are not effective in 2009 and have not been early adopted. The Group is assessing the impact of these amendments. The Group will apply these amendments from 1 January 2010.

- HKAS 1 (Revised) "Presentation of financial statements"
- HKAS 7 "Statement of cash flows"
- HKAS 17 "Leases"
- HKAS 18 "Revenue"
- HKAS 36 "Impairment of assets"
- HKAS 38 "Intangible assets"
- HKAS 39 "Financial instruments: Recognition and measurement"
- HKFRS 2 "Share-based payment"
- HKFRS 5 "Non-current assets held for sale and discontinued operations"
- HKFRS 8 "Operating segments"
- HK(IFRIC)-Int 9 "Reassessment of embedded derivatives"
- HK(IFRIC)-Int 16 "Hedges of a net investment in a foreign operation"
- HK(IFRIC)-Int 4 "Leases - Determination of the Length of Lease Term in respect of Hong Kong Land Leases"

#### (b) Consolidation

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

##### (i) Subsidiaries

Subsidiaries are all entities over which the Group has power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (note 2(g)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

## 2 Summary of significant accounting policies (Continued)

### (b) Consolidation (Continued)

#### (i) Subsidiaries (Continued)

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated.

Accounting policies of subsidiaries have been changed where necessary in the consolidated financial statements to ensure consistency with the policies adopted by the Group.

In the Company's statement of financial position, the investments in subsidiaries are stated at cost less provision for impairment losses (note 2(h)). The results of subsidiaries are accounted by the Company on the basis of dividend received or receivable.

#### (ii) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interest, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to minority interest are also recorded in equity.

#### (iii) Associates

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

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

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

Dilution gains and losses arising in interests in associates are recognised in the consolidated income statement.

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



## Notes to the Financial Statements

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

#### (b) Consolidation (Continued)

##### (iv) Joint ventures

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

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

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

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

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

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

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

#### (c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

#### (d) Foreign currency translation

##### (i) Functional and presentation currency

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

## 2 Summary of significant accounting policies (Continued)

### (d) Foreign currency translation (Continued)

#### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. 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 within other gains, net in the consolidated income statement.

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

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

#### (iii) Group companies

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

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each consolidated income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to translation reserve. When a foreign operation other than a subsidiary for which control is retained is partially disposed of or sold, exchange differences that were recorded in translation reserve are recognised in the consolidated income statement as part of the gain or loss on sale.

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

## Notes to the Financial Statements

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

#### (e) Property, plant and equipment

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

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

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

Buildings	Over the shorter of the lease term or 50 years
Harbour works, buildings and dockyard	8 to 50 years
Plant and machinery	3 to 20 years
Furniture and equipment	3 to 20 years
Vessels and ships	15 to 25 years
Motor vehicles	5 to 10 years
Leasehold improvements	5 to 20 years or over the lease term, whatever is shorter

No depreciation is provided on assets under construction. All direct costs relating to the construction of property, plant and equipment including interests and finance costs and foreign exchange differences on interests 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 the end of the reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2(h)).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other gains, net in the consolidated income statement.

## 2 Summary of significant accounting policies (Continued)

### (f) Investment properties

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

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value, representing open market value determined by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices in less active markets or discounted cash flow projections. These valuations are reviewed annually by valuers. Changes in fair values are recognised in the consolidated income statement as part of other gains, net.

### (g) Goodwill

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

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

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

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered from an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of the investments in subsidiaries or associates or jointly controlled entities is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or associate or jointly controlled entity in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

## Notes to the Financial Statements

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

#### (i) Financial assets

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

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. 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 end of the reporting period. These are classified as non-current assets. Loans and receivables are classified as debtors, deposits and prepayments and cash and cash equivalents in the statement of financial position.

#### (iii) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale financial assets. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

#### (iv) Available-for-sale financial assets

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

Regular way purchases and sales of financial assets are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity financial assets are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the consolidated income statement within other gains, net, in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.



## 2 Summary of significant accounting policies (Continued)

### (i) Financial assets (Continued)

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

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

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement when the Group's right to receive payments is established.

### (j) Impairment of financial assets

#### (i) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine if there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - (a) adverse changes in the payment status of borrowers in the portfolio;
  - (b) national or local economic conditions that correlate with defaults on the assets in the portfolio.

## Notes to the Financial Statements

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

#### (j) Impairment of financial assets (Continued)

##### (i) Assets carried at amortised cost (Continued)

The Group first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

##### (ii) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria refer to (i) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets 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 profit or loss - is removed from equity and recognised in the consolidated income statement.

Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

#### (k) Inventories

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

## 2 Summary of significant accounting policies (Continued)

### (l) Debtors

Trade debtors are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of debtors are expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Debtors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

### (m) Non-current asset (or disposal group) held for sale

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

### (n) 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 statement of financial position.

### (o) 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.

### (p) Creditors

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Creditors are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

### (q) Other financial liabilities

Other financial liabilities are recognised initially at fair value, net of transaction costs and are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the other financial liabilities using the effective interest method.

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

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

## Notes to the Financial Statements

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

#### (r) Current and deferred income tax

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of reporting period in the countries where the Company and its subsidiaries, associates and jointly controlled entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of reporting period 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 interests 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.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

#### (s) Employee benefits

(i) The Group has defined contribution plans. A defined contribution plan is a pension plan under which the Group pays contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

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

## 2 Summary of significant accounting policies (Continued)

### (s) Employee benefits (Continued)

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

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

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

- (ii) The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the group. 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 is determined by reference to the fair value of the options granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

The cash subscribed for the shares issued when the options are exercised is credited to share capital (nominal value) and share premium, net of any directly attributable transaction costs.

## Notes to the Financial Statements

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

#### (s) Employee benefits (Continued)

- (iii) Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

#### (t) Provision

Provision is recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provision is measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

#### (u) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

##### (i) Sales of services

Revenue from ports service and transportation income, container service and container yard management income are recognised when the relevant services are rendered.

##### (ii) Sales of goods

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



## 2 Summary of significant accounting policies (Continued)

### (u) Revenue recognition (Continued)

#### (iii) Rental income

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

#### (iv) Dividend income

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

#### (v) Interest income

Interest income is recognised on a time-proportion basis using effective interest method.

### (v) 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.

### (w) Financial guarantee

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of subsidiaries or associates to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the company's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with HKAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the consolidated income statement.

Where guarantees in relation to loans or other payables of subsidiaries are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment in the financial statements of the company.

### (x) Operating lease

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

### (y) Dividend distribution

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

## Notes to the Financial Statements

### 3 Financial risk management

#### (a) Financial risk factors

The Group's principal activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk, fair value interest rate risk and cash flow interest rate risk), credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise any potential adverse effects on the Group's financial performance. Risk management is carried out by senior management of the Group under policies approved by the Directors of the Company.

#### (i) Market risk

##### ***Foreign exchange risk***

Majority of the subsidiaries of the Company operate in Mainland China and most of their transactions are denominated in either Renminbi, Hong Kong dollar or United States dollar. The Group is exposed to foreign exchange risk primarily through sales and purchases, capital expenditure and expenses transactions that are denominated in a currency other than the functional currency of the subsidiaries.

The Group considers its foreign currency exposure is mainly arising from the exposure of Hong Kong dollar against Renminbi and United States dollar.

The Group manages its exposures to foreign currency transactions by monitoring the level of foreign currency receipts and payments. The Group ensures that the net exposure to foreign exchange risk is kept to an acceptable level from time to time. The Group is presently not using forward exchange contracts to hedge foreign exchange risk arising from sales and purchase, capital expenditure and expenses transactions as the management considers that the present exposure to foreign exchange risk is insignificant.

The Group also regularly monitors its portfolio of local and international customers and the currencies in which the transactions are denominated so as to minimise the Group's exposure to foreign exchange risk.

74% of the Group's borrowings (including loans from the ultimate holding company and an intermediate holding company) as at 31 December 2009 (2008: 77%) are denominated in Hong Kong dollar and United States dollar while the remaining are denominated in Renminbi. Majority of the Group's ports operating subsidiaries draw loans in their functional currencies to finance their funding requirements and no significant foreign exchange risk is expected to arise from these borrowings. The Group utilised its United States dollar denominated listed notes payable to finance its capital investments and working capital.

At 31 December 2009, if Renminbi had strengthened/weakened by 0.16% (2008: 5%) with all other variables held constant, profit for the year would have been approximately HK\$516,000 higher/lower (2008: HK\$11 million lower/higher) mainly as a result of increase/decrease (2008: decrease/increase) in net foreign exchange gains on translation of cash and cash equivalents, debtors, creditors and other financial liabilities denominated in non-functional currency of the relevant group companies.

### 3 Financial risk management (Continued)

#### (a) Financial risk factors (Continued)

##### (i) Market risk (continued)

###### **Foreign exchange risk** (continued)

At 31 December 2009, if United States dollar had strengthened/weakened by 0.06% (2008: 1%) with all other variables held constant, profit for the year would have been approximately HK\$4 million (2008: HK\$73 million) lower/higher mainly as a result of decrease/increase in net foreign exchange gains on translation of cash and cash equivalents, debtors, creditors and other financial liabilities denominated in non-functional currency of the relevant group companies.

###### **Price risk**

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated statement of financial position as available-for-sale financial assets. At 31 December 2009, if there had been a 10% increase/decrease in the price-earnings multiples of certain listed companies in the same industry with all other variables held constant, the Group's unlisted available-for-sale financial assets and equity would have increased/decreased by approximately HK\$209 million. The Group is not exposed to commodity price risks and has not entered into any derivatives to manage exposures of price risk.

###### **Fair value interest rate risk and cash flow interest rate risk**

The Group's interest rate risk mainly arises from interest-bearing borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk whilst borrowings issued at fixed rates expose the Group to fair value interest rate risk. Other than the listed notes payables and the loans borrowed from the ultimate holding company and an intermediate holding company, all other borrowings were at floating interest rates.

The Group adopts a policy of maintaining an appropriate mix of fixed and floating rate borrowings which is achieved primarily through the contractual terms of borrowings. The position is regularly monitored and evaluated by reference of anticipated changes in market interest rate. The Group did not use any interest rate swap to hedge its interest rate risk during the year.

Other than bank deposits and held-to-maturity investments as at 31 December 2009, the Group has no significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate any significant impact resulting from changes in interest rates on interest-bearing assets.

At 31 December 2009, if interest rates on borrowings had been 100 basis points (2008: 10 basis points) higher/lower with all other variables held constant, post-tax profit for the year would have been HK\$34 million (2008: HK\$4 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

## Notes to the Financial Statements

### 3 Financial risk management (Continued)

#### (a) Financial risk factors (Continued)

##### (ii) Credit risk

Credit risk arises if a customer or other counterparty fails to meet its contractual obligations. The credit risk of the Group mainly arises from debtors, deposits and prepayments and deposits with banks and financial institutions.

Credit risk on trade debtors is managed by the management of the individual business units and monitored by the Group's management on a group basis. The Group's trade debtors are mainly contributed by ports operations where their customers are mainly sizable and renowned international liners or market leaders in their industries with low credit risk. For other smaller customers, management assesses their credit quality by considering its financial position, past experience and other relevant factors. The utilisation of credit limits is regularly monitored. Debtors with overdue balances will be requested to settle their outstanding balance.

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

The Group has policies that limit the amount of credit exposure to any financial institutions. The Group's bank deposits are all deposited in renowned and established banks or financial institutions in Hong Kong and PRC. 97% (2008: 71.5%) of cash are deposited in State-controlled banking enterprises as of 31 December 2009. Management considers that the credit risk associated with the deposits with banks and financial institutions is low.

##### (iii) Liquidity risk

Cash flow forecasts are prepared by management. Management monitors rolling forecasts on the Group's liquidity requirements to ensure the Group maintains sufficient liquidity reserve to support sustainability and growth of the Group's business. Currently, the Group finances its working capital requirements through a combination of funds generated from operations and bank borrowings.

The rolling forecasts of the Group's liquidity reserve comprise undrawn borrowing facilities (note 32(e)) and cash and cash equivalents (note 28) on the basis of expected cash flow. The Group aims to maintain flexibility in funding while minimising its overall costs by keeping a mix of committed and uncommitted credit lines available.

The table below analyses the Group's financial liabilities (excluding liabilities of disposal group classified as held for sale) into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

### 3 Financial risk management (Continued)

#### (a) Financial risk factors (Continued)

##### (iii) Liquidity risk (Continued)

	Within 1 year		Between 1 and 2 years		Between 2 and 5 years		Over 5 years		Total	
	2009 HK\$ million	2008 HK\$ million	2009 HK\$ million	2008 HK\$ million	2009 HK\$ million	2008 HK\$ million	2009 HK\$ million	2008 HK\$ million	2009 HK\$ million	2008 HK\$ million
<b>Group</b>										
Other financial liabilities	2,370	1,733	891	1,427	4,662	5,308	5,996	6,320	13,919	14,788
Trade creditors	86	70	—	—	—	—	—	—	86	70
Other payables	985	1,377	—	—	—	—	—	—	985	1,377
Loans from the ultimate holding company	2,566	2,649	—	—	—	—	—	—	2,566	2,649
Loans from an intermediate holding company	738	—	—	—	—	—	—	—	738	—
Amount due to an intermediate holding company	4	4	—	—	—	—	—	—	4	4
Amounts due to fellow subsidiaries	193	332	—	—	—	—	—	—	193	332
Amounts due to associates	9	6	—	—	—	—	—	—	9	6
Amounts due to jointly controlled entities	4	1	—	—	—	—	—	—	4	1
	<b>6,955</b>	<b>6,172</b>	<b>891</b>	<b>1,427</b>	<b>4,662</b>	<b>5,308</b>	<b>5,996</b>	<b>6,320</b>	<b>18,504</b>	<b>19,227</b>
<b>Company</b>										
Other financial liabilities	—	7	—	7	—	315	—	—	—	329
Other payables	11	9	—	—	—	—	—	—	11	9
Advances from subsidiaries	650	—	1,491	512	8,057	2,757	2,735	4,627	12,933	7,896
Amounts due to fellow subsidiaries	—	176	—	—	—	—	—	—	—	176
	<b>661</b>	<b>192</b>	<b>1,491</b>	<b>519</b>	<b>8,057</b>	<b>3,072</b>	<b>2,735</b>	<b>4,627</b>	<b>12,944</b>	<b>8,410</b>

## Notes to the Financial Statements

### 3 Financial risk management (Continued)

#### (b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the overall cost of capital.

The Group prepares a five-year rolling forecast on its capital requirement in anticipation of funding requirement of new capital investments, capital expenditures of existing projects and repayment of borrowings. In order to maintain or adjust the capital structure, the Group may raise additional short-term or long-term borrowings, issue new shares or sell assets of non-core operations to reduce debt.

The Group monitors capital with reference to, inter alia, the net gearing ratio. This ratio is calculated as net interest bearing debts divided by net assets attributable to the Company's shareholders.

During the year, the Group's strategy was to maintain a desired level of net gearing ratio due to which the Group's credit ratings had, inter alia, been reaffirmed at Baa2 by Moody's Asia Pacific Limited and BBB by Standard and Poor's. The net gearing ratios at 31 December 2009 and 2008 were as follows:

	2009 HK\$'million	2008 HK\$'million
Interest bearing other financial liabilities (note 32)	11,093	11,421
Loans from the ultimate holding company (note 35)	2,566	2,649
Loans from an intermediate holding company (note 36)	738	—
Total interest bearing debts	14,397	14,070
Less: cash and cash equivalents (note 28)	(3,206)	(2,806)
Net interest bearing debts	11,191	11,264
Net assets attributable to the Company's shareholders	33,563	30,280
Net gearing ratio	33.3%	37.2%

#### (c) Fair value estimation

Effective 1 January 2009, the Group adopted the amendment to HKFRS 7 for financial instruments that are measured at their fair values. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).



### 3 Financial risk management (Continued)

#### (c) Fair value estimation (Continued)

The following table presents the Group's assets and liabilities that are measured at their fair values at 31 December 2009.

	Level 1 HK\$'million	Level 2 HK\$'million	Level 3 HK\$'million	Total HK\$'million
Available-for-sale financial assets (note 24)	664	—	2,171	2,835

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices
- Other techniques, such as with reference to weighted average of earnings and price-earnings multiples of certain listed companies in the same industry.

The following table presents the changes in level 3 instruments for the year ended 31 December 2009:

	Available-for-sale financial assets HK\$'million
Opening balance	1,450
Gains and losses recognised in other comprehensive income	721
	2,171

## Notes to the Financial Statements

### 4 Critical accounting estimates and judgements

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

#### Critical accounting estimates and assumptions

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

#### Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2(g). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. Goodwill is not impaired where the discount rate and growth rate used differ by 10% from management estimates.

### 5 Revenue

The principal activities of the Group comprise ports operations and ports-related operations. Revenue consists of turnover recognised under the following business activities during the year.

	2009 HK\$'million	2008 HK\$'million
Continuing operations		
Ports service and transportation income, container service and container yard management income	3,556	4,103
Gross rental income from investment properties	32	32
	<b>3,588</b>	4,135
Discontinued operation		
Sale of paints and related goods	—	2,696
Total	<b>3,588</b>	6,831

## 6 Segment information

The Chief Operation Decision-Maker (“CODM”) has been identified as the key management team of the Company. CODM reviews the Group’s internal reports in order to assess performance, allocate resources and determine the operating segments.

The CODM considers the Group’s operations from both a business and geographic perspective. From a business perspective, management assesses the performance of business operations including ports operations, ports-related operations and other operations. Ports operations are further evaluated on a geographic basis including Shenzhen, Hong Kong, Ningbo and Shanghai, and other locations.

Ports operations include container terminal operation, bulk and general cargo terminal operation, logistics park operation, ports transportation and airport cargo handling operated by the Group and the Group’s associates and jointly controlled entities. Ports-related operations include paint manufacturing operated by the Group, which was disposed during the year, and container manufacturing operated by the Group’s associate. Other operations include property investment and corporate function.

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

The Group is domiciled in Mainland China. Over 90% of its non-current assets are located in Mainland China and over 90% of its revenue are derived from ports operations in Mainland China. There is no single customer who accounted over 10% of the Group’s total revenue.

The amounts labelled as “Company and subsidiaries” below represent the Group’s revenue. The amounts labelled as “Share of associates” and “Share of jointly controlled entities” below represent the Group’s share of revenue of associates and jointly controlled entities respectively. An analysis of the Group’s revenue by segments is as follows:

	For the year ended 31 December 2009							
	Ports operations					Ports-related operations	Other operations	Total
	Shenzhen	Hong Kong	Ningbo and Shanghai	Other locations	Sub-total	Property investment		
	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million		HK\$'million	HK\$'million
Revenue								
Continuing operations								
Company and subsidiaries	3,095	175	—	286	3,556	—	32	3,588
Share of associates	2,344	892	3,801	3	7,040	5,751	—	12,791
Share of jointly controlled entities	31	10	192	674	907	—	—	907
	5,470	1,077	3,993	963	11,503	5,751	32	17,286
Discontinued operation								
Company and subsidiaries	—	—	—	—	—	—	—	—
Total	5,470	1,077	3,993	963	11,503	5,751	32	17,286

## Notes to the Financial Statements

### 6 Segment information (Continued)

An analysis of the Group's revenue by segments is as follows: (Continued)

	For the year ended 31 December 2008							
	Ports operations				Sub-total HK\$'million	Ports- related operations HK\$'million	Other operations Property investment HK\$'million	Total HK\$'million
	Shenzhen HK\$'million	Hong Kong HK\$'million	Ningbo and Shanghai HK\$'million	Other locations HK\$'million				
Revenue								
Continuing operations								
Company and subsidiaries	3,554	185	—	364	4,103	—	32	4,135
Share of associates	2,711	1,061	3,937	—	7,709	12,712	—	20,421
Share of jointly controlled entities	30	16	173	696	915	—	—	915
	6,295	1,262	4,110	1,060	12,727	12,712	32	25,471
Discontinued operation								
Company and subsidiaries	—	—	—	—	—	2,696	—	2,696
Total	6,295	1,262	4,110	1,060	12,727	15,408	32	28,167

## 6 Segment information (Continued)

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

	For the year ended 31 December 2009									
	Ports operations					Ports-related operations	Other operations			Total
	Shenzhen	Hong Kong	Ningbo and Shanghai	Other locations	Sub-total		Property investment	Corporate function	Sub-total	
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	
Continuing operations										
Operating profit/(loss)	1,472	8	88	(105)	1,463	(5)	200	(117)	83	1,541
Share of profits less losses of										
– Associates	530	360	1,076	(8)	1,958	268	—	—	—	2,226
– Jointly controlled entities	5	—	40	83	128	—	—	—	—	128
	2,007	368	1,204	(30)	3,549	263	200	(117)	83	3,895
Finance costs - net	(92)	—	—	(87)	(179)	—	—	(473)	(473)	(652)
Taxation	(166)	—	(62)	(6)	(234)	(30)	(14)	—	(14)	(278)
Profit for the year from continuing operations	1,749	368	1,142	(123)	3,136	233	186	(590)	(404)	2,965
Minority interest	(227)	—	—	8	(219)	—	—	—	—	(219)
Profit attributable to shareholders of the Company	1,522	368	1,142	(115)	2,917	233	186	(590)	(404)	2,746
Discontinued operation										
Gain on disposal of discontinued operation	—	—	—	—	—	492	—	—	—	492
Minority interest										219
Profit attributable to shareholders of the Company										3,238
Profit for the year										3,457
Other information:										
Depreciation and amortisation										
Continuing operations	590	8	—	232	830	—	—	7	7	837
Capital expenditure										
Continuing operations	730	3	—	273	1,006	—	—	—	—	1,006

## Notes to the Financial Statements

### 6 Segment information (Continued)

An analysis of the Group's operating profit, share of profits less losses of associates and jointly controlled entities by segments is as follows: (Continued)

	For the year ended 31 December 2008										
	Ports operations				Sub-total	Ports-related operations	Other operations			Sub-total	Total
	Shenzhen	Hong Kong	Ningbo and Shanghai	Other locations			Property investment	Toll road	Corporate function		
	HK\$' million	HK\$' million	HK\$' million	HK\$' million	HK\$' million	HK\$' million	HK\$' million	HK\$' million	HK\$' million	HK\$' million	
Continuing operations											
Operating profit/(loss)	1,669	(5)	(3)	(40)	1,621	—	123	280	(89)	314	1,935
Share of profits less losses of											
– Associates	444	369	1,377	(4)	2,186	379	—	—	—	—	2,565
– Jointly controlled entities	7	1	32	58	98	—	—	—	—	—	98
	2,120	365	1,406	14	3,905	379	123	280	(89)	314	4,598
Finance costs - net	(160)	—	—	(61)	(221)	—	—	—	(363)	(363)	(584)
Taxation	(143)	—	(63)	(5)	(211)	—	(8)	—	(1)	(9)	(220)
Profit for the year from continuing operations	1,817	365	1,343	(52)	3,473	379	115	280	(453)	(58)	3,794
Minority interest	(252)	—	—	16	(236)	—	—	—	—	—	(236)
Profit attributable to shareholders of the Company	1,565	365	1,343	(36)	3,237	379	115	280	(453)	(58)	3,558
Discontinued operation											
Operating profit	—	—	—	—	—	305	—	—	—	—	305
Finance costs - net	—	—	—	—	—	(4)	—	—	—	—	(4)
Taxation	—	—	—	—	—	(69)	—	—	—	—	(69)
Profit for the year from discontinued operation	—	—	—	—	—	232	—	—	—	—	232
Minority interest	—	—	—	—	—	(84)	—	—	—	—	(84)
Profit attributable to shareholders of the Company	—	—	—	—	—	148	—	—	—	—	148
Minority interest											320
Profit attributable to shareholders of the Company											3,706
Profit for the year											4,026

## 6 Segment information (Continued)

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

(Continued)

	For the year ended 31 December 2008										
	Ports operations				Sub-total	Ports-related operations	Other operations			Sub-total	Total
	Shenzhen	Hong Kong	Ningbo and Shanghai	Other locations			Property investment	Toll road	Corporate function		
	HK\$' million	HK\$' million	HK\$' million	HK\$' million	HK\$' million	HK\$' million	HK\$' million	HK\$' million	HK\$' million	HK\$' million	
Other information											
Depreciation and amortisation											
Continuing operations	560	7	—	183	750	—	—	—	8	8	758
Discontinued operation	—	—	—	—	—	14	—	—	—	—	14
	560	7	—	183	750	14	—	—	8	8	772
Capital expenditure											
Continuing operations	1,386	11	—	817	2,214	—	—	—	—	—	2,214
Discontinued operation	—	—	—	—	—	18	—	—	—	—	18
	1,386	11	—	817	2,214	18	—	—	—	—	2,232



## Notes to the Financial Statements

### 6 Segment information (Continued)

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

	As at 31 December 2009									
	Ports operations					Ports-related operations	Other operations			Total
	Shenzhen	Hong Kong	Ningbo and Shanghai	Other locations	Sub-total		Property investment	Corporate function	Sub-total	
	HK\$' million	HK\$' million	HK\$' million	HK\$' million	HK\$' million		HK\$' million	HK\$' million	HK\$' million	
Segment assets (excluding interests in associates and jointly controlled entities)	19,336	89	1,924	3,524	24,873	—	927	2,552	3,479	28,352
Interests in associates	2,117	2,145	10,061	104	14,427	4,360	—	—	—	18,787
Interests in jointly controlled entities	22	3	675	2,042	2,742	—	—	—	—	2,742
Total segment assets	21,475	2,237	12,660	5,670	42,042	4,360	927	2,552	3,479	49,881
Non-current assets held for sale	—	—	—	2,553	2,553	—	—	—	—	2,553
	21,475	2,237	12,660	8,223	44,595	4,360	927	2,552	3,479	52,434
Deferred tax assets										34
Total assets										52,468
Segment liabilities	(4,290)	(41)	—	(2,485)	(6,816)	—	(5)	(9,231)	(9,236)	(16,052)
Taxation payable										(61)
Deferred tax liabilities										(736)
Total liabilities										(16,849)

## 6 Segment information (Continued)

An analysis of the Group's assets and liabilities by segments is as follows: (Continued)

	As at 31 December 2008									
	Ports operations				Sub-total HK\$' million	Ports- related operations HK\$' million	Other operations		Sub-total HK\$' million	Total HK\$' million
	Shenzhen HK\$' million	Hong Kong HK\$' million	Ningbo and Shanghai HK\$' million	Other locations HK\$' million			Property investment HK\$' million	Corporate function HK\$' million		
	HK\$' million	HK\$' million	HK\$' million	HK\$' million	HK\$' million	HK\$' million	HK\$' million	HK\$' million	HK\$' million	
Segment assets (excluding interests in associates and jointly controlled entities)	18,569	77	1,267	5,925	25,838	—	751	2,155	2,906	28,744
Interests in associates	1,858	1,871	9,425	112	13,266	4,126	—	—	—	17,392
Interests in jointly controlled entities	25	5	652	1,964	2,646	—	—	—	—	2,646
Total segment assets	20,452	1,953	11,344	8,001	41,750	4,126	751	2,155	2,906	48,782
Disposal group classified as held for sale	—	—	—	—	—	1,684	—	—	—	1,684
	20,452	1,953	11,344	8,001	41,750	5,810	751	2,155	2,906	50,466
Deferred tax assets										27
Total assets										50,493
Segment liabilities	(4,370)	(33)	—	(2,297)	(6,700)	—	(5)	(9,782)	(9,787)	(16,487)
Disposal group classified as held for sale	—	—	—	—	—	(642)	—	—	—	(642)
	(4,370)	(33)	—	(2,297)	(6,700)	(642)	(5)	(9,782)	(9,787)	(17,129)
Taxation payable										(19)
Deferred tax liabilities										(631)
Total liabilities										(17,779)

## Notes to the Financial Statements

### 7 Other gains, net and other income

	Continuing operations		Discontinued operation		Total	
	2009 HK\$'million	2008 HK\$'million	2009 HK\$'million	2008 HK\$'million	2009 HK\$'million	2008 HK\$'million
<b>Other gains, net</b>						
Increase in fair value of investment properties (note 19)	175	68	—	—	175	68
Gain/(loss) on disposal of land use rights, property, plant and equipment	22	—	—	(1)	22	(1)
Gain on disposal of an available-for-sale financial asset	—	11	—	—	—	11
Realisation of investment revaluation reserve upon disposal of an available-for-sale financial asset	—	269	—	—	—	269
Gain on disposal of a subsidiary	—	33	—	—	—	33
Gain on deemed disposal of partial interest in a jointly controlled entity (note 23(e))	—	15	—	—	—	15
Net foreign exchange (losses)/gains	(7)	101	—	(21)	(7)	80
	<b>190</b>	<b>497</b>	<b>—</b>	<b>(22)</b>	<b>190</b>	<b>475</b>
<b>Other income</b>						
Income from held-to-maturity investments	1	1	—	—	1	1
Dividend income from available-for-sale financial assets	143	21	—	—	143	21
Government subsidy	48	14	—	—	48	14
Others	14	12	—	6	14	18
	<b>206</b>	<b>48</b>	<b>—</b>	<b>6</b>	<b>206</b>	<b>54</b>

## 8 Expenses by nature

	Continuing operations		Discontinued operation		Total	
	2009 HK\$'million	2008 HK\$'million	2009 HK\$'million	2008 HK\$'million	2009 HK\$'million	2008 HK\$'million
Changes in finished goods	—	—	—	19	—	19
Cost of raw materials and consumables used	—	—	—	1,964	—	1,964
Staff costs (including Directors' emoluments) (note 9)	523	547	—	113	523	660
Depreciation of property, plant and equipment	695	627	—	13	695	640
Amortisation of leasehold land and land use rights	142	131	—	1	142	132
Auditor's remuneration	10	13	—	2	10	15
Fuel and utilities	237	304	—	—	237	304
Subcontracting fees	371	429	—	—	371	429
Operating lease rentals in respect of						
– land and buildings	90	112	—	10	90	122
– plant and machinery	31	29	—	—	31	29
Other expenses	344	553	—	253	344	806
Total cost of sales, distribution costs and administrative expenses	2,443	2,745	—	2,375	2,443	5,120

## 9 Staff costs (including Directors' emoluments)

	Continuing operations		Discontinued operation		Total	
	2009 HK\$'million	2008 HK\$'million	2009 HK\$'million	2008 HK\$'million	2009 HK\$'million	2008 HK\$'million
Wages and salaries	462	489	—	105	462	594
Retirement benefit scheme contributions (Note)	61	58	—	8	61	66
	523	547	—	113	523	660

Note: The amount of forfeiture utilised during 2009 was HK\$55,345 (2008: HK\$126,000). There is no available balance as at 31 December 2009 (2008: HK\$nil).

## Notes to the Financial Statements

### 10 Directors' and senior management's emoluments

- (a) Directors' emoluments comprise payments to the following Directors by the Group in connection with the management of the affairs of the Group. The amount paid to each Director was as follows:

Name of Director	Fees HK\$'million	Salary HK\$'million	Discretionary bonus HK\$'million	Employer's contribution to pension scheme HK\$'million	2009 Total HK\$'million	2008 Total HK\$'million
Hu Jian Hua	—	0.59	0.54	0.07	1.20	1.29
Wang Hong	—	0.21	0.18	0.02	0.41	1.32
Liu Yunshu (i)	—	0.35	0.48	0.01	0.84	—
To Wing Sing (ii)	—	0.33	0.38	0.06	0.77	2.16
Tsang Kam Lam	0.16	—	—	—	0.16	0.16
Kut Ying Hay	0.16	—	—	—	0.16	0.16
Lee Yip Wah Peter	0.16	—	—	—	0.16	0.16
Li Kwok Heem John	0.16	—	—	—	0.16	0.16
Li Ka Fai David	0.16	—	—	—	0.16	0.16
Total for the year 2009	0.80	1.48	1.58	0.16	4.02	
Total for the year 2008	0.80	2.68	1.82	0.27		5.57

No Director waived emoluments in respect of the years ended 31 December 2009 and 2008.

Notes:

(i) Appointed on 3 June 2009

(ii) Resigned on 3 June 2009

## 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 (2008: one) was Director of the Company whose emoluments are included in note 10(a) to the financial statements above. The total emoluments of the remaining four (2008: four) individuals is as follows:

	2009 HK\$ million	2008 HK\$ million
Salaries, other allowances and benefit-in-kinds	5	6
Performance related incentive payments	2	1
Share-based payments	—	3
	<b>7</b>	<b>10</b>

The emoluments fell within the following bands:

	Number of individuals	
	2009	2008
HK\$1,000,001 - HK\$1,500,000	1	—
HK\$1,500,001 - HK\$2,000,000	3	—
HK\$2,000,001 - HK\$2,500,000	—	3
HK\$3,000,001 - HK\$3,500,000	—	1
	<b>4</b>	<b>4</b>

## Notes to the Financial Statements

### 11 Finance income and costs

	Continuing operations		Discontinued operation		Total	
	2009 HK\$million	2008 HK\$million	2009 HK\$million	2008 HK\$million	2009 HK\$million	2008 HK\$million
Interest income from:						
Bank deposits	16	42	—	2	16	44
Available-for-sale financial assets	—	1	—	—	—	1
Finance income	16	43	—	2	16	45
Interest expense on:						
Bank borrowings						
– wholly repayable within five years	(84)	(213)	—	(6)	(84)	(219)
– not wholly repayable within five years	(5)	—	—	—	(5)	—
Listed notes payable						
– wholly repayable within five years	(145)	(79)	—	—	(145)	(79)
– not wholly repayable within five years	(322)	(273)	—	—	(322)	(273)
Loans from the ultimate holding company	(110)	(75)	—	—	(110)	(75)
Loans from an intermediate holding company	(37)	—	—	—	(37)	—
Other financial liabilities	—	(36)	—	—	—	(36)
Total borrowing costs incurred	(703)	(676)	—	(6)	(703)	(682)
Less: amount capitalised in assets under construction	35	49	—	—	35	49
Finance cost	(668)	(627)	—	(6)	(668)	(633)
Finance costs - net	(652)	(584)	—	(4)	(652)	(588)

Capitalisation rate of 4.526% (2008: 4.698%) per annum was used, representing the weighted average rate of the costs of borrowings used to finance the assets under construction.



## 12 Taxation

Hong Kong profits tax has been provided for at the rate of 16.5% (2008: 16.5%) on the estimated assessable profit for the year.

The Group's operations in Mainland China are subject to PRC corporate income tax law of the People's Republic of China ("PRC corporate income tax"). The standard PRC corporate income tax rate is 25%. For foreign invested enterprises established in the PRC before 1 January 2008 previously taxed at preferential rate of 15%, PRC corporate income tax rate is 18%, 20%, 22% and 24% in 2008, 2009, 2010 and 2011 respectively whereas 25% standard rate will be applied from year 2012 onwards. Certain of the Group's subsidiaries were exempted from the PRC corporate income tax in the first five profit making years and followed by a 50% reduction in the PRC corporate income tax for the next five years thereafter, commencing from the earlier of the first profitable year after offsetting all unexpired tax losses carried forward from the previous years or 1 January 2008. 10% withholding income tax is also imposed on dividends relating to any profits earned commencing from 2008 to foreign investors, while for investments incorporated in certain places, including Hong Kong and Singapore, preferential rate of 5% will be applied.

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

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

	Continuing operations		Discontinued operation		Total	
	2009 HK\$'million	2008 HK\$'million	2009 HK\$'million	2008 HK\$'million	2009 HK\$'million	2008 HK\$'million
Hong Kong profits tax						
Current year	1	—	—	2	1	2
Under provision in prior years	—	—	—	1	—	1
PRC corporate income tax						
Current year	96	70	—	68	96	138
Deferred taxation						
Charge for the year	181	150	—	5	181	155
Effect of change in tax rate	—	—	—	(7)	—	(7)
	<b>278</b>	220	<b>—</b>	69	<b>278</b>	289

## Notes to the Financial Statements

### 12 Taxation (Continued)

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

	2009 HK\$'million	2008 HK\$'million
Profit before taxation (excluding share of profits of associates and jointly controlled entities)		
Continuing operations	889	1,351
Discontinued operation	492	301
	<b>1,381</b>	1,652
Expected tax calculated at the weighted average applicable tax rate	265	303
Income not subject to taxation	(313)	(344)
Expenses not deductible for taxation purposes	101	129
Tax losses for which no deferred income tax asset was recognised	51	34
Utilisation of previously unrecognised tax losses	(3)	—
Under provision in prior years	—	1
Withholding tax on unremitted earnings of subsidiaries, associates and jointly controlled entities in Mainland China	177	173
Effect of change in tax rate	—	(7)
Taxation charge	<b>278</b>	289

The weighted average applicable tax rate was 19.2% (2008: 18.3%). The increase is mainly caused by the increase in PRC corporate income tax rates.

## 13 Discontinued operation and disposal group classified as held for sale

### (a) Discontinued operation

On 5 January 2009, the Group disposed of its entire 64% equity interest in Hempel-Hai Hong (China) Limited ("Hempel-Hai Hong"), a subsidiary of the Group, to the minority shareholder of Hempel-Hai Hong for a cash consideration of HK\$1,146 million. A gain on disposal of HK\$492 million was resulted and has been recognised in the consolidated income statement during the year.

The aggregate results and cash flows of the discontinued operation of Hempel-Hai Hong included in the consolidated income statement and the consolidated statement of cash flows for the year ended 31 December 2009 and 2008 are set out below.

	Note	2009 HK\$'million	2008 HK\$'million
Revenue	5	—	2,696
Cost of sales	8	—	(1,983)
Gross profit		—	713
Other losses, net	7	—	(22)
Other income	7	—	6
Distribution costs	8	—	(345)
Administrative expenses	8	—	(47)
Operating profit		—	305
Finance income	11	—	2
Finance costs	11	—	(6)
Finance costs - net		—	(4)
Profit before taxation		—	301
Taxation	12	—	(69)
Profit after taxation		—	232
Gain on disposal of discontinued operation		<b>492</b>	—
Profit for the year from discontinued operation		<b>492</b>	232
Attributable to:			
Shareholders of the Company		<b>492</b>	148
Minority interest		—	84
		<b>492</b>	232
Net cash inflow from operating activities		—	380
Net cash outflow from investing activities		—	(16)
Net cash outflow from financing activities		—	(169)
Net cash inflow from discontinued operation		—	195

## Notes to the Financial Statements

### 13 Discontinued operation and disposal group classified as held for sale (Continued)

#### (b) Disposal group classified as held for sale

	2009 HK\$'million	2008 HK\$'million
Assets of disposal group classified as held for sale		
Land use rights	—	34
Property, plant and equipment	—	95
Deferred income tax assets	—	13
Inventories	—	264
Trade and other receivables	—	878
Cash and cash equivalents	—	365
Other current assets	—	35
	—	1,684
Liabilities of disposal group classified as held for sale		
Creditors and accruals	—	528
Other financial liabilities	—	75
Amount due to a fellow subsidiary	—	3
Taxation payable	—	27
Other current liabilities	—	9
	—	642
Reserves recognised directly in equity relating to disposal group classified as held for sale		
Capital reserve	—	52
Translation reserve	—	19
	—	71

### 14 Profit attributable to shareholders

Profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK\$977 million (2008: HK\$1,622 million).

## 15 Dividends

	2009 HK\$'million	2008 HK\$'million
Interim, paid, of 25 HK cents (2008: 28 HK cents) per share	607	675
Final, proposed, of 32 HK cents (2008: 40 HK cents) per share	779	969
	<b>1,386</b>	1,644

At a meeting held on 31 March 2010, the Directors proposed a final dividend of 32 HK cents which will be satisfied by allotment of new shares of the Company, credited as fully paid, by way of scrip dividend, with an alternative to shareholders to elect to receive such final dividend (or part thereof) in cash in lieu of such allotment. This proposed dividend is not reflected as a dividend payable in these financial statements.

The amount of proposed final dividend for 2009 was based on 2,433,199,023 (2008: 2,423,435,842) shares in issue as at 31 March 2010.

## 16 Earnings per share

Basic earnings per share is calculated by dividing the Group's profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

Basic	Continuing operations	Discontinued operation	Total
<b>For the year ended 31 December 2009</b>			
Profit attributable to shareholders of the Company (HK\$'million)	2,746	492	3,238
Weighted average number of ordinary shares in issue	2,432,403,443	2,432,403,443	2,432,403,443
Basic earnings per share (HK cents)	112.94	20.24	133.18
<b>For the year ended 31 December 2008</b>			
Profit attributable to shareholders of the Company (HK\$'million)	3,558	148	3,706
Weighted average number of ordinary shares in issue	2,422,620,642	2,422,620,642	2,422,620,642
Basic earnings per share (HK cents)	146.84	6.13	152.97

## Notes to the Financial Statements

### 16 Earnings per share (Continued)

Diluted earnings per share is calculated by adjusting weighted average number of ordinary shares outstanding to assume conversion of all outstanding share options. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares of that would have been issued assuming the exercise of the share options.

Diluted	Continuing operations	Discontinued operation	Total
<b>For the year ended 31 December 2009</b>			
Profit attributable to shareholders of the Company (HK\$'million)	2,746	492	3,238
Weighted average number of ordinary shares in issue	2,432,403,443	2,432,403,443	2,432,403,443
Adjustment for share options	1,501,760	1,501,760	1,501,760
Weighted average number of ordinary shares for diluted earnings per share	2,433,905,203	2,433,905,203	2,433,905,203
Diluted earnings per share (HK cents)	112.87	20.23	133.10
<b>For the year ended 31 December 2008</b>			
Profit attributable to shareholders of the Company (HK\$'million)	3,558	148	3,706
Weighted average number of ordinary shares in issue	2,422,620,642	2,422,620,642	2,422,620,642
Adjustment for share options	8,703,306	8,703,306	8,703,306
Weighted average number of ordinary shares for diluted earnings per share	2,431,323,948	2,431,323,948	2,431,323,948
Diluted earnings per share (HK cents)	146.32	6.11	152.43

## 17 Goodwill

	2009 HK\$ million	2008 HK\$ million
Carrying value as at 1 January	2,513	3,750
Partial disposal of subsidiaries (note 39)	—	(1,239)
Acquisition of subsidiaries	—	2
Carrying value as at 31 December	<b>2,513</b>	2,513

Goodwill is allocated to the Group's cash generating units ("CGUs") identified according to location of operation and business segment. The goodwill is attributable to ports operation and is analysed by geographical area as follows:

	2009 HK\$ million	2008 HK\$ million
Hong Kong	52	52
Mainland China		
– Shenzhen	2,451	2,451
– Other locations	10	10
	<b>2,513</b>	2,513

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

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

	2009	2008
Growth rate (i)	5%	4%
Discount rate (ii)	<b>10.48%</b>	10.08%

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 2009, there is no impairment of any of its CGUs or group of CGUs containing goodwill with indefinite useful lives (2008: Nil).



## Notes to the Financial Statements

### 18 Property, plant and equipment

	Group					Company	
	Buildings HK\$'million	Harbour works, buildings and dockyard HK\$'million	Plant, machinery, furniture and equipment HK\$'million	Others HK\$'million	Assets under construction HK\$'million	Total HK\$'million	Furniture and equipment and motor vehicles HK\$'million
Net book value at 1 January 2009	226	6,620	3,913	232	1,930	12,921	1
Exchange adjustments	—	7	4	—	2	13	—
Acquisition of a subsidiary	—	—	—	45	—	45	—
Additions	—	10	—	13	870	893	—
Disposals	—	(6)	(7)	—	—	(13)	—
Transfer	6	835	646	28	(1,515)	—	—
Transfer to non-current assets held for sale (note 29)	(10)	(1,022)	(976)	—	(312)	(2,320)	—
Depreciation	(9)	(282)	(373)	(31)	—	(695)	(1)
Net book value at 31 December 2009	213	6,162	3,207	287	975	10,844	—
At 31 December 2009							
Cost	303	7,477	4,828	446	975	14,029	7
Accumulated depreciation and impairment	(90)	(1,315)	(1,621)	(159)	—	(3,185)	(7)
Net book value	213	6,162	3,207	287	975	10,844	—

## 18 Property, plant and equipment (Continued)

	Group						Company
	Buildings HK\$'million	Harbour works, buildings and dockyard HK\$'million	Plant, machinery, furniture and equipment HK\$'million	Others HK\$'million	Assets under construction HK\$'million	Total HK\$'million	Furniture and equipment and motor vehicles HK\$'million
Net book value							
at 1 January 2008	172	5,480	3,605	232	1,712	11,201	1
Exchange adjustments	6	238	144	13	72	473	—
Acquisition of a subsidiary	1	34	4	1	—	40	—
Additions	3	122	18	13	1,803	1,959	—
Disposals	—	(8)	(8)	(1)	—	(17)	—
Transfer	87	1,018	540	4	(1,649)	—	—
Transfer to assets of disposal group classified as held for sale (note 13)	(31)	—	(55)	(1)	(8)	(95)	—
Depreciation	(12)	(264)	(335)	(29)	—	(640)	—
Net book value at 31 December 2008	226	6,620	3,913	232	1,930	12,921	1
At 31 December 2008							
Cost	308	7,745	5,325	365	1,930	15,673	7
Accumulated depreciation and impairment	(82)	(1,125)	(1,412)	(133)	—	(2,752)	(6)
Net book value	226	6,620	3,913	232	1,930	12,921	1

### Notes:

- Included in assets under construction is capitalised interest of approximately HK\$20 million (2008: HK\$48 million).
- At 31 December 2009, plant, machinery, furniture and equipment with net book value of HK\$47 million (2008: Nil) were pledged as security for the Group's bank borrowings of HK\$7 million (2008: Nil) (note 32(a)).
- Others comprise vessels and ships, motor vehicles and leasehold improvements with net book values of HK\$232 million (2008: HK\$169 million), HK\$20 million (2008: HK\$30 million) and HK\$35 million (2008: HK\$33 million) respectively as at 31 December 2009.

## Notes to the Financial Statements

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

Notes: (Continued)

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

	Continuing operations		Discontinued operation		Total	
	2009 HK\$'million	2008 HK\$'million	2009 HK\$'million	2008 HK\$'million	2009 HK\$'million	2008 HK\$'million
Cost of sales	669	601	—	8	669	609
Administrative expenses	26	26	—	4	26	30
Distribution costs	—	—	—	1	—	1
	<b>695</b>	<b>627</b>	<b>—</b>	<b>13</b>	<b>695</b>	<b>640</b>

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

	Group			
	Buildings		Harbour works and buildings and dockyard	
	2009 HK\$'million	2008 HK\$'million	2009 HK\$'million	2008 HK\$'million
Buildings in Hong Kong, held on leases of between 10 to 50 years	57	58	—	—
Buildings outside Hong Kong, held on leases of between 10 to 50 years	156	168	6,162	6,620
	<b>213</b>	<b>226</b>	<b>6,162</b>	<b>6,620</b>

## 19 Investment properties

	2009 HK\$'million	2008 HK\$'million
Carrying value at 1 January	744	692
Disposal of a subsidiary	—	(16)
Increase in fair value (note 7)	175	68
Carrying value at 31 December	919	744

Notes:

- (a) The investment properties were revalued at 31 December 2009 by the following independent and professionally qualified valuers. Valuations are based on current prices in an active market.

Properties located in	Name of valuers
– Hong Kong	Grant Sherman Appraisal Limited
– Shenzhen	Shenzhen Yongxin Ruihe Asset Evaluation Co., Ltd.

- (b) The Group's interests in investment properties, held on leases of between 10 to 50 years, at their carrying values are analysed as follows:

	2009 HK\$'million	2008 HK\$'million
Hong Kong	913	738
Mainland China	6	6
	919	744

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

	2009 HK\$'million	2008 HK\$'million
Rental income	32	32
Direct operating expense arising from investment properties	(1)	(1)
	31	31

## Notes to the Financial Statements

### 20 Leasehold land and land use rights

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

	2009 HK\$'million	2008 HK\$'million
Net book value at 1 January	7,426	6,605
Exchange adjustments	6	296
Additions	—	231
Disposal	(18)	—
Transfer from prepayment	—	460
Transfer to non-current assets held for sale (note 29)	(233)	—
Transfer to assets of disposal group classified as held for sale (note 13)	—	(34)
Amortisation	(142)	(132)
Net book value at 31 December	<b>7,039</b>	7,426

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

	2009 HK\$'million	2008 HK\$'million
Hong Kong	146	149
Mainland China	6,893	7,277
	<b>7,039</b>	7,426

## 21 Interests in subsidiaries

	Company	
	2009 HK\$million	2008 HK\$million
Unlisted shares, at cost	8,635	8,570
Advances to subsidiaries - non-current portion (note (a))		
– interest free	18,002	17,508
– interest bearing	432	700
	27,069	26,778
Advances to subsidiaries - current portion (note (b))	195	—
Advances from subsidiaries - non-current portion (note (c))		
– interest free	1,978	7,896
– interest bearing	6,896	—
	8,874	7,896
Advance from a subsidiary - current portion (note (d))	650	—

### Notes:

- The non-current portion of advances to subsidiaries of HK\$18,002 million (2008: HK\$17,508 million) are unsecured, interest free and will not be repayable within one year and are considered as equity in nature. The amount of HK\$432 million (2008: HK\$700 million) is unsecured, interest bearing at an effective interest rate of 1.18% to 1.20% per annum (2008: 0.79% to 1.19% per annum) and will not be repayable within one year.
- As at 31 December 2009, the current portion of advances to subsidiaries is unsecured, interest bearing at an effective interest rate of 0.84% to 2.58% per annum and will be repayable within one year.
- The non-current portion of advances from subsidiaries of HK\$6,896 million (2008: Nil) is unsecured, interest bearing at 7.25% and will not be repayable within one year. The amount of HK\$1,978 million (2008: HK\$7,896 million) is unsecured, interest free and will not be repayable within one year.
- The current portion of advance from a subsidiary is unsecured, interest free and will be repayable within one year.
- Particulars of the Company's principal subsidiaries at 31 December 2009 are set out in note 43 to the financial statements.

## Notes to the Financial Statements

### 22 Interests in associates

	Group		Company	
	2009 HK\$'million	2008 HK\$'million	2009 HK\$'million	2008 HK\$'million
Listed shares, at cost				
Shares listed in Mainland China (note (a))	—	—	—	325
Share of net assets of (note (b)):				
Listed associates	13,982	13,122	—	—
Unlisted associates	4,226	3,701	—	—
	<b>18,208</b>	16,823	—	325
Goodwill (note (c)):				
Listed associates	439	429	—	—
Unlisted associates	140	140	—	—
	<b>579</b>	569	—	—
	<b>18,787</b>	17,392	—	325
Market value of listed shares	<b>43,144</b>	23,683	—	757

Notes:

- (a) During the year, the Company sold all of its listed shares in an associate to its wholly-owned subsidiary at its carrying net book amount.
- (b) Movements of share of net assets attributable to the Group for the year:

	2009 HK\$'million	2008 HK\$'million
Carrying value as at 1 January	16,823	15,830
Exchange adjustments	103	574
Acquisitions	—	308
Share of profits less losses	2,226	2,565
Share of investment revaluation reserves	186	(946)
Share of capital reserve	56	—
Share of net actuarial gains/(losses) on defined benefit plans of associates	66	(129)
Dividends received and receivable	(1,252)	(1,379)
Carrying value as at 31 December	<b>18,208</b>	16,823

## 22 Interests in associates (Continued)

Notes: (Continued)

(c) Movement of goodwill during the year:

	2009 HK\$'million	2008 HK\$'million
Carrying value as at 1 January	569	328
Exchange adjustments	10	9
Acquisition	—	232
Carrying value as at 31 December	579	569

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

	2009				2008			
	CIMC HK\$'million	SIPG HK\$'million	Other ports operation HK\$'million	Total HK\$'million	CIMC HK\$'million	SIPG HK\$'million	Other ports operation HK\$'million	Total HK\$'million
Revenue	5,751	3,801	3,239	12,791	12,712	3,937	3,772	20,421
Net interest expenses	(26)	(124)	(29)	(179)	(141)	(91)	(132)	(364)
Depreciation and amortisation	(232)	(391)	(383)	(1,006)	(183)	(366)	(353)	(902)
Profit for the year	268	1,076	882	2,226	379	1,377	809	2,565
Non-current assets	4,738	12,012	9,793	26,543	4,426	11,712	9,319	25,457
Current assets	5,788	5,713	3,480	14,981	5,296	4,728	2,731	12,755
Current liabilities	(4,283)	(4,643)	(2,948)	(11,874)	(3,489)	(4,077)	(3,203)	(10,769)
Non-current liabilities and minority interest	(2,244)	(3,100)	(6,098)	(11,442)	(2,457)	(3,017)	(5,146)	(10,620)
Net assets attributable to the Group	3,999	9,982	4,227	18,208	3,776	9,346	3,701	16,823

(e) Particulars of the Group's principal associates at 31 December 2009 are set out in note 44 to the financial statements.



## Notes to the Financial Statements

### 23 Interests in jointly controlled entities

	Group		Company	
	2009 HK\$'million	2008 HK\$'million	2009 HK\$'million	2008 HK\$'million
Unlisted investment, at cost	—	—	3	3
Share of net assets of jointly controlled entities (note (a))	2,692	2,596	—	—
Goodwill (note (b))	50	50	—	—
	<b>2,742</b>	2,646	<b>3</b>	3

Notes:

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

	2009 HK\$'million	2008 HK\$'million
Carrying value as at 1 January	2,596	2,316
Exchange adjustments	3	146
Step up acquisition of a subsidiary (notes 37(b) and 40)	(12)	—
Share of profits less losses	128	98
Share of net actuarial gains on defined benefit plan of a jointly controlled entity	55	27
Gain on deemed disposal of partial interest in a jointly controlled entity (note (e))	—	15
Dividends received and receivable	(78)	(6)
Carrying value as at 31 December	<b>2,692</b>	2,596

(b) Movement of goodwill during the year:

	2009 HK\$'million	2008 HK\$'million
Carrying value as at 1 January	50	52
Exchange adjustments	—	4
Deemed disposal of partial interest in a jointly controlled entity (note (e))	—	(6)
Carrying value as at 31 December	<b>50</b>	50

## 23 Interests in jointly controlled entities (Continued)

Notes: (Continued)

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

	2009 HK\$'million	2008 HK\$'million
Revenue	907	915
Net interest expenses	(70)	(76)
Depreciation and amortisation	(181)	(172)
Profit for the year	128	98
Non-current assets	5,517	4,996
Current assets	491	543
Current liabilities	(989)	(820)
Non-current liabilities and minority interest	(2,327)	(2,123)
Net assets attributable to the Group	2,692	2,596

- (d) Particulars of the Company's and the Group's jointly controlled entities at 31 December 2009 are set out in note 45 to the financial statements.
- (e) On 28 July 2008, Zhanjiang Port (Group) Co., Ltd. ("ZPG"), a jointly controlled entity of the Group, increased its registered capital by issuing 420,690,955 new shares at RMB1.09 per share, representing 10.46% of its enlarged capital, to certain third party investors. As a result, the Group's interest in ZPG has been diluted from 45% to 40.2916% resulting in a gain on deemed disposal of HK\$15 million.

## 24 Other financial assets

	2009 HK\$'million	2008 HK\$'million
Held-to-maturity investments (note (a))	2	5
Available-for-sale financial assets (note (b))	2,835	1,604
	2,837	1,609

Notes:

- (a) Held-to-maturity investments

	2009 HK\$'million	2008 HK\$'million
Unlisted investments with fixed interest rate of 8.5% per annum in Mainland China, maturing in 2010	2	5

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

## Notes to the Financial Statements

### 24 Other financial assets (Continued)

Notes: (Continued)

(b) Available-for-sale financial assets

	2009 HK\$'million	2008 HK\$'million
Listed equity investments in Mainland China	664	154
Unlisted equity investments in Mainland China	2,171	1,450
	<b>2,835</b>	1,604

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

	2009 HK\$'million	2008 HK\$'million
Carrying value as at 1 January	1,604	493
Exchange difference	—	1
Additions	208	1,115
Net change in fair value transferred to equity (note 31(a))	1,023	(5)
Carrying value as at 31 December	<b>2,835</b>	1,604

All available-for-sale financial assets are denominated in Renminbi.

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

### 25 Prepayment

Pursuant to agreements dated 5 March 2009 and 5 May 2009 signed with a fellow subsidiary, the Group agreed to purchase two parcels of land located in Shenzhen Qianhaiwan Logistics Park, Nanshan District, Shenzhen, PRC (the "Qianhaiwan Land") at a consideration of RMB37 million and RMB76 million respectively (equivalent to approximately HK\$42 million and HK\$86 million). As at 31 December 2009, the prepayment of HK\$68 million represented the sum of approximately 80% and 40% of the respective consideration prepaid for the Qianhaiwan Land.

### 26 Inventories

	2009 HK\$'million	2008 HK\$'million
Raw materials	19	20
Spare parts and consumables	21	21
	<b>40</b>	41

## 27 Debtors, deposits and prepayments

	Group		Company	
	2009 HK\$'million	2008 HK\$'million	2009 HK\$'million	2008 HK\$'million
Trade debtors	581	469	—	—
Less: provision for impairment of receivables (note (a))	(25)	(36)	—	—
Trade debtors, net (note (b))	556	433	—	—
Amounts due from fellow subsidiaries (note (e))	9	7	1	3
Amounts due from associates (note (e))	5	3	—	—
Amounts due from a jointly controlled entity (note (e))	—	24	—	—
Dividend receivables from an available-for-sale financial asset and a jointly controlled entity	111	—	—	—
	681	467	1	3
Other debtors, deposits and prepayments	205	217	6	9
	886	684	7	12

Notes:

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

	2009 HK\$'million	2008 HK\$'million
At 1 January	36	117
Provision for impairment of receivables	1	42
Reversal of provision	(5)	(37)
Receivables written off for the year	(7)	—
Disposal of subsidiaries	—	(11)
Reclassification to assets of disposal group classified as held for sale	—	(75)
At 31 December	25	36

The creation and release of provision for impairment of receivables have been included in administrative expenses in the consolidated income statement. The other classes within debtors, deposits and prepayments do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of debtors, deposits and prepayments. The Group does not hold any collateral as security.

(b) Bill receivables of HK\$36 million (2008: HK\$17 million) are included in trade debtors as at 31 December 2009.

## Notes to the Financial Statements

### 27 Debtors, deposits and prepayments (Continued)

Notes: (Continued)

(c) The Group has a credit policy of allowing an average credit period of 90 days to its trade customers. The ageing analysis of trade debtors is as follows:

	2009 HK\$'million	2008 HK\$'million
Not yet due	165	142
1 - 30 days	195	163
31 - 60 days	99	69
61 - 120 days	60	47
Over 120 days	37	12
	<b>556</b>	<b>433</b>

(d) As at 31 December 2009, trade debtors of HK\$354 million (2008: HK\$279 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade debtors is as follows:

	2009 HK\$'million	2008 HK\$'million
1 to 30 days	195	163
31 to 60 days	99	69
61 to 90 day	49	30
91 to 120 days	11	17
	<b>354</b>	<b>279</b>

Trade debtors of HK\$62 million (2008: HK\$48 million) have indication of impairment, in which provision of HK\$25 million (2008: HK\$36 million) has been made as at 31 December 2009. The individually impaired receivable mainly related to customers which were in unexpected difficult financial situations. It was assessed that a portion of the receivable was expected to be recovered.

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

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

	Group		Company	
	2009 HK\$'million	2008 HK\$'million	2009 HK\$'million	2008 HK\$'million
Hong Kong dollar	121	103	1	3
Renminbi	556	353	—	—
United States dollar	4	11	—	—
	<b>681</b>	<b>467</b>	<b>1</b>	<b>3</b>

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

(h) Other than prepayments, all amounts included in debtors, deposits and prepayments are financial instruments categorised under loans and receivables.

## 28 Cash and cash equivalents

	Group		Company	
	2009 HK\$'million	2008 HK\$'million	2009 HK\$'million	2008 HK\$'million
Cash at bank and in hand	867	1,061	13	206
Short-term bank deposits	2,339	1,745	2,035	1,479
	<b>3,206</b>	2,806	<b>2,048</b>	1,685

The weighted average effective interest rate on time deposits as at year end was approximately 0.27% (2008: 1.12%) per annum. These deposits had an average maturity period of 56 days (2008: 24 days).

Cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2009 HK\$'million	2008 HK\$'million	2009 HK\$'million	2008 HK\$'million
Hong Kong dollar	1,854	1,061	1,663	516
Renminbi	954	493	—	—
United States dollar	373	1,228	360	1,145
Other currencies	25	24	25	24
	<b>3,206</b>	2,806	<b>2,048</b>	1,685

## 29 Non-current assets held for sale

On 18 December 2009, the Group entered into a Joint Venture Agreement (the "JV Agreement") with Qingdao New Qianwan Container Terminal Co., Ltd. ("QQCTN"), to establish a joint venture, Qingdao Qianwan United Container Terminal Co., Ltd. ("QQCTU"). Each of the Group and QQCTN owns 50% equity interest in QQCTU. The principal activities of QQCTU are construction, operation and management of container terminals on the southern bank of Qianwan Harbour District of Qingdao Port and the provision of port-related services.

Pursuant to the JV Agreement, the Group and QQCTN shall respectively inject or sell certain of and all of their assets, including berths, storage yards and ancillary facilities and machinery to QQCTU. As at 31 December 2009, the aggregate carrying value of the assets to be injected or sold by the Group to QQCTU is HK\$2,553 million (comprising land use rights of HK\$233 million and property, plant and equipment of HK\$2,320 million) and the amount has been presented as non-current assets held for sale in the consolidated financial statements as at 31 December 2009.

## Notes to the Financial Statements

### 30 Share capital

	Company			
	Number of shares		Share capital	
	2009	2008	2009 HK\$ million	2008 HK\$ million
Ordinary shares of HK\$0.1 each				
Authorised:				
At 1 January and 31 December	<b>5,000,000,000</b>	5,000,000,000	<b>500</b>	500
Issued and fully paid ordinary shares of HK\$0.1 each:				
At 1 January	<b>2,423,435,842</b>	2,406,111,200	<b>242</b>	241
Issue of shares on exercise of share options (note (a))	<b>551,000</b>	2,076,000	<b>—</b>	—
Issue of scrip dividend shares (note (b))	<b>8,762,181</b>	15,248,642	<b>1</b>	1
At 31 December	<b>2,432,749,023</b>	2,423,435,842	<b>243</b>	242

Notes:

- (a) During the year, 551,000 (2008: 2,076,000) shares were issued upon exercise of share options. Total proceeds were HK\$11 million (2008: HK\$39 million). The weighted average share price at the time of exercise was HK\$27.33 (2008: HK\$34.82) per share. The related transaction costs have been deducted from the proceeds received.
- During the year, no ordinary shares were repurchased.
- (b) The Company distributed dividends to its shareholders by way of scrip dividends, with a cash alternative to shareholders. Details of ordinary shares of HK\$0.1 each issued by the Company as dividends are as follows:

	Date of issue	Number of shares issued	Nominal value of shares issued HK\$ million	Premium on shares issued HK\$ million	Total scrip dividend HK\$ million
2008 final dividend	17 July 2009	5,101,720	1	111	112
2009 interim dividend	<b>27 November 2009</b>	<b>3,660,461</b>	<b>—</b>	<b>91</b>	<b>91</b>
2009 Total		<b>8,762,181</b>	<b>1</b>	<b>202</b>	<b>203</b>
2008 Total		15,248,642	1	326	327

## 30 Share capital (Continued)

Notes: (Continued)

### (c) Share options

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

	2009		2008	
	Weighted average exercise price HK\$	Number of share options	Weighted average exercise price HK\$	Number of share options
At 1 January	21.83	31,124,000	21.68	33,200,000
Exercised	20.86	(551,000)	19.19	(2,076,000)
Lapsed	23.03	(180,000)	—	—
At 31 December	21.84	30,393,000	21.83	31,124,000

All share options were exercisable as at 31 December 2009. Share options outstanding at 31 December 2009 have the following expiry dates and exercise prices:

Year of expiry	Exercise price HK\$	Share options	
		2009 Number of share options	2008 Number of share options
2012	4.985	100,000	100,000
2014	11.08	2,838,000	2,938,000
2016	23.03	27,305,000	27,936,000
2016	20.91	150,000	150,000
		30,393,000	31,124,000



## Notes to the Financial Statements

### 31 Reserves

#### (a) Other reserves

	Group					
	Share-based compensation reserve HK\$'million	Capital reserves (Note (i)) HK\$'million	Investment revaluation reserve HK\$'million	Translation reserve HK\$'million	Statutory reserves (Note (ii)) HK\$'million	Total HK\$'million
At 1 January 2009	190	(508)	853	3,168	1,414	5,117
Share of reserves of associates	—	56	186	—	—	242
Realisation of reserves upon disposal of subsidiaries	—	(52)	—	(19)	(77)	(148)
Exchange adjustments	—	—	—	40	—	40
Increase in fair value of available-for-sale financial assets (note 24(b))	—	—	1,023	—	—	1,023
Transfer from retained earnings	—	—	—	—	150	150
At 31 December 2009	190	(504)	2,062	3,189	1,487	6,424
At 1 January 2008	190	(1,542)	2,073	1,768	1,302	3,791
Share of reserves of associates	—	—	(946)	—	—	(946)
Realisation of reserves upon disposal of subsidiaries	—	—	—	(12)	(4)	(16)
Realisation of reserve upon disposal of an available-for-sale financial asset (note 7)	—	—	(269)	—	—	(269)
Exchange adjustments	—	—	—	1,412	—	1,412
Decrease in fair value of available-for-sale financial assets (note 24(b))	—	—	(5)	—	—	(5)
Gain on partial disposal of subsidiaries (note 39)	—	1,034	—	—	—	1,034
Transfer from retained earnings	—	—	—	—	116	116
At 31 December 2008	190	(508)	853	3,168	1,414	5,117

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)

### (b) Reserves

	Company				
	Share premium HK\$'million	Share-based compensation reserve HK\$'million	Capital reserve (Note) HK\$'million	Retained earnings HK\$'million	Total HK\$'million
At 1 January 2009	14,186	190	2,340	3,001	19,717
Issue of shares on exercise of share options, net of share issue expenses of HK\$0.1 million	11	—	—	—	11
Profit for the year	—	—	—	977	977
Dividends paid (note 30(b))	202	—	—	(1,576)	(1,374)
At 31 December 2009	14,399	190	2,340	2,402	19,331
Representing:				1,623	
Reserves				779	
Proposed dividend				2,402	
At 1 January 2008	13,821	190	2,340	3,137	19,488
Issue of shares on exercise of share options, net of share issue expenses of HK\$0.1 million	39	—	—	—	39
Profit for the year	—	—	—	1,622	1,622
Dividends paid (note 30(b))	326	—	—	(1,758)	(1,432)
At 31 December 2008	14,186	190	2,340	3,001	19,717
Representing:				2,032	
Reserves				969	
Proposed dividend				3,001	

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.

## Notes to the Financial Statements

### 32 Other financial liabilities

	Group		Company	
	2009 HK\$'million	2008 HK\$'million	2009 HK\$'million	2008 HK\$'million
Unsecured short-term bank loans	892	573	—	—
Long-term bank loans, wholly repayable within five years				
– unsecured	2,413	3,080	—	309
– secured (note (a))	7	—	—	—
Unsecured long-term bank loans, not wholly repayable within five years	79	79	—	—
	3,391	3,732	—	309
Loan from a minority shareholder of a subsidiary (note (c))	62	62	—	—
Listed notes payable (note (d))				
– US\$300 million, 6.125% guaranteed listed notes maturing in 2013	2,312	2,307	—	—
– US\$500 million, 5.375% guaranteed listed notes maturing in 2015	3,862	3,857	—	—
– US\$200 million, 7.125% guaranteed listed notes maturing in 2018	1,528	1,525	—	—
Total	11,155	11,483	—	309
Less: amounts due within one year included under current liabilities	(1,857)	(1,237)	—	—
Non-current portion	9,298	10,246	—	309

#### Notes:

- (a) As at 31 December 2009, bank loans of HK\$7 million (2008: Nil) are secured by property, plant and equipment with net book value HK\$47 million (2008: Nil).
- (b) Bank borrowings drawn and listed notes issued by subsidiaries of the Group of HK\$9,002 million (2008: HK\$8,989 million) are secured by corporate guarantees provided by the Company.
- (c) Loan from a minority shareholder of a subsidiary is unsecured, interest free and is repayable on demand.

## 32 Other financial liabilities (Continued)

Notes: (Continued)

(d) Effective interest rates of the listed notes payable are as follows:

	2009	2008
US\$300 million, 6.125% guaranteed listed notes maturing in 2013	6.33%	6.33%
US\$500 million, 5.375% guaranteed listed notes maturing in 2015	5.47%	5.47%
US\$200 million, 7.125% guaranteed listed notes maturing in 2018	7.36%	7.36%

(e) As at 31 December 2009, the Group has undrawn bank loan facilities amounting to HK\$7,310 million (2008: HK\$10,541 million), out of which HK\$6,610 million (2008: HK\$9,436 million) and HK\$700 million (2008: HK\$1,105 million) are committed and uncommitted credit facilities respectively.

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

	Bank borrowings		Listed notes payable		Loan from a minority shareholder of a subsidiary		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million
Within 1 year	1,795	1,175	—	—	62	62	1,857	1,237
Between 1 and 2 years	394	896	—	—	—	—	394	896
Between 2 and 5 years	1,123	1,582	2,312	2,307	—	—	3,435	3,889
Wholly repayable within 5 years	3,312	3,653	2,312	2,307	62	62	5,686	6,022
Not wholly repayable within 5 years	79	79	5,390	5,382	—	—	5,469	5,461
	3,391	3,732	7,702	7,689	62	62	11,155	11,483

(g) The effective interest rates of bank borrowings at the end of the reporting period were as follows:

	Group		Company	
	2009	2008	2009	2008
Hong Kong dollar	0.94% to 1.67%	1.45% to 3.08%	—	—
Renminbi	4.37% to 5.51%	4.78% to 7.47%	—	—
United States dollar	—	2.08% to 2.18%	—	2.18%

(h) The fair values of long-term bank loans and the listed notes payable were HK\$2,495 million (2008: HK\$3,038 million) and HK\$8,131 million (2008: HK\$7,183 million) respectively. The fair value of long-term bank loans was determined by discounting the future cash flows at the current market interest rate available to the Group and the fair value of the listed notes payable was determined with reference to quoted market price. Other than long-term bank loans and the listed notes payable, the carrying amounts of the other financial liabilities approximate their fair values as at 31 December 2009.

## Notes to the Financial Statements

### 32 Other financial liabilities (Continued)

Notes: (Continued)

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

	Group		Company	
	2009 HK\$'million	2008 HK\$'million	2009 HK\$'million	2008 HK\$'million
Hong Kong dollar	2,988	2,640	—	—
Renminbi	465	651	—	—
United States dollar	7,702	8,192	—	309
	<b>11,155</b>	11,483	—	309

### 33 Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using taxation rates enacted or substantively enacted by the end of the reporting period in the respective jurisdictions. The net movement in the deferred tax assets and liabilities is as follows:

	2009 HK\$'million	2008 HK\$'million
At 1 January	(604)	(432)
Exchange adjustments	(9)	(9)
Acquisition of subsidiaries	—	(1)
Disposal of subsidiaries	—	(1)
Reclassification to assets of disposal group classified as held for sale (note 13(b))	—	(13)
Effect of change in tax rate	—	7
Charged to consolidated income statement	(89)	(155)
At 31 December	<b>(702)</b>	(604)

### 33 Deferred taxation (Continued)

Deferred income tax assets are recognised for tax loss carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK\$583 million (2008: HK\$338 million) to be carried forward against future taxable income. The unrecognised tax losses of HK\$22 million (2008: HK\$16 million) can be carried forward indefinitely. The remaining HK\$561 million (2008: HK\$322 million) expires in the following years:

	2009 HK\$'million	2008 HK\$'million
2009	—	3
2010	2	2
2011	52	61
2012	110	111
2013	145	145
2014	252	—
	<b>561</b>	322

The movement in deferred tax liabilities during the year is as follows:

Deferred tax liabilities	Withholding tax relating to unremitted earnings		Accelerated tax depreciation allowance		Total	
	2009 HK\$'million	2008 HK\$'million	2009 HK\$'million	2008 HK\$'million	2009 HK\$'million	2008 HK\$'million
At 1 January	(162)	—	(469)	(468)	(631)	(468)
Exchange adjustment	(1)	(2)	(9)	(3)	(10)	(5)
Acquisition of subsidiaries	—	—	—	(1)	—	(1)
Reclassification to liabilities of disposal group classified as held for sale	—	13	—	—	—	13
(Charged)/credited to consolidated income statement	(85)	(173)	(10)	3	(95)	(170)
At 31 December	<b>(248)</b>	(162)	<b>(488)</b>	(469)	<b>(736)</b>	(631)

Note:

During the year, the Group has paid HK\$92 million (2008: Nil) withholding tax on dividend declared by subsidiaries, associates and jointly controlled entities.

## Notes to the Financial Statements

### 33 Deferred taxation (Continued)

The movement in deferred tax assets during the year is as follows:

Deferred tax assets	Provision for doubtful debts and inventories		Others		Total	
	2009 HK\$'million	2008 HK\$'million	2009 HK\$'million	2008 HK\$'million	2009 HK\$'million	2008 HK\$'million
At 1 January	1	11	26	25	27	36
Exchange adjustment	—	—	1	(4)	1	(4)
Disposal of subsidiaries (note 37(c))	—	—	—	(1)	—	(1)
Reclassification to assets of disposal group classified as held for sale	—	(26)	—	—	—	(26)
Effect of change in tax rate	—	7	—	—	—	7
Credited to consolidated income statement	—	9	6	6	6	15
At 31 December	1	1	33	26	34	27

### 34 Creditors and accruals

	Group		Company	
	2009 HK\$'million	2008 HK\$'million	2009 HK\$'million	2008 HK\$'million
Trade creditors (note (a))	86	70	—	—
Amount due to an intermediate holding company (note (b))	4	4	—	—
Amounts due to fellow subsidiaries (note (b))	193	332	—	176
Amounts due to associates (note (b))	9	6	—	—
Amounts due to jointly controlled entities (note (b))	4	1	—	—
	296	413	—	176
Other payables and accruals	1,297	1,942	224	464
	1,593	2,355	224	640

### 34 Creditors and accruals (Continued)

Notes:

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

	2009 HK\$'million	2008 HK\$'million
0 - 30 days	49	54
31 - 60 days	9	6
61 - 120 days	8	4
Over 120 days	20	6
	<b>86</b>	70

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

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

	Group		Company	
	2009 HK\$'million	2008 HK\$'million	2009 HK\$'million	2008 HK\$'million
Hong Kong dollar	42	211	—	176
Renminbi	253	202	—	—
United States dollar	1	—	—	—
	<b>296</b>	413	<b>—</b>	176

(d) Other than the accruals, all amounts included in creditors and accruals are financial instruments categorised as financial liabilities at amortised cost.

### 35 Loans from the ultimate holding company

The loans from the ultimate holding company are unsecured, interest bearing at annual rates of 2.45% to 5.2% (2008: 4.83% to 5.2%) and are denominated in Renminbi.

Loans amounted to HK\$1,652 million are repayable in 2010 (2008: HK\$1,742 million).

For remaining loans amounting to HK\$914 million (2008: HK\$907 million), they are repayable in 2011 to 2017 and in accordance with the stipulated loan agreements, the ultimate holding company can demand for repayment with one month notice and the directors have classified these loans in current liabilities accordingly.

### 36 Loans from an intermediate holding company

The loans from an intermediate holding company are unsecured, interest bearing at annual rate of 4.35% and are denominated in Renminbi.

The loans are repayable in 2012 to 2019 and in accordance with the stipulated loan agreements, the intermediate holding company can demand for repayment with one month notice and the directors have classified these loans in current liabilities accordingly.



## Notes to the Financial Statements

### 37 Consolidated statement of cash flows

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

	2009 HK\$'million	2008 HK\$'million
Operating profit		
– continuing operations	1,541	1,935
– discontinued operation	—	305
	<b>1,541</b>	2,240
Adjustments for:		
Depreciation and amortisation	837	772
Gain on disposal of subsidiaries	—	(33)
(Gain)/loss on disposal of property, plant and equipment and land use rights	(22)	1
Income received from held-to-maturity investments	(1)	(1)
Increase in fair value of investment properties	(175)	(68)
Gain on disposal of asset held for sale	—	(280)
Gain on deemed disposal of partial interest in a jointly controlled entity	—	(15)
Operating profit before working capital changes	<b>2,180</b>	2,616
Decrease in inventories	1	19
(Increase)/decrease in debtors, deposits and prepayments	(152)	322
Decrease in creditors and accruals	(402)	(494)
Net cash inflow from operations	<b>1,627</b>	2,463

## 37 Consolidated statement of cash flows (Continued)

### (b) Purchase of subsidiaries

	2009 HK\$'million	2008 HK\$'million
The fair value of assets acquired and liabilities assumed:		
Property, plant and equipment	45	40
Inventories	1	—
Debtors, deposits and prepayments	1	7
Bank balances and cash	2	50
Creditors and accruals	(2)	(2)
Other financial liabilities	(24)	—
Taxation payable	—	(1)
Deferred tax liabilities	—	(1)
Minority interest	—	(28)
	<b>23</b>	65
Interest in a jointly controlled entity previously recognised	(12)	—
	<b>11</b>	65
Goodwill arose from acquisition	—	2
	<b>11</b>	67
Representing:		
Cash consideration	11	66
Direct costs incurred	—	1
	<b>11</b>	67
Analysis of cash flows on purchase of subsidiaries:		
Cash consideration paid	(11)	(67)
Bank balances and cash in hand acquired	2	50
Net cash outflow on purchase of subsidiaries	<b>(9)</b>	(17)

## Notes to the Financial Statements

### 37 Consolidated statement of cash flows (Continued)

#### (c) Disposal of subsidiaries

	2009 HK\$'million	2008 HK\$'million
Net assets disposed		
Investment property	—	16
Deferred tax assets	—	1
	—	17
Debtors, deposits and prepayment	—	15
Assets of disposal group classified as held for sale	<b>1,684</b>	—
Liabilities of disposal group classified as held for sale	<b>(642)</b>	—
Minority interest	<b>(375)</b>	—
	<b>667</b>	32
Realisation of reserves upon disposal of subsidiaries	<b>(19)</b>	—
	<b>648</b>	32
Cash consideration, net	<b>1,140</b>	65
Gain on disposal of subsidiaries	<b>492</b>	33
Analysis of cash flows on disposal of subsidiaries		
Cash consideration	<b>1,146</b>	65
Less: transaction costs paid	<b>(6)</b>	—
	<b>1,140</b>	65
Cash and cash equivalents disposed	<b>(365)</b>	—
Net cash inflow on disposal of subsidiaries	<b>775</b>	65

## 38 Commitments

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

	2009 HK\$'million	2008 HK\$'million
Company and subsidiaries		
Authorised but not contracted		
– Property, plant and equipment	723	201
Contracted but not provided for		
– Property, plant and equipment	731	1,649
– Leasehold land and land use rights	60	—
	791	1,649
Jointly controlled entities		
Contracted but not provided for		
– Property, plant and equipment	254	195
	1,768	2,045

### (b) Capital commitments for investments

	2009 HK\$'million	2008 HK\$'million
Contracted but not provided for		
– Port projects	1,748	612

### (c) Commitments under operating leases

At 31 December 2009, 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:

	2009 HK\$'million	2008 HK\$'million
Within one year	88	103
In the second to fifth year inclusive	99	41
After the fifth year	38	45
	225	189

## Notes to the Financial Statements

### 38 Commitments (Continued)

#### (d) Future operating lease receivables

At 31 December 2009, the Group had future aggregate lease receivables under non-cancellable operating leases for land and buildings as follows:

	2009 HK\$'million	2008 HK\$'million
Within one year	68	60
In the second to fifth year inclusive	71	52
After the fifth year	2	—
	141	112

### 39 Partial disposal of subsidiaries

In 2007, the Group restructured its ports interests in Shekou, PRC. Under the restructuring, the Group granted a written put option to Modern Terminals Limited ("MTL") which enabled MTL to sell its 20% equity interest in Mega Shekou Container Terminals Limited ("Mega SCT"), to the Group within one year from 22 February 2007. The Group accounted for its obligation to purchase the equity interest of Mega SCT as financial liabilities and no minority interest was recognised as substantial risks and rewards was retained by the Group before lapse of the put option.

On 22 February 2008, the put option lapsed and the Group effectively disposed 20% of its interest in Mega SCT to MTL.

As a result of the disposal, the Group derecognised the goodwill attributable to the equity interest of HK\$1,239 million and recognised minority interest in net asset of Mega SCT of HK\$651 million. Since the Group adopted the economic entity method for accounting of transaction with minority shareholders, the difference arising of HK\$1,034 million from the disposal was credited to equity.

#### 40 Business combination

On 24 September 2009, the Group acquired the remaining equity interest of 49% in China Merchants Towage (Qingdao) Co., Ltd. (formerly known as China Merchants Svitzer (Qingdao) Towage Company Limited) ("Qingdao Towage"). After the completion of the acquisition, Qingdao Towage was changed from a jointly controlled entity to a wholly-owned subsidiary. The principal activity of Qingdao Towage is provision of tugboat services. Details of the acquisition are as follows:

	2009 HK\$ million
Purchase consideration - Cash paid	11
The fair value of assets acquired and liabilities assumed	23
Less: interest in a jointly controlled entity previously recognised (note 23(a))	(12)
Fair value of net identifiable assets	11
Goodwill	—

#### 41 Related party transactions

The directors regard CMG, a company incorporated in the PRC as being the Company's ultimate holding company.

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 and its subsidiaries. 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 2009 are as follows:

## Notes to the Financial Statements

### 41 Related party transactions (Continued)

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

	Note	2009 HK\$'million	2008 HK\$'million
Sales of goods to	(i)		
– associates		—	480
– a fellow subsidiary		—	8
Rental income from	(ii)		
– an intermediate holding company		22	22
– a fellow subsidiary		10	10
Service income from	(iii)		
– an associate		3	—
– a fellow subsidiary		2	—
– a jointly controlled entity		3	—
Rental expenses paid to fellow subsidiaries	(ii)	120	79
Service fees paid to			
– fellow subsidiaries	(iv)	5	6
– a jointly controlled entity	(v)	7	3
Interest expenses and upfront fee paid to			
– the ultimate holding company	(vi)	110	97
– an intermediate holding company	(vi)	37	—

#### Notes:

- (i) Sales of goods were conducted at negotiated prices by transacting parties.
- (ii) The Group rented certain vessels and properties from and leased office premises to the CMG Group. Rental income or expense were charged at a fixed amount per month in accordance with respective tenancy agreements.
- (iii) The service fees were charged by reference to market rates.
- (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) The jointly controlled entity provided information technology system and services to the Group. The service fees were charged by reference to market rates.
- (vi) Interest expenses were charged at interest rate as specified in note 35 and note 36 to the financial statements on the outstanding amounts due to the ultimate holding company and an intermediate holding company.

The balances with entities within the CMG Group as at 31 December 2009 are disclosed in notes 27, 34, 35 and 36 to the financial statements.

## 41 Related party transactions (Continued)

### (b) Balances and transactions with minority shareholders of subsidiaries:

	Note	2009 HK\$'million	2008 HK\$'million
Sales of goods	(i)	—	189
Rental income	(ii)	—	3
Royalty paid	(iii)	—	92
Service expense	(iv)	15	19

Notes:

- (i) Sales of goods were determined by a subsidiary of the Group on the basis of the subsidiary's total production costs for the products plus a mark-up.
- (ii) Rental income was charged at a fixed amount per month in accordance with respective tenancy agreement.
- (iii) Royalties were based on percentages of the net sales of paints in accordance with respective agreement.
- (iv) Service expense was based on the number and the type of vehicles to be used for container transportation and the operators required for such transportation in accordance with respective agreement.

The balances with minority shareholder of a subsidiary are disclosed in note 32 to the financial statements.

### (c) Key management compensation

	2009 HK\$'million	2008 HK\$'million
Salaries and other short-term employee benefits	9	13

## 42 Subsequent event

Pursuant to a sale and purchase agreement dated 30 March 2010, the Company agreed to dispose of its entire interest in Asia Zone Investment Limited ("Asia Zone") at its carrying value as at 31 December 2009 to Green Noble Limited, a 51% owned subsidiary of the Group. Asia Zone indirectly holds 70% indirect equity interests in China Merchants International Cold Chain (Shenzhen) Company Limited, which principally engaged in provision of cold storage services.



## Notes to the Financial Statements

### 43 Particulars of principal subsidiaries

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

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

Name of subsidiary	Place of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of issued capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
China Merchants Container Services Limited	Hong Kong	HK\$500,000	—	100.00%	Provision of container terminal services and ports transportation
China Merchants International Container Terminal (Qingdao) Co., Ltd. #	PRC	US\$206,300,000	—	100.00%	Provision of container terminal services and ports transportation
China Merchants (CIMC) Holdings Limited	Hong Kong	HK\$2	100.00%	—	Investment holding and securities trading
China Merchants Port Services (Shenzhen) Company Limited **	PRC	RMB550,000,000	—	100.00%	Provision of terminal services and ports transportation
China Merchants International Terminals (Ningbo) Limited	British Virgin Islands	US\$1	100.00%	—	Investment holding
China Merchants International Terminal (Qingdao) Company Ltd. ^	PRC	US\$12,000,000	—	90.10%	Port, container terminal and logistic business
China Merchants Maritime & Logistics (Shenzhen) Ltd. #	PRC	RMB400,000,000	—	60.00%	Provision of container related logistics services
China Merchants Towage (Qingdao) Co., Ltd. (formerly known as China Merchants Svitzer (Qingdao) Towage Co., Ltd.) ^*	PRC	RMB27,000,000	—	100%	Operation of tugboats
CMH International (China) Investment Co., Ltd. # <sup>1</sup>	PRC	US\$30,000,000	100.00%	—	Investment holding

#### 43 Particulars of principal subsidiaries (Continued)

Name of subsidiary	Place of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of issued capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Mega Shekou Container Terminals Limited	British Virgin Islands	US\$120	—	80.00%	Investment holding
Shenzhen Mawan Port Service Co., Ltd. ^*	PRC	RMB200,000,000	—	70.00%	Operation of berth No. 5 in Mawan, Shenzhen, PRC
Shenzhen Mawan Wharf Co., Ltd. ^*	PRC	RMB200,000,000	—	70.00%	Operation of berth No. 0 in Mawan, Shenzhen, PRC
Shenzhen Mawan Terminals Co., Ltd. ^*	PRC	RMB335,000,000	—	70.00%	Operation of berths No. 6 & No. 7 in Mawan, Shenzhen, PRC
Shenzhen Hauxing Harbor Development Company Ltd. ^1	PRC	US\$15,151,500	—	67.00%	Ports and container terminal business
Shenzhen Huxing Tug Service Co., Ltd ^1	PRC	RMB2,000,000	—	55.00%	Operation of tugboats
Shenzhen Haiqin Engineering Supervision & Management Co., Ltd. ^1*	PRC	RMB3,000,000	—	55.00%	Provision of services on ports construction
She Kou Container Terminals Ltd. #	PRC	HK\$618,201,150	—	80.00%	Operation of berth No. 1 & 2 in Shekou, PRC
Shekou Container Terminals (Phase II) Company Limited #	PRC	RMB608,549,000	—	80.00%	Operation of berth No. 3 & 4 in Shekou, PRC

## Notes to the Financial Statements

### 43 Particulars of principal subsidiaries (Continued)

Name of subsidiary	Place of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of issued capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Shekou Container Terminals (Phase III) Company Limited #	PRC	RMB1,276,000,000	—	80.00%	Operation of berth No. 5 to No.8 in Shekou, PRC
Universal Sheen Investment Limited	Hong Kong	HK\$100	100.00%	—	Property holding
Zhangzhou China Merchants Port Co., Ltd.^	PRC	RMB1,000,000,000	—	60.00%	Operation of berths No. 3 to No. 6 in the Zhangzhou Economic Development Zone, Fujian Province, PRC
Zhangzhou China Merchants Tugboat Company Limited ^	PRC	RMB15,000,000	—	70.00%	Operation of tugboats in the Zhangzhou Economic Development Zone, Fujian Province, PRC
China Merchants International Cold Chain (Shenzhen) Company Limited ^1	PRC	US\$5,000,000	—	70.00%	Operation of reefer warehouse in Shenzhen, PRC
Antongjie Port and Warehouse Services (Shenzhen) Company Limited# 1 *	PRC	HK\$100,000,000	—	100.00%	Holding of a piece of land in Shekou, PRC
Ansuji Port and Warehouse Services (Shenzhen) Company Limited# 1 *	PRC	HK\$100,000,000	—	100.00%	Holding of a piece of land in Shekou, PRC

#### 43 Particulars of principal subsidiaries (Continued)

Name of subsidiary	Place of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of issued capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Anyunjie Port and Warehouse Services (Shenzhen) Company Limited <sup>#1*</sup>	PRC	RMB60,600,000	—	80.00%	Holding of certain pieces of land in Shekou, PRC
Xia Men Bay China Merchants Terminals Co., Ltd. <sup>^1</sup>	PRC	RMB80,000,000	—	60.00%	Provision of container terminal services and ports transportation

<sup>1</sup> The financial statements of these subsidiaries were not audited by PricewaterhouseCoopers

<sup>#</sup> Foreign investment enterprises

<sup>^</sup> Sino-foreign joint ventures

<sup>\*</sup> Being unofficial English name

## Notes to the Financial Statements

### 44 Particulars of principal associates

Name of associate	Place of incorporation/ registration and operation	Proportion of issued capital/ registered capital indirectly held by the Company	Principal activities
Asia Airfreight Terminal Company Limited <sup>1</sup>	Hong Kong	20.00%	Airfreight
China International Marine Containers (Group) Co., Ltd. (B shares listed in the Mainland China) <sup>1</sup>	PRC	24.82%	Design, manufacture and sales of dry freight containers and refrigerated containers
China Nanshan Development (Group) Inc. <sup>^1</sup>	PRC	37.01%	Ports transportation, petroleum services, property development, food and oil processing, building materials and other engineering services
Modern Terminals Limited <sup>1</sup>	Hong Kong	27.01%	Provides container terminal services and warehouse services
Chiwan Container Terminal Co., Ltd. <sup>^</sup>	PRC	20.00%	Ports and container terminal business
Shanghai International Port (Group) Co., Ltd. (A shares listed in the Mainland China) <sup>^1</sup>	PRC	26.54%	Ports and container terminal business
Tianjin Haitian Bonded Logistics Co., Ltd. <sup>^1</sup>	PRC	49.00%	Provides container terminal services and warehouse services
Shenzhen Tiehe Storage & Transportation Co., Ltd. <sup>^1</sup>	PRC	45.00%	Provision of logistics and storage services

<sup>1</sup> The financial statements of these associates were not audited by PricewaterhouseCoopers

<sup>^</sup> Sino-foreign joint ventures

## 45 Particulars of principal jointly controlled entities

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

<sup>1</sup> The financial statements of these jointly controlled entities were not audited by PricewaterhouseCoopers

<sup>^</sup> Sino-foreign joint ventures

<sup>\*</sup> Being unofficial English name

# Corporate Information

## BOARD OF DIRECTORS

Dr. Fu Yuning (*Chairman*)

Mr. Li Yinquan

Mr. Hu Zheng

Mr. Meng Xi

Mr. Su Xingang

Mr. Yu Liming

Mr. Hu Jianhua (*Managing Director*)

Mr. Wang Hong

Mr. Liu Yunshu (appointed on 3 June 2009)

Mr. Tsang Kam Lan\*

Mr. Kut Ying Hay\*

Mr. Lee Yip Wah Peter\*

Mr. Li Kwok Heem John\*

Mr. Li Ka Fai David\*

Mr. To Wing Sing (resigned on 3 June 2009)

\* independent non-executive director

## REGISTERED OFFICE

38th Floor, China Merchants Tower

Shun Tak Centre

168-200 Connaught Road Central

Hong Kong

## COMPANY SECRETARY

Mr. Leung Chong Shun, Practising Solicitor

## PRINCIPAL BANKERS

China Construction Bank

Industrial and Commercial Bank of China

China Merchants Bank

Bank of China

## AUDITOR

PricewaterhouseCoopers

## LEGAL ADVISER

Linklaters

## STOCK CODE

00144

## REGISTRARS

Computershare Hong Kong Investor

Services Limited

17th Floor, Hopewell Centre

183 Queen's Road East

Hong Kong

## WEBSITE

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

# Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at the Ball Room, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Tuesday, 25 May 2010 at 9:30 a.m. for the following purposes:

1. To receive and consider the Audited Consolidated Financial Statements and the Report of the Directors and the Independent Auditor's Report for the year ended 31 December 2009.
2. To declare a final dividend for the year ended 31 December 2009.
3. To re-elect the retiring Director and to authorise the Board to fix the remuneration of Directors.
4. To re-appoint Auditor and to authorise the Board to fix their remuneration.
5. As special business, to consider and, if thought fit, to pass with or without modifications the following resolutions as ordinary resolutions:

A. "THAT:

- (a) subject to paragraph (c) of this Resolution and pursuant to section 57B of the Companies Ordinance, the exercise by the Directors of the Company during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company or securities convertible into such shares or options, warrants or similar rights to subscribe for any shares in the Company and to make or grant offers, agreements and options which might require the exercise of such power be and is hereby generally and unconditionally approved;

- (b) the approval in paragraph (a) of this Resolution shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such power after the end of the Relevant Period;

- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as defined below); (ii) the exercise of rights of subscription or conversion under the terms of any warrants issued by the Company or any securities which are convertible into shares of the Company; (iii) any option scheme or similar arrangement for the time being adopted for the grant or issue of shares or rights to acquire shares of the Company; or (iv) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Articles of Association of the Company, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this Resolution and the said approval shall be limited accordingly; and

- (d) for the purposes of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;



## Notice of Annual General Meeting

- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable law to be held; and
- (iii) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders in general meeting.

“Rights Issue” means an offer of shares of the Company open for a period fixed by the Directors of the Company to holders of shares of the Company on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong).”

B. “THAT:

- (a) subject to paragraph (b) of this Resolution, the exercise by the Directors of the Company during the Relevant Period (as defined below) of all the powers of the Company to repurchase its own shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all

applicable laws and the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;

- (b) the aggregate nominal amount of shares of the Company which may be repurchased by the Company pursuant to the approval in paragraph (a) of this Resolution during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution and the said approval shall be limited accordingly; and
- (c) for the purposes of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable law to be held; and
- (iii) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders of the Company in general meeting.”

- C. "THAT conditional upon Resolutions numbered 5A and 5B set out in the notice convening this meeting being passed, the aggregate nominal amount of the number of shares in the capital of the Company which are repurchased by the Company under the authority granted to the Directors of the Company as mentioned in Resolution numbered 5B set out in the notice convening this meeting shall be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors of the Company pursuant to Resolution numbered 5A set out in the notice convening this meeting, provided that the amount of share capital repurchased by the Company shall not exceed 10 per cent. of the total nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution."

By order of the Board

**Fu Yuning**

*Chairman*

Hong Kong, 22 April 2010

*Registered Office:*

38th Floor, China Merchants Tower,  
Shun Tak Centre,  
168-200 Connaught Road Central,  
Hong Kong

*Notes:*

1. A member entitled to attend and vote at the meeting convened pursuant to the above notice is entitled to appoint one or more proxies to attend and vote in his place. A proxy need not be a member of the Company.
2. In order to be valid, the instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power of attorney or authority, must be deposited at the Company's registered office at 38th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting.
3. The register of members of the Company will be closed from 19 May 2010 to 25 May 2010, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend to be approved at the meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 18 May 2010.
4. Concerning resolutions numbered 5A and 5C above, the Board wishes to state that it has no immediate plans to issue any new shares in the Company. The ordinary resolution is being sought from members as a general mandate in compliance with section 57B of the Companies Ordinance and the Listing Rules.

## Notice of Annual General Meeting

5. Concerning resolution numbered 5B above, the Board wishes to state that it has no immediate plans to repurchase any existing shares pursuant to the relevant mandate. Approval is being sought from members as a general mandate to be given to the Directors to repurchase shares. The Explanatory Statement required by the Listing Rules in connection with the proposed repurchase mandate will be despatched to members together with the notice of the meeting.
6. Pursuant to Rule 13.39(4) of the Listing Rules, all votes at the Annual General Meeting will be taken by poll and the Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules. The Chairman of the Meeting will therefore demand a poll for every resolution put to the vote at the Annual General Meeting pursuant to Article 58 of the Articles of Association of the Company.
7. As at the date of this notice, the Board of Directors of the Company comprises Dr. Fu Yuning, Mr. Li Yinquan, Mr. Hu Zheng, Mr. Meng Xi, Mr. Su Xingang, Mr. Yu Liming, Mr. Hu Jianhua, Mr. Wang Hong and Mr. Liu Yunshu as executive directors; and Mr. Tsang Kam Lan, Mr. Kut Ying Hay, Mr. Lee Yip Wah Peter, Mr. Li Kwok Heem John and Mr. Li Ka Fai David as independent non-executive directors.



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(INTERNATIONAL) COMPANY LIMITED  
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