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

Stock Code : 00144

Annual Report 2010

2010

Contents

Financial Highlights

	2010 HK$'million	2009 HK$'million	Changes
Consolidated income statement highlights			
Revenue[1]	**30,597**	17,286	77.0%
Profit attributable to equity holders of the Company	**5,876**	3,238	81.5%
Non-recurrent gains, net of tax[2]	**(1,530)**	(649)	135.7%
Recurrent profit	**4,346**	2,589	67.9%
Earnings per share (HK cents)			
Basic	**239.13**	133.18	79.6%
Diluted	**238.52**	133.10	79.2%
Dividend per share (HK cents)			
Interim dividend	**25.00**	25.00	—
Final dividend	**78.00**	32.00	143.8%
	103.00	57.00	80.7%
Consolidated statement of financial position highlights			
Total assets	**78,351**	52,468	49.3%
Capital and reserves attributable to the equity holders of the Company	**39,042**	33,563	16.3%
Net interest bearing debts [3]	**15,892**	11,191	42.0%
Consolidated statement of cash flows highlights			
Net cash inflow from operating activities	**2,918**	2,759	5.8%
Net cash inflow from provision of finance to associates, jointly controlled entities and other financial assets	**2**	2	—
Recurrent net cash inflow	**2,920**	2,761	5.8%

	2010 HK$'million	2009 HK$'million	Changes
Revenue[1]			
Ports operation	**13,221**	11,246	17.6%
Bonded logistics and cold chain operations	**876**	257	240.9%
Port-related manufacturing operations	**15,740**	5,751	173.7%
Other operations	**760**	32	2275.0%
Total	**30,597**	17,286	77.0%
EBITDA [4]			
Ports operation	**7,532**	5,742	31.2%
Bonded logistics and cold chain operations	**606**	115	427.0%
Port-related manufacturing operations	**1,714**	630	172.1%
Other operations	**388**	200	94.0%
EBITDA	**10,240**	6,687	53.1%
Unallocated net income [6]	**1,246**	382	226.2%
Net interest expenses [5]	**(1,004)**	(901)	11.4%
Taxation [5]	**(1,390)**	(687)	102.3%
Depreciation and amortisation [5]	**(2,412)**	(2,024)	19.2%
Profit for the year	**6,680**	3,457	93.2%
Non-controlling interests	**(804)**	(219)	267.1%
Profit attributable to equity holders of the Company	**5,876**	3,238	81.5%

1. Include revenue of the Company, its subsidiaries and share of revenue of its associates and jointly controlled entities.
2. Include gain on remeasurement of previously held interest upon step acquisition of subsidiaries of HK$1,378 million (2009: nil), increase in fair value of investment properties, net of tax, of HK$152 million (2009: HK$157 million), gain on disposal of interest in a subsidiary of HK$492 million in 2009.
3. Interest bearing debts less cash and cash equivalents.
4. Earnings before net interest expenses, taxation, depreciation and amortisation, unallocated income less expenses and non-controlling interests, ("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 remeasurement of previously held interest upon step acquisition of subsidiaries.

Key Operations of China Merchants Holdings (International) Company Limited

Ports Logistics

Bohai Coastal Area

Ports:
- Tianjin Five Continents International Container Terminal
- Qingdao Qianwan United Container Terminal
- Qingdao Qianwan West Port United Terminal

Logistics:
- Qingdao Qianwan Bonded Logistics Park
- KXL Qingdao
- Tianjin Haitian Bonded Logistics Park
- KXL Tianjin
- KXL Beijing
- KXL Harbin

Yangtze River Delta

Ports:
- Shanghai Int'l Port (Group)
- Ningbo Daxie Terminal
- Ningbo Port

Logistics:
- KXL Suzhou

Xiamen Bay Economic Zone

Ports:
- Zhangzhou China Merchants Port

South-West Area

Ports:
- Zhanjiang Port

Pearl River Delta

Ports:
- Mega SCT
- China Merchants Port Services
- Chiwan Container Terminal
- Shenzhen Mawan Project
- Shenzhen Chiwan Wharf
- Shenzhen Haixing
- China Merchants Container Services
- Modern Terminals

Logistics:
- Shenzhen Qianhaiwan Bonded Logistics Park/CMML
- China Merchants International Cold Chain
- KXL Guangzhou

Greater Ho Chi Minh Area, Vietnam

Ports:
- Vung Tau International Container Port

Lagos, Nigeria

Ports:
- Tin-Can Island Container Terminal

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, Vietnam and Nigeria.

Top Ten Container Ports in China - 2010

Unit: million TEUs

	Port	CMHI Presence	2010	10 vs 09 Change
1.	Shanghai		29.07	+16.3%
2.	Hong Kong		23.53	+13.4%
3.	Shenzhen		22.51	+23.3%
4.	Ningbo		13.14	+25.1%
5.	Guangzhou		12.55	+12.1%
6.	Qingdao		12.01	+17.1%
7.	Tianjin		10.08	+15.8%
8.	Xiamen		5.82	+24.4%
9.	Dalian		5.24	+14.5%
10.	Lianyungang		3.87	+27.7%

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 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 bonded logistics and cold chain operations and port-related manufacturing operations in China.

Major Milestones in 2010

JAN

CMHI formed joint ventures with Americold Realty Trust ("Americold") under the names of China Merchants Americold Logistics Company Limited and China Merchants Americold Holdings Company Limited (collectively known as "CMAC"). CMHI and Americold respectively owns 51% and 49% in CMAC.

MAR

Stage 4 of the asset restructure agreement between CMHI and Modern Terminals Limited ("MTL") in Mega Shekou Container Terminals Limited ("Mega SCT") was complete, after which CMHI and MTL respectively owns 80% and 20% in Mega SCT.

APR

A CMHI subsidiary signed a joint venture agreement with a Vinalines subsidiary and a Petro Vietnam subsidiary to form a 49:26:25 joint venture, which will design, develop and operate the container terminal, warehousing and logistics park facilities in Ba Ria-Vung Tau Province, within Vietnam's Southern Economic Zone.

JUN

China Merchants International Container Terminal (Qingdao) Company Limited, a CMHI subsidiary, signed a joint venture agreement with Qingdao Port (Group) Co., Ltd. to form a joint venture, Qingdao Qianwan West Port United Terminal Co., Ltd., through which to operate bulk cargo handling business. The joint venture is respectively owned as to 49% and 51% by the two partners.

JUL

CMAC acquired 70% stake in China Merchants International Cold Chain (Shenzhen) Company Limited from CMHI.

AUG

Through an Entrustment Agreement with China Merchants Holdings (Hong Kong) Company Limited CMHI obtained the management and voting rights of the 23.493% equity stake beneficially-owned by Guangdong Guangye Investment Holdings Limited in China Nanshan Development (Group) Incorporated ("Nanshan Group"), in which CMHI already holds 37.014%. This further aligns the respective ports operation of Nanshan Group and CMHI, and strengthens CMHI's positioning in the Shenzhen Western Port Zone, with which to desire strategic benefits to CMHI.

CMAC acquired 100% of Kangxin Logistics (Tianjin) Company Limited from an independent third party

SEP

The CMHI-Aitken Spence PLC consortium formed to bid for the BOT concession of Colombo Port South Container Terminal was awarded a non-binding Letter of Intent by the Sri Lankan government.

NOV

The 60:40 joint venture CMHI formed with China-Africa Development Fund signed an agreement with ZIM Integrated Shipping Services Limited to acquire the latter's 47.5% stake in Tin-Can Island Container Terminal in Lagos, Nigeria.

DEC

CMHI signed an agreement with Chu Kong Shipping Development Company Limited to acquire from which by cash 20% stake in the latter's wholly-owned subsidiary Chu Kong River Trade Terminal Company Limited.

CMHI made a strategic investment in Americold by investing HK$382 million in its 5% Convertible Preference Share issue.

Chairman's Statement

2010 marked another year of the Group's achievements in key areas having intensified the strategy of forging deeper cooperation among coastal ports in China, enhanced the consolidation of homebase ports, reflected demonstrable results through further refinement in operational management, and successfully rolled out ground-breaking-wise the Group's efforts in developing projects overseas. Putting behind the difficult environment encountered in 2009, the Group's container terminal operating business rebounded entirely and rapidly during 2010, thus enabling the Group to deliver here another set of record-high operating results.

It gives me great pleasure to present the Group's annual report and audited financial statements for the year ended 31 December 2010.

2010 marked another year of the Group's achievements in key areas having intensified the strategy of forging deeper cooperation among coastal ports in China, enhanced the consolidation of homebase ports, reflected demonstrable results through further refinement in operational management, and successfully rolled out ground-breaking-wise the Group's efforts in developing projects overseas. Putting behind the difficult environment encountered in 2009, the Group's container terminal operating business rebounded entirely and rapidly during 2010, thus enabling the Group to deliver here another set of record-high operating results.

Simultaneously as the Group was sustainably forging deeper cooperation among its different port assets while improving and enhancing the facilities and their ancillary support service environment within which the Group's core ports business functions, the Group has been actively developing new projects, leading to the conclusion of a number of transactions, including business and strategic tie-ups in both domestic and international projects, thereby laying the foundation for the Group's business to grow in the future. Although the negative impact induced by the financial crisis to the maritime industry began to subside in 2010, uncertainties in external environments have continued to weigh on ports operating businesses. In the face of such complexity, the Group has sought to raise the operating efficiency of its existing assets by excavating value hidden within the internal operation flow. Treading on the positive results achieved by effective cost control measures implemented in the first half of the year, the Group has continued to further refine its operational management and effectively control cost during the second half of the year with a view to expanding the scale of such positive effects and, ultimately, resulting in further improvement of the Group's overall profitability from its port projects. For the year under review, a recovered maritime industry alongside the successful execution of strategies mapped out for the Group's business operation and effective implementation of internal control measures combined have all contributed to the Group's significant increase in its operating results.

Operating results

For the year under review, the profit attributable to shareholders of the Company amounted to HK$5,876 million, representing an increase of 81.5% over that of last year. Of this amount, recurrent profit totaled to HK$4,346 million, up 67.9% when compared to that for the same period of last year. The proportion of EBITDA derived from the Group's core ports operation, relative to the Group's total, dropped to 73.6% from 85.9% for the same period last year.

In 2010, the Group recorded revenue of HK$5,811 million, representing an increase of 62.0% 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 78 HK cents per share which, together with the interim dividend already paid, will give a total dividend of HK$1.03 per share for the whole year (giving a payout ratio of 43%). Subject to the approval by shareholders at the forthcoming general meeting, the final dividend will be payable on or around 25 July 2011 to shareholders whose names appear on the register of members of the Company as at 9 June 2011.

Review for the year

In 2010, China's external trade grew significantly. Statistics of the General Administration of Customs of the PRC revealed that the total value of China's import and export in China's external trade in 2010 reached a historical peak, having jumped 34.7% over that for the same period last year. Benefited from the recovered economy and trade, container volume handled by the Group's ports operation also peaked at a record high level. During the year under review, the Group handled 52,280,000 TEUs, an increase of 19.2% over last year with satisfactory performance respectively achieved by the Group's container ports located along China's coastal economic regions. The throughput of bulk cargoes handled by the Group's ports in 2010 totaled 281,000,000 tonnes, an increase of 21.1% over that of last year.

During 2010, the Group has closely adhered to the principal of emphasizing, on equal basis, on quality, efficiency and effectiveness in further refining its operational management. Through adopting converting measures which enable loading rubber-tired gantry cranes ("RTG") to consume (the more cost-effective) electricity instead of diesel (the "diesel to electricity" programme) and optimizing operational processes, the Group has successfully lowered the standard in coal consumption per (cargo) ton as well as the cost for diesel oil and electricity, claiming significant social and economic benefits whilst delivering the Group's philosophy in operating green ports. In the year, the Group has also had a number of achievements in the technological reform of port facilities and in the improvement of handling processes. Notably is the technology developed, owned and implemented by the Group's ports of deploying an insulated conducting system with auto drive-in solution for the electricity-abled vehicle (an operational part of a RTG) which enables an eRTG to automatically connect hence assuring operational continuity without having to source another power supply. This system is the first in the world to produce instant and successful connection and an application to seek international patent registration is under way. The project has also been designated as a model project by China's Ministry of Communications. Under the guidance directives to constantly refine operational management, the Group has endeavoured to mobilize internal initiatives alongside effectively utilising resources, standardising operational procedures, integrating information systems, managing customers and commercial activities and effectively controlling costs and capital utilisation with a view to enhancing the overall efficiency and effectiveness of the Group's existing assets.

During the year under review, in continuing its efforts to further improving the competitiveness of its homebase assets in Western Shenzhen through establishing better synergy among its port assets in the proximity, the Group has progressed significantly. During the year, the Group has aligned into strategic partnership with Chu Kong Shipping Development Company Limited ("CKSD") and, furthermore, has acquired a stake in CKSD's subsidiary, Chu Kong River Trade Terminal Company Limited ("CKRTT"). This is expected to further enhance the Group's service capability in accessing the economic hinterland of the Pearl River Delta. By acquiring the custody of the equity interests held by Guangdong Guangye Investment Holdings Limited ("Guangye") in China Nanshan Development (Group) Incorporation ("Nanshan Group"), the Group has achieved financial consolidation with Nanshan Group, with whom the Group could then forge a closer collaboration, thereby allowing the Group to increase its influence over the Shenzhen Western Port Zone. This would also pave the way for closer cooperation and development in respect of enhancing the Group's internal integrated logistics services in the future. Leveraging on the policy incentives carried by the Shenzhen Qianhaiwan Bonded Port Zone ("SQBPZ") combined with the Group's ancillary warehousing and integrated logistics services offered in the Bonded Port Zone, the Group expects to attract more trunk routes to call at the Shenzhen Western Port Zone. In 2010, the Shenzhen Western Port Zone handled in excess of 10,000,000 TEUs, totaling at 11,690,000 TEUs, representing a record-high throughput and a growth of 24% year-on-year, a rate higher than Shenzhen's total.

2010 marked the first year of operation for the SQBPZ, during which both the number of logistics service-providing corporates moving into the SQBPZ and the volume of cargoes handled have continued to substantially rise, fully reflecting the development strategy and concept of advantage in scale of the SQBPZ: "port with scale, customs clearance with scale, logistics support with scale, economic hinterland with scale". At the moment, as an inaugurating unit in the Qianhai Shenzhen–Hong Kong Modern Service Industry Cooperation Zone, the SQBPZ has basically accomplished the interim objective initially laid down by the Shenzhen Municipal Government and the Shenzhen Customs of "creating in Qianhaiwan a benchmark for China's bonded port zones". The SQBPZ is expected to cast a strong radiating as well as gravitating effect on the foreign trade and the economic development of Shenzhen and Hong Kong, and the Pan-Pearl River Delta Region. The Group will leverage on the establishments of and advantages offered by SQBPZ to continue to drive faster the development of its homebase ports in Shenzhen, based on prevailing market demand and by combining SQBPZ's policy functions and Shenzhen Qianhai's status pursuant to the development plan already established with a view to capturing the development opportunities available whilst seeking innovative business operation models.

Against a background of increasing integration of global economy and trade, China, being a key state in international trade, will continue to play an important role in global trade activities. In anticipation of the competition in and the development trend of the integrated ports logistics industry within future's trade activities, in endeavouring to nurture new growth drivers that are ports-logistics integrated, the Group together with the world's largest cold chain logistics operator, Americold Realty Trust ("Americold") has established joint ventures under the names of, respectively, China Merchants Americold Holdings Company Limited and China Merchants Americold Logistics Company Limited (collectively, known as "CMAC"), to be controlled and managed by the Group. CMAC, which captures the respective advantages of the Group and of Americold such as relevant brand name recognition, ports network and expertise in cold chain logistics service, will strive to develop into a leading national cold chain logistics service-provider in China to offer professional and first-class cold chain distribution and logistics services to local and multinational corporate customers.

Following upon the establishment of the joint venture in container handling operations in Qingdao by the Group and Qingdao Port (Group) Co., Ltd. ("QPG") last year, the Group has this year sought further cooperation with QPG in operating a bulk cargo terminal. Such cooperation between the Group and QPG not only avails the Group with an even broader space for the Group's participation in the Bohai Rim's ports operation but also assures both parties a mutually winning situation in business development. The impact of such a cooperation mode has led to, respectively, a total container throughput of 1,100,000 TEUs and of bulk cargo throughput of 16,800,000 tonnes, handled by the Group's Qingdao terminals.

Also in 2010, the Group acquired 47.5% equity interests of the Tin-Can Island Container Terminal Limited ("TICT") in Nigeria from ZIM Integrated Shipping Services Limited ("ZIM"), marking the official commencement of the Group's expansion into overseas markets. On 16 September 2010, the Sri Lankan Port Authority issued a non-binding Letter of Intent to the consortium of which the Group is part, naming the consortium as the potential winning bidder in respect of the project for the development and operation of the South Container Terminal of Colombo Port. Currently under way is to agree on pertinent terms for the project such as the shareholders' agreement. On 29 April 2010, the Vietnam project joint venture agreement was signed. In progress are also procedures pursuant to the relevant rules and regulations.

Future prospects

With 2010 having experienced a better-than-expected growth in its ports operations, the Group anticipates growth to necessarily decelerate in this coming year. In the mean time, the Group is of the view that, while uncertainties around the global economy and hence new challenges will continue to exist in 2011, the trend of globalization will continue along with closer economic and trade cooperation that will, in turn, encourage progress and development of our society. Moreover, China's economy is on the course of turning from recovery to sustainable growth that the Group believes will continue to avail the Group with favorable external environments in which for ports to operate. Overall, the Group is positive about the prospects of business growth in 2011.

From the perspective of the Group's internal management and development strategy, 2011 will continue to see the Group intensify further its operational refinement, capitalising on the experience and results accumulated over the past years with a view to consolidating and alleviating the efficiency of our existing businesses, nurturing new growth drivers by developing the cold chain logistics business as well as developing with a prudent approach new markets overseas – all for the goal of ensuring and enhancing the Group's total competitiveness.

In 2011, the Group aims to enhance the intensity of consolidating the port assets at the Shenzhen Western Port Zone in the areas of information technology, terminal operations and coordination in resource application in order to derive enhanced synergy along with improved operating efficiency and profitability. With the successful roll-out of the strategic cooperation with CKSD's river terminals along the Pearl River, the Group expects to be in a position to expand more significantly its reach-out and hence its influence over the Pearl River Delta economic hinterland. In anticipation of the gradual relocation of assembling and manufacturing businesses from the Pearl River Delta into China's inland, the Group will continue its efforts to expand the sea-rail inter-modal network so as to expand the coverage of its homebase ports in Shenzhen. In addition, taking advantage of the unprecedented opportunity offered under the Development Plan for Cooperation between Shenzhen and Hong Kong in Modern Service Industries at Qianhai, the Group will endeavour to explore business development possibilities in the future. Tracking the evolving trend of China's trade, the Group will leverage upon the service platform of its cold chain logistics business through the CMAC joint venture to strive to become China's leading national provider of cold chain logistics service. At the same time as the Group anchors its foothold in the domestic market while consolidating and expanding further its port projects in Mainland China, the Group will intensify its brand building efforts including undertaking promotional activities overseas. The Group will continue to closely follow potential investment projects with a view to steadily moving forward overseas, trailing behind the Group's investment in Nigeria.

The Group has, having weathered the negative impact brought about by the global financial crisis, certainly landed at a newer level that has equipped the Group with stronger and better capabilities with which to carry out operational management internally and to address challenges derived from changes in the external environment. Although the global economy and international trade may pace slower in 2011, the Group firmly believes that not only will the growth momentum continue, the advantages that China's manufacturing sectors and hence exports from China have been commanding will also remain intact and are unlikely to be replaced by other regions in the foreseeable term. Growing domestic consumption demand in China, in addition, lends another support to the sustainable development of the country's ports industry. Its position in leaning on the China economy along with its "going global" strategy in overseas development will no doubt avail the Group with sufficient breadth in business development in the future.

At the same time as it seeks to optimize shareholders' interests, the Group will continue to promote environmental protection and commit itself to incorporate the concept of sustainable development into operational activities. Besides, the Group will unremittingly involve itself in activities for energy conservation, reduction in emissions discharge and social welfare and charity in fulfilling its social responsibility and due obligations as a good corporate citizen.

Investor relations

The Group as always places great emphasis on investor relations and is fully committed to ensuring a high level of information 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. The Group has always maintained highly effective interaction and communication with the investment community. More than 300 visits by investors and analysts were received by the Group during the year, in addition to numerous tours arranged for investors to visit the Group's projects and to meet with the management. The Group continues to maintain smooth relationships with shareholders in the United States, Europe and Asia through roadshowing activities. The Group recognizes that prompt and effective communication is key to winning the confidence of the investment community, and will ensure that this is closely adhered to.

Credit rating

The Group's credit ratings by Standard & Poor's and Moody's are presently maintained at BBB and Baa2 respectively. During the year, both rating agencies have in July and November changed their outlook on the Group to "positive", reflecting their respective positive view on global trade and hence on the ports industry.

Appreciation

Whilst the remarkable results achieved by the Group in 2010 were derived from the resumed growth of the global economy and trade as well as China's sustainable economic growth, these achievements also depended on the undivided efforts dedicated by our staff in execution and implementation. In 2010, the Group succeeded in capturing the opportunity of the recovery of the ports industry by closely adhering to further reining operational management, steadily implementing the business strategies laid down, and achieved results that were better than originally projected. 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 has this year.

Dr. Fu Yuning
Chairman

Hong Kong, 30 March 2011

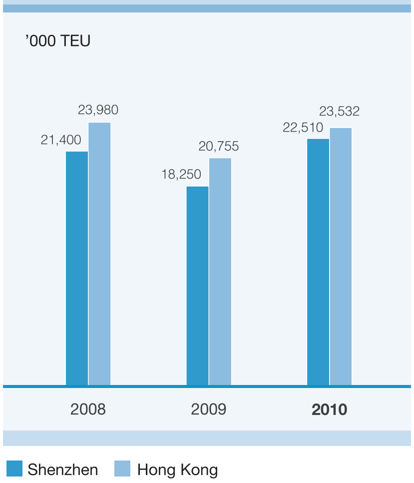
Management Discussion and Analysis

Business review

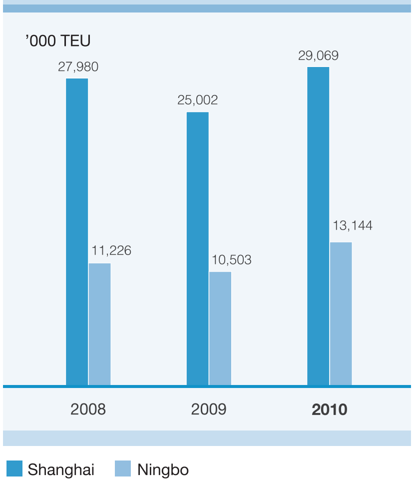
In 2010, the global economy was on its track to recovery. According to the relevant data, the United States and the EU have both experienced consecutive quarter-on-quarter growth in GDP in each quarter of 2010. Emerging economies such as China and India have also continued to maintain good economic fundamentals with relatively rapid growth in GDP. The improving global economic situation has provided strong support to international trade, which rapidly reaccelerated. Both IMF and OECD predicted a double-digit growth in global merchandise trade for 2010. According to the statistics of the General Administration of Customs of the PRC, the total value in import and export of China's foreign trade rebounded strongly in 2010 and repeatedly broke the single-month historical record highs starting from the month of June. The total value for the year for both export and import of China's foreign trade hit historical highs.

Driven by the global economic recovery and the growth of international trade, container transportation once again became a highlight of the growth in the international maritime market. Estimates made by Drewry Shipping revealed that container throughput handled by the world's major ports would record a year-on-year double-digit growth in 2010, and would surpass the historical high volume recorded in 2008, with ports in Asia predominately led by Chinese ports being the major driving force for such volume growth. Publicly available data further revealed that Chinese ports handled a total of 145,000,000 TEUs in 2010, a sharp increase of 18.8% over that in 2009 and representing another historical peak. The container throughputs handled by each of the major ports along coastal regions have all exceeded their respective pre-financial crisis scales. Shanghai Port, furthermore, has emerged to be the world's largest container port in terms of volume handled. The Group's ports operations in China, in effect, spread over the hub locations along various coastal regions and hence, are positioned to share the growth momentum brought about by the recovery of the ports industry.

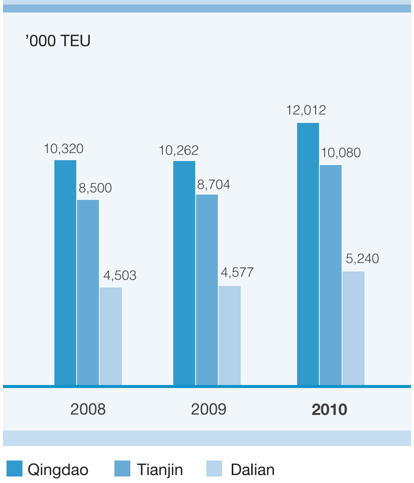
Container throughput in Shenzhen and Hong Kong 2008-2010



Container throughput in Shanghai and Ningbo 2008-2010



Container throughput in Qingdao, Tianjin and Dalian 2008-2010



In 2010, the Group's port projects handled a total container throughput of 52,280,000 TEUs, an increase of 19.2% over that of last year; the bulk cargoes handled by the Group's ports continued to grow and the throughput for the full year reached 281,000,000 tonnes, an increase of 21.1% year-on-year. China International Marine Container (Group) Co., Ltd. ("CIMC Group"), of which the Group is the single largest shareholder, has also benefited from the recovery of the international maritime market thereby causing a revival of the demand for logistics and transportation tools. During the year it sold 1,380,000 TEUs of dry cargo and reefer containers and 61,900 special vehicles, reflecting a growth of 14 times and 43.3% year-on-year respectively; it sold 155,300 units of special road vehicles, reflecting a growth of 59.5% year-on-year.

As at 31 December 2010, the profit attributable to the equity holders of the Company totaled HK$5,876 million, representing an increase of 81.5% over that for the last year. Of this amount, recurrent profit was HK$4,346 million, an increase of 67.9% year-on-year. The Group's core segment of ports operations recorded an EBITDA of HK$7,532 million, which represents on adjusted-for-alignment basis an increase of 31.2% year-on-year. The share of ports-segment-derived EBITDA for 2010 relative to the Group's total EBITDA dropped to 73.6%, from 85.9% of last year.

The Group recorded revenue of HK$5,811 million for 2010, an increase of 62.0% over that of last year. Of this amount, revenue derived from the Group's core segment of ports operations amounted to HK$5,008 million, an increase of 46.1% over last year.

Ports operation

EBIT derived from the Group's ports operations amounted to HK$5,749 million, representing on adjusted-for-alignment basis an increase of 42.4% over that of last year and accounting for 73.4% of the overall EBIT of the Group, down from 86.4% in last year.

In 2010, the Group's ports handled a total of 52,280,000 TEUs, an increase of 19.2% year-on-year. Of this total, the volume handled by the Group's ports in Mainland China reached 46,060,000 TEUs, a 20.9% increase over that in 2009, which surpassed the overall growth of the whole country. Based on the 2010 statistics of the container throughput handled by ports in China published by China's Ministry of Communications, container volume handled by the Group's port projects represented approximately 31.8% of China's total container volume, making the Group Mainland China's largest corporate in investment and operation in the container terminal business. The Group's port projects in Hong Kong and overseas achieved a total container throughput of 6,210,000 TEUs, an increase of 7.7% over last year.

In 2010, other than Tianjin Five Continents International Container Terminal Co., Ltd. ("Tianjin Continents International"), an equity investment of the Group which has recorded a slight decline of 1.3% in its container throughput, all ports projects of the Group have achieved growth in their respective container operations: The Shenzhen homebase ports handled a container throughput of 11,690,000 TEUs, an increase of approximately 24.0% over that in 2009, with its year-on-year growth being slightly higher than Shenzhen's overall container throughput growth. Shanghai International Port (Group) Co., Ltd. ("SIPG"), an associate of the Group, handled a container throughput of 29,070,000 TEUs, an increase of 16.3% year-on-year. This volume has elevated Shanghai Port as the largest container port in the world, surpassing that of Singapore. The throughput of Ningbo Daxie China Merchants International Terminals Co., Ltd. ("Ningbo Daxie") rose 30.9% year-on-year to 1,560,000 TEUs. The co-operation pursued by the Group with QPG since late 2009 has swung a leaping growth momentum to its ports operation in Bohai Rim. Qingdao Qianwan United Container Terminal Co., Ltd., the Group's joint venture with Qingdao New Qianwan Container Terminal Co., Ltd, a container handling unit of QPG, handled a container throughput of 1,100,000 TEUs for the full year, a growth of approximately 56 times year-on-year. The container throughput of each of Zhangzhou China

Merchants Port Co., Ltd ("Zhangzhou Port") and Zhanjiang Port (Group) Co., Ltd. ("Zhanjiang Port Group") respectively grew by more than 30%, aggregating in total a handled container volume of 700,000 TEUs, an increase of 35% year-on-year.

The bulk cargo handling business of the Group continued to record impressive growth having handled a total throughput of 281,000,000 tonnes for the full year, an increase of 21.1% year-on-year. Of this bulk cargo volume, the Shenzhen homebase ports accounted for approximately 39,400,000 tonnes, an increase of 5.2%; Zhangzhou Port 7,250,000 tonnes, an increase of 1.2%; the Group's joint investments with QPG 16,800,000 tonnes, jumped 17 times. The total bulk cargo throughput handled by SIPG and Zhanjiang Port Group combined rose almost 17% over that in 2009.

For the year under review, the Group has regarded as one of its key objectives for the year the seeking to raise the operating efficiency of its existing assets and in turn to enhance their productivity by excavating value hidden within the internal operation flow. In this connection, stemmed from experiences gathered in the past, the Group has introduced measures spanning comprehensively across various aspects with a view to further refining its operational management. Of significance in technological innovation, among these measures, and therefore largely promoted and applied include the conversion of RTGs from using diesel to using electricity (the "diesel to electricity" campaign) and energy conserving emission reduction programme for port operating equipment; streamlined improvements in operating techniques and procedures that led to further reduction in direct operating costs; strengthened control in the sub-contract works that led to the effective improvement in the unit operating efficiency and, in turn, in cost effectiveness of the operation; and the continued intensifying in the coordination and sharing of resources within the Group thereby elevating the overall capability of the Group's ports operations. In 2010, the recovery of the international maritime market has provided a positive external environment in which for the Group's ports to operate, whereas the Group's efforts towards further refinement of its operational management have forcefully supported and assured the Group's significant improvement in its operating results.

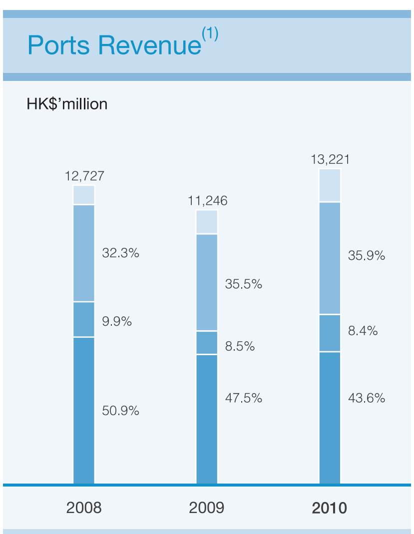
Container throughput of the Group's ports operation (by location)

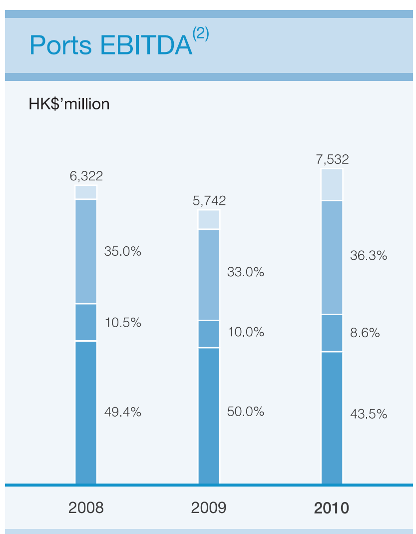
	2010 ('000 TEU)	2009 ('000 TEU)	Year-on-year change
Western Shenzhen region	**11,688**	9,427	+24.0%
Hong Kong region	**6,158**	5,768	+6.8%
Yangtze River Delta region	**30,627**	26,192	+16.9%
Bohai Rim region	**3,020**	1,960	+54.1%
Southeast coast region	**430**	315	+36.5%
Southwest coast region	**273**	206	+32.5%

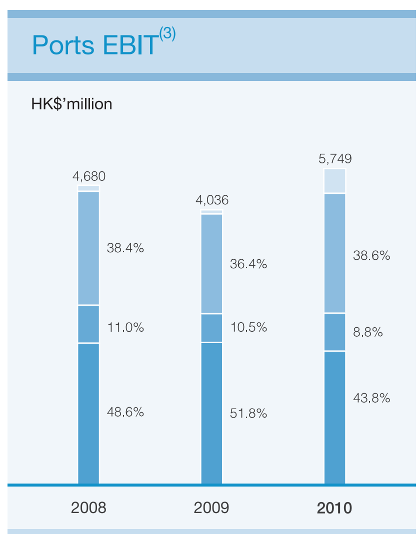
In 2010, the Group had concrete achievements in a number of ports development projects, both domestic and overseas:

In terms of consolidating the domestic market, by adopting relevant measures the Group has enhanced the competitiveness of the Shenzhen Western Port Zone. On 14 December 2010, the Group entered into an agreement to acquire 20% equity interests of CKRTT, a subsidiary under CKSD (the legal procedure to change such the ownership registration of such equity interests of CKRTT was duly completed on 1 February 2011). Having established this equity link with CKSD, the Group has enhanced its influence over freight-sourcing from the Pearl River Delta, further, in turn, anchoring Shenzhen Western Port Zone's competitive position in the region. In addition, during the year, the Group has effected the custody of the equity interests of Nanshan Group held by Guangye, thus enabling the Group to exercise its right to financially consolidate Nanshan Group, which further strengthens the Group's influence over the Shenzhen Western Port Zone. In 2010, the Group has further intensified its cooperation with QPG, having rolled out its cooperation with QPG in container terminal operations last year, by establishing another joint venture with QPG in operating a bulk cargo terminal. The Group's ability to participate in the ports operating market at Bohai Rim has thus been elevated. In addition, this has also ensured an otherwise competitive environment in Qingdao in which for the Group and QPG to jointly develop in the future.

As for the development of overseas operations, on 5 November 2010, the Group acquired from ZIM a 47.5% equity interest in TICT, a container terminal project located at Tin-Can Island, Lagos, Nigeria, marking the Group's debut entry overseas. On 16 September 2010, the Sri Lankan Port Authority issued a non-binding Letter of Intent naming the consortium, of which the Group is part, the winning bidder to the project to develop and operate a container terminal in Colombo. The consortium is currently working on key terms such as the shareholders' agreement. Furthermore, the Group signed the joint venture agreement for the Vietnam project on 29 April 2010, which project pending final approval from the Vietnamese government authorities. Apart from the above, the Group's work on other target projects overseas has also progressed steadily according to plan.







Shenzhen Hong Kong Shanghai and Ningbo Others

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 non-controlling interest ("Defined Earnings") for the Company and its subsidiaries, and its share of Defined Earnings of associates and jointly controlled entities
3. Earnings before net interest expenses, taxation, unallocated income less expenses and non-controlling interest ("Adjusted Earnings") for the Company and its subsidiaries, and its share of Adjusted Earnings of associates and jointly controlled entities

Bonded logistics and cold chain operations

The Group's bonded logistics and cold chain operations include services within bonded port zones, cold chain logistics services, airport cargo terminal services and logistics services offered by Nanshan Group. For the year under review, EBIT generated by the Group's bonded logistics and cold chain operations amounted to HK$441 million, an increase of 11 times over that of last year.

Helped by the recovery of economy and the policy advantages afforded by the bonded port zone, during the year the Group's logistics operation at SQBPZ began to reflect performance that supplements the Group's ports business. Both the number of corporate establishments into the Zone and the relevant operating cargo throughput have substantially risen as compared to the previous years. The Group anticipates as more of these bonded port zones in other regions commence their operation, its logistics services out of these zones will provide new growth momentum for the Group's ports operations.

Capitalising on the sustainably developing global trade as well as China's budding needs for cold chain logistics services, the Group has actively sought to connect the Group's ports operations to international trade through the establishment, in 2010, of cold chain business joint ventures, under the names of China Merchants Americold Holdings Company Limited and China Merchants Americold Logistics Company Limited (collectively known as "CMAC") (in which the Group holds a 51% stake in CMAC), with the world's largest cold chain logistics service-provider Americold with a view to jointly developing the cold chain logistics market in Mainland China. Integrated in this cold chain operation of the Group is the brandname recognition enjoyed respectively by the Group and Americold, the advantage of the Group's ports network and coastal bonded warehousing, Americold's technical know-how and business capabilities in the cold chain logistics sector, which combined will support the Group's efforts in striving to be China's leading

national cold chain logistics service provider, facilitating the sustainable and steady development of the Group's core operations such as ports and related logistics services.

In the second half of 2010, the Group acquired the custody right of the equity interests held by Guangye in Nanshan Group and, as a result, effected financially the consolidation of Nanshan Group. This not only strengthened the Group's control over the Shenzhen Western Port Zone but also enhanced the synergy of resource utilisation through closer cooperation among different port units in the proximity, thereby elevating the Group's operational capability in providing logistics services and reinforcing the Group's overall competitiveness in this sector.

The operations of Asia Airfreight Terminal Company Limited in which the Group is interested have recovered along with the air cargo market, following a downturn in the industry in 2009, with 710,000 tons of cargo handled, representing a sharp increase of 39% year on year.

Port-related manufacturing operations

In 2010, EBIT generated by the Group's port-related manufacturing operations amounted to HK$1,271 million, an increase of 219.4% over last year.

The container manufacturing and sales operations of the CIMC Group gained support from the growth in global trade and the demand by the shipping market for new containers, as evidenced in the rapid rebound of container sales. During the year it sold 1,380,000 TEUs of dry cargo and reefer containers and 61,900 special containers, reflecting a growth of 14 times and 43.3% year-on-year respectively, it sold 155,300 units of special road vehicles, reflecting a growth of 59.5% year-on-year.

Driven by the growth in its traditional core business segments, CIMC Group realized a net profit of US$446 million for 2010, an increase of 216.3% over last year.

Corporate social responsibility

Apart from committing itself to continuously improving its operating results and investment returns for shareholders, the Group as a corporate citizen also aims to duly perform its corporate social responsibilities and obligations and vigorously promotes social welfare and community activities such as health, safety, the establishment of environmental protection systems, helping the poor and providing relief as the Group's special task and has achieved various practical experience and implementation results.

Under the concept of the sustainable development of enterprises and the entire society, environmental protection and green initiatives have been deeply rooted into the corporate culture initiatives of the Group. The Group has actively participated in the "Earth Hour" campaign organized by the World Wildlife Fund, and provided active support to acknowledge and promote the Fair Winds Charter initiated by Civic Exchange. In ports operation, the Group, in compliance with provisions of the Chinese Government and the Hong Kong Government, has exerted itself to reduce waste gas emission from its operations and has implemented measures to control such emissions. In this connection, the Group has established a statistics and supervision mechanism for energy conservation and discharge reduction indices with its subsidiaries. Meanwhile, benchmarking of similar standards initiated by the International Maritime Organization (IMO) and the Intergovernmental Panel on Climate Change (IPCC), the Group has drawn up dedicated programmes for environmental protection and sustainable development, significantly increasing the environmental protection awareness of its employees and having a facilitative effect on driving the energy conservation technology reform. By adopting the moves mentioned above, the Group is able to further reduce the standard coal consumption per ton and fuel and electricity costs in respect of the unit handling capacity of its terminals.

The Group has adopted stringent environmental management and safe production policies, via its head office and certain terminal units have already obtained the certifications on environmental essentials (ISO14000) and supply chain security management standards (ISO28000), which will help to enhance environmental protection and safety in the operating activities of the Group, assist the Group to create green terminals with full efforts, identify and mitigate risks arising from the business environment effectively and improve the capability to deal with crisis and threats.

During the year, in addition, the Group has contributed in the areas such as supporting disadvantaged students and the underprivileged, charitable donations and community services, etc. After the April 2010 earthquake in Yushu, Qinghai Province in China, the Group organized a rescue team made up of volunteers which was sent to the affected areas to support rescue operations on-site, and made donations to contribute to the rescue and reconstruction work. The Group is also one of the funding members of the China Merchants Charity Fund, the objective of which is to help the poor and patients and to provide ready assistance to society when needed by innovative and effective means.

Liquidity and treasury policies

As at 31 December 2010, the Group had approximately HK$6,352 million in cash, 31.0% of which was denominated in Hong Kong dollars, 3.6% in United States dollars, 65.0% in Renminbi and 0.4% in other currencies.

The Group mainly derived its funding sources from both its operating activities related to ports operation and bonded logistics and cold chain operations, ports-related manufacturing operations, property development and investment, and investment returns from associates and jointly controlled entities, which together contributed HK$2,918 million in total.

During the year, the Group's capital expenditure amounted to HK$1,654 million while the Group continues to adhere to a prudent financial policy and to maintain a sound financial position by holding an appropriate level of cash to meet its operating requirements. In addition, as a significant portion of the Group's bank loans were medium- to long- term borrowings, the Group supported by adequate undrawn bilateral facilities does not anticipate any difficulty in refinancing its short-term loans while the pressure for repaying the short-term loans is limited.

As at 31 December 2010, the Group's outstanding interest-bearing debts were analyzed as below:

	2010 HK$'million	2009 HK$'million
Floating-rate bank borrowings which are repayable (Note):		
Within 1 year	**4,827**	1,795
Between 1 and 2 years	**2,182**	394
Between 2 and 5 years	**2,813**	1,123
Not wholly repayable within 5 years	**1,410**	79
	11,232	3,391
Fixed-rate listed notes payables are repayable:		
In 2013	**2,324**	2,312
In 2015	**3,879**	3,862
In 2018	**1,536**	1,528
	7,739	7,702
Loans from the ultimate holding company		
Wthin 1 year	**1,748**	2,566
Between 2 and 5 years	**938**	—
	2,686	2,566
Loans from an intermediate holding company		
Within 1 year	**—**	738
Between 2 and 5 years	**587**	—
	587	738

Note: all bank borrowings are unsecured except for HK$451 million (2009: HK$7 million).

The interest bearing debts are denominated in the following currencies:

	2010					2009				
	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$'million	Loans from an intermediate holding company HK$'million	Loans from the ultimate holding company HK$'million	Total HK$'million
HKD & USD	4,972	7,739	–	–	12,711	2,926	7,702	–	–	10,628
RMB	6,260	–	587	2,686	9,533	465	–	738	2,566	3,769
	11,232	7,739	587	2,686	22,244	3,391	7,702	738	2,566	14,397

Share capital and financial resources

As at 31 December 2010, the Company had 2,458,027,459 shares in issue. During the year, the Company issued 1,659,000 new shares upon the exercise of share options and received approximately HK$33 million as a result. Other than the above-mentioned newly issued shares, the Company issued 23,619,436 shares under the Company's scrip dividend scheme.

As at 31 December 2010, the Group's net gearing ratio (net interest-bearing debts divided by net assets attributable to the Company's equity holders) was approximately 40.7%.

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

Assets charge

As at 31 December 2010, the Company did not have any charge over its assets. However, bank loans of HK$68 million (2009: HK$7 million) and HK$294 million (2009: nil) borrowed by subsidiaries are respectively secured by its property, plant and equipment with net book value HK$71 million (2009: HK$47 million) and land use right with net book value HK$ 558 million (2009: nil) as at 31 December 2010.

Employees and remuneration

As at 31 December 2010, the Group employed 7,524 full time staff, of which 255 worked in Hong Kong, and the remaining 7,269 were in the PRC. The remuneration paid for the year amounted to HK$894 million, representing 23.9% 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

Looking into 2011, uncertainties associated with the global economy still prevail. From a short-term perspective, the global economy may continue to adjust. Key professional institutions generally predict a modest growth in the economy of developed countries such as Europe, the United States and Japan. China, being one of the engines of economic growth, may slow down in its economic growth caused by pressure from inflation. However, the possibility for the global economy to decline again is remote. From a long-term perspective, the world economy is expected to maintain a sustainable expansion trend and globalization will continue to progress. Cooperation and development is still the main theme of global economic and trade development. Against this backdrop, world trade will continue to advance forward. With China being a major trade power in the world, its trade activities will continue to yield considerable support to the ports logistics operations.

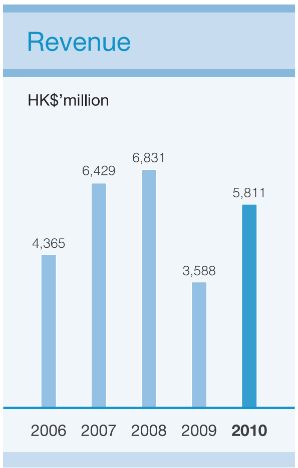
As far as the current situation is concerned, although China's export trade could likely be affected by factors such as trade protectionism and the expected appreciation of Renminbi, "Made in China" from a global perspective enjoys a broader output and coverage capability. When compared to those of other countries or regions, China's export processing and manufacturing industries still capture comprehensive competitive advantages, which can hardly be completely replaced in the short-to-medium term. Meanwhile, China has a long-term demand for importing a large amount of bulk resources. Therefore, the Group believes its ports operations will continue to benefit from the continued development of global economic integration.

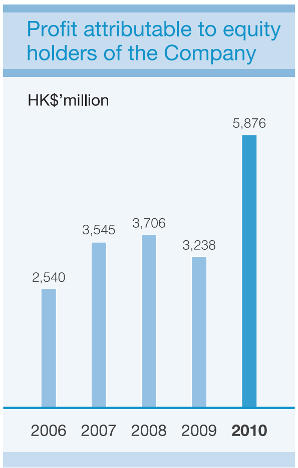
To continue to strengthen the competitiveness of the Group's ports operations, the Group will continue to drive the deep integration of the home port in Shenzhen in 2011 so as to further enhance the inter-operability and utilization efficiency of the Shenzhen Western Port Zone. By fully implementing strategic cooperation with CKSD, the Group will consolidate and increase its influence over the economic hinterland of the Pearl River Delta. In response to the trend of the transfer of the manufacturing industry in the Pearl River Delta, the Group will continue to develop sea-rail connectivity so as to extend the hinterland of ports. Besides, the Group will strive to increase the business scale of the SQBPZ to foster closer cooperation between customers and terminals in the Western Port Zone. By supporting the development plan of the Qianhai Shenzhen-Hong Kong Modern Service Cooperation Zone, the Group will seek opportunities for its future development. The Group will also continue to facilitate sophisticated management and put equal emphasis on quality, efficiency and effectiveness and actively promote advanced sophisticated management experience within the Group and further consolidate and expand its capability of participating in port markets in Mainland China. While being established in the domestic market of China, the Group will continue to strengthen overseas promotion and establish close and win-win strategic partnerships with overseas customers and business partners, and steadily propel the development of overseas projects by undertaking in-depth study of overseas markets and industries.

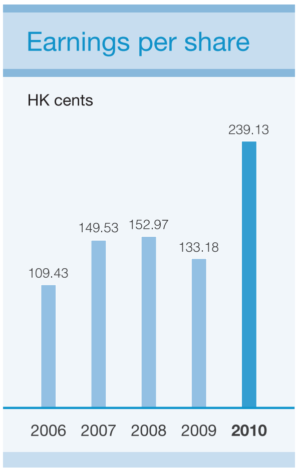
2011 will still be a year with complicated external macroeconomic conditions. However, the Group is fully confident in the operating prospects of its ports operations. The Group believes that, with the orderly implementation of the established work plan, the Group's operations will have another breakthrough in the new year. As in the past, the Group will also seek to optimize the interests of shareholders and undertake investment and management in an all-round manner to continuously increase its profitability and strive to generate better returns for shareholders.

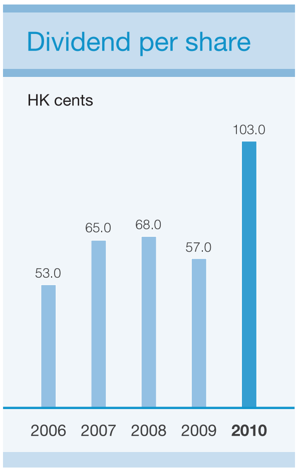
Five-year Financial Summary

	2010 HK$'million	2009 HK$'million	2008 HK$'million	2007 HK$'million	Restated 2006 HK$'million
RESULTS					
Revenue	**5,811**	3,588	6,831	6,429	4,365
Profit before taxation	**7,238**	3,735	4,315	4,037	2,992
Profit for the year	**6,680**	3,457	4,026	3,895	2,893
Non-controlling interests	**804**	219	320	350	353
Profit attributable to equity holders of the Company	**5,876**	3,238	3,706	3,545	2,540
ASSETS AND LIABILITIES					
Non-current assets	**64,733**	45,783	45,278	41,790	32,058
Net current assets/(liabilities)	**2,372**	(130)	(1,687)	(5,756)	(1,970)
Total assets less current liabilities	**67,105**	45,653	43,591	36,034	30,088
Non-current liabilities	**17,734**	10,034	10,877	7,559	6,645
Non-controlling interests	**10,329**	2,056	2,434	1,633	2,522
Capital and reserves attributable to the equity holders of the Company	**39,042**	33,563	30,280	26,842	20,921
RETURN TO SHAREHOLDERS					
Earnings per share					
– Basic (HK cents)	**239.13**	133.18	152.97	149.53	109.43
– Diluted (HK cents)	**238.52**	133.10	152.43	148.62	109.07
Dividend per share (HK cents)	**103.00**	57.00	68.00	65.00	53.00









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 2010. 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 2010.

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.

Code Provision E.1.2

Due to business trip, Dr. Fu Yuning, the Chairman of the Board, did not attend the annual general meeting of the Company held on 25 May 2010. Mr. Hu Jianhua, the Managing Director, was nominated by the Board to take the chair of the annual general meeting according to the Company's Articles of Association. In order to ensure effective communication with the shareholders, members of the Audit Committee and the Remuneration Committee and the external auditor were present at the annual general meeting to answer shareholders' questions.

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 Jianhong (Vice Chairman) (appointed on 14 October 2010)
Li Yinquan
Hu Zheng
Meng Xi
Su Xingang
Yu Liming
Hu Jianhua (Managing Director)
Wang Hong
Liu Yunshu

Independent Non-executive Directors
Tsang Kam Lan (passed away on 26 June 2010)
Kut Ying Hay
Lee Yip Wah Peter
Li Kwok Heem John
Li Ka Fai David
Bong Shu Ying Francis (appointed on 14 July 2010)

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.

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 2010	Attendance rate
Fu Yuning	4/4	100%
Li Jianhong (note 1)	0/0	N/A
Li Yinquan	4/4	100%
Hu Zheng	2/4	50%
Meng Xi	3/4	75%
Su Xingang	2/4	50%
Yu Liming	4/4	100%
Hu Jianhua	4/4	100%
Wang Hong	4/4	100%
Liu Yunshu	4/4	100%
Tsang Kam Lan (note 2)	1/3	33%
Kut Ying Hay	1/4	25%
Lee Yip Wah Peter	4/4	100%
Li Kwok Heem John	3/4	75%
Li Ka Fai David	4/4	100%
Bong Shu Ying Francis (note 3)	1/1	100%

Notes:

1. Mr. Li Jianhong was appointed as an Executive Director and Vice Chairman of the Company with effect from 14 October 2010.
2. Mr. Tsang Kam Lan passed away on 26 June 2010.
3. Mr. Bong Shu Ying Francis was appointed as an Independent Non-executive Director of the Company with effect from 14 July 2010.

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.

At a Board meeting held on 26 March 2010 with the presence of Dr. Fu Yuning, Mr. Li Yinquan, Mr. Yu Liming, Mr. Hu Jianhua, Mr. Tsang Kam Lan, Mr. Kut Ying Hay, Mr. Lee Yip Wah Peter, Mr. Li Kwok Heem John and Mr. Li Ka Fai David, the Board considered the re-designation of Mr. Hu Jianhua as Managing Director of the Company in place of Dr. Fu Yuning. In considering and making the re-designation of directors, the Board has given, inter alia, due regard to the best practice for corporate governance of separating the roles of chairman and managing director under the CG Code. At a Board meeting held on 13 July 2010 with the presence of Dr. Fu Yuning, Mr. Li Yinquan, Mr. Hu Zheng, Mr. Meng Xi, Mr. Su Xingang, Mr. Yu Liming, Mr. Hu Jianhua, Mr. Wang Hong, Mr. Liu Yunshu, Mr. Kut Ying Hay, Mr. Lee Yip Wah Peter, Mr. Li Kwok Heem John and Li Ka Fai David, and a Board meeting held on 14 October 2010 with the presence of Dr. Fu Yuning, Mr. Li Yinquan, Mr. Hu Zheng, Mr. Meng Xi, Mr. Su Xingang, Mr. Yu Liming, Mr. Hu Jianhua, Mr. Wang Hong, Mr. Liu Yunshu, Mr. Kut Ying Hay, Mr. Lee Yip Wah Peter, Mr. Li Kwok Heem John, Mr. Li Ka Fai David and Mr. Bong Shu Ying Francis, the Board also considered and nominated Mr. Bong Shu Ying Francis to be appointed as an Independent Non-Executive Director of the Company and Mr. Li Jianhong to be appointed as an Executive Director and Vice Chairman of the Company. In respect of the appointment of Mr. Bong and Mr. Li, the Board has taken into consideration, inter alia, their qualifications, management expertise and experience in relevant industries.

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 2010. The attendance of each member is set out as follows:

Name of member	Number of meetings attended in 2010	Attendance rate
Fu Yuning* (Chairman of the Remuneration Committee)	0*/1	0%
Tsang Kam Lan (Note 1)	0/0	N/A
Kut Ying Hay	1/1	100%
Lee Yip Wah Peter	1/1	100%
Li Kwok Heem John	0/1	0%
Li Ka Fai David	1/1	100%
Bong Shu Ying Francis (Note 2)	1/1	100%

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

Notes:

1. Mr. Tsang Kam Lan passed away on 26 June 2010.
2. Mr. Bong Shu Ying Francis was appointed as a member of Remuneration Committee on 14 July 2010.

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 42 to 46 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.

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 2010, 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 55.

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 2010	Attendance rate
Tsang Kam Lan (Chairman of the Audit Committee) (Note 1)	1/1	100%
Kut Ying Hay	1/2	50%
Lee Yip Wah Peter (Chairman of the Audit Committee) (Note 2)	2/2	100%
Li Kwok Heem John	2/2	100%
Li Ka Fai David	2/2	100%
Bong Shu Ying Francis (Note 3)	0/1	0%

Notes:

1. Mr. Tsang Kam Lan passed away on 26 June 2010.
2. Mr. Lee Yip Wah Peter was appointed as the Chairman of the Audit Committee on 30 August 2010.
3. Mr. Bong Shu Ying Francis was appointed as a member of the Audit Committee on 14 July 2010.

During the meetings held in 2010, the Audit Committee had performed the following work:

(i) reviewed the financial reports for the year ended 31 December 2009 and for the six months ended 30 June 2010;

(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 2009;

(v) reviewed and recommended for approval by the Board the 2010 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:

   (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	11
Non-audit services	
(Tax advisory and compliance services)	10
Total	21

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 and Board of Directors and Legal 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 Corporate Finance Department and Finance 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 Commercial and Strategic Planning Department and Information Technology 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 Engineering Management Department. In addition, procedures are designed to ensure compliance with applicable laws, rules and regulations;

- 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 2010 annual general meeting of the Company held on 25 May 2010, the Chairman of the meeting demanded that all resolutions proposed at the meeting to be passed by poll. The procedures for conducting a poll were explained at 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 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 2011 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 Thursday, 9 June 2011 at 9:30 a.m.

Directors and Senior Management

Directors

Dr. Fu Yuning

aged 54, is the Chairman of the Company and a Director and the Chairman 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 the Chairman of China Merchants Bank Co., Ltd (a company listed in both Shanghai and Hong Kong), an Independent Non-executive Director of Sino Land Company Limited (a company listed in Hong Kong) and CapitaLand Limited (a company listed in Singapore). He was an Independent Non-executive Director of Integrated Distribution Services Group Limited (a company listed in Hong Kong prior its withdrawal of listing on 1 November 2010). Besides, he was the Chairman of China Merchants Energy Shipping Company Limited (a company listed in Shanghai). On 25 October 2010, he resigned as the Chairman of China International Marine Containers (Group) Co., Ltd. (a company listed in Shenzhen). On 4 July 2008, he resigned as the Chairman and Executive Director of China Merchants China Direct Investments Limited (a company listed in Hong Kong). 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 Jianhong

aged 54, is the Vice Chairman of the Company and a Director and the President of China Merchants Group Limited. He holds a professional title of "Senior Economist" and graduated from East London University, England with Master Degree in Business Administration and also obtained Master Degree in Economy and Management from Jilin University. Before joining the Company, he worked with China Ocean Shipping (Group) Company. He was Factory Manager of Nantong Shipyard, General Manager of COSCO Industry Company, Assistant to the President, Chief Economist and Executive Vice President of China Ocean Shipping (Group) Company, Chairman of COSCO Corporation (Singapore) Limited, Sino-Ocean Land Holdings Ltd., COSCO Shipyard Group Co., Ltd. and Nantong COSCO KHI Ship Engineering Co., Ltd. He was also a Director of China COSCO Holdings Co., Ltd., COSCO Pacific Limited and COSCO International Holdings Limited, shares of all of which are listed on The Stock Exchange of Hong Kong Limited. Besides, he was also Vice Chairman of China International Marine Containers (Group) Limited, shares of which are listed on the Shenzhen Stock Exchange. He was also an Executive Vice Chairman of the Chinese Society of Naval Architects and Marine Engineers and Vice President of China Association of the National Shipbuilding Industry and was awarded as an outstanding entrepreneur for the third year in 1993, a paragon of transportation and labour section in 1994 and 1995 respectively in China. Mr. Li is the Chairman of China Merchants Energy Shipping Company Limited, shares of which are listed on the Shanghai Stock Exchange and China International Marine Containers (Group) Co., Ltd., shares of which are listed on the Shenzhen Stock Exchange. He was appointed to the Board of Directors as Executive Director on 14 October 2010.

Mr. Li Yinquan

aged 56, 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 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 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 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. He was appointed to the Board of Directors as Executive Director on 20 June 2001.

Mr. Hu Zheng

aged 55, 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 Zhangzhou China Merchants Economic and Technological 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 and Chairman of Board of Trustees of China Merchants Charitable Foundation. 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.

Mr. Meng Xi

aged 55, 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 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 52, is the Vice President and the General Counsel 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 48, is the Chief Economist and the General Manager of Business Development Department of China Merchants Group Limited. He is also a Director of China Merchants Holdings (Hong Kong) Company 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 48, 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 48, is the General Manager of Strategic Planning Department and 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 and human resource management. He was appointed to the Board of Directors as Executive Director on 11 May 2005.

Mr. Liu Yunshu

aged 46, 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. Kut Ying Hay

aged 56, 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.

Mr. Lee Yip Wah Peter

aged 69, is a retired 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 55, 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 56, 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 Co., Ltd, 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, an Independent Non-executive Director, Chairman of audit committee and member of remuneration committee of Cosmopolitan International Holdings Limited, an Independent Non-executive Director, Chairman of audit committee, member of remuneration committee and member of nomination committee of Goldlion Holdings Limited and, an Independent Non-executive Director and Chairman of audit committee of Shanghai Industrial Urban Development Group Limited (formerly known as Neo-China Land Group (Holdings) Limited), all are listed on The Stock Exchange of Hong Kong Limited. Mr. Li is also an Independent Non-executive Director, member of audit committee and member of remuneration committee of AVIC International Holding (HK) Limited (formerly known as CATIC International Holdings Limited), a company listed on The Stock Exchange of Hong Kong Limited. He was appointed to the Board of Directors as Independent Non-executive Director on 1 June 2007.

Mr. Bong Shu Ying Francis

aged 69, OBE, JP, is currently a Director of AECOM Technology Corporation, a company listed on the New York Stock Exchange. He is also a Non-executive Director of Cosmopolitan International Holdings Limited, a company listed on The Stock Exchange of Hong Kong Limited. Mr. Bong holds a Bachelor's degree of Sciences in Engineering from the University of Hong Kong and is a Past President of Hong Kong Academy of Engineering Sciences and Chairman of the Hong Kong University Engineering Advisory Committee. He is a Past President of the Hong Kong Institution of Engineers, a Fellow of the Institution of Civil Engineers (UK) and a Fellow of the Institution of Structural Engineers (UK). Mr. Bong is an Honorary Fellow of the University of Hong Kong and he was appointed a Justice of Peace in 1992 by the Government of Hong Kong and he received an OBE award in 1997 for his outstanding contribution to the development of the engineering profession in Hong Kong. He was appointed to the Board of Directors as Independent Non-executive Director on 14 July 2010.

Senior Management

Mr. Ni Lulun

aged 50, 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 59, 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 48, 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. 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 Ningbo Daxie China Merchants International Terminals Co., Ltd.

Mr. Zhang Rizhong

aged 42, 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 19 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 Limited, Financial Controller of China Merchants Holdings (UK) Co. Ltd, and a director of several companies.

Mr. Hang Tian

aged 47, joined the Company in February 2011 and is the Deputy General Manager of the Company. He was honored a Master of Business Administration Degree jointly given by Shanghai Maritime University and Management School of Maastricht of Holland, and also obtained a Master Degree of Supply Chain and Logistics Management at The Chinese University of Hong Kong. Before joining the Company, he was a Regional Manager of Sea-Land Service (China) Co. Ltd., the Deputy General Manager of Shenzhen Shekou China Merchants Port Services Co. Ltd., the General Manager of China Ever Bright Financial Assets Management (HK) Co. Ltd, the Deputy General Manager of ST-Anda Logistics Co. Ltd and the Deputy General Manager of China Merchants Logistics Holding Co. Ltd.

Mr. Wang Wei

aged 43, joined the Company in February 2011 and is the Deputy General Manager of the Company. He obtained his Bachelor Degree of Accountancy at East China Jiaotong University in 1990 and Master Degree of Civil Engineering at Southwest China Jiaotong University in 2001. Before joining the Company, he was the Chief Accountant of Third Engineering Bureau No.6 Section of The Ministry of Railways of The People's Republic of China, the Deputy Head of First Engineering Bureau No.1 Section of The Ministry of Railways of The People's Republic of China, the Board Chairman and General Manager of China Railway Third Engineering TieKe Co., Ltd, the Deputy General Manager and Chief Accountant of China Railway Tenth Engineering Group Co., Ltd, the Deputy General Manager and Chief Accountant of China Harbour Engineering Company Ltd. and the Board Chairman and General Manager of China Third Highway Engineering Co., Ltd.

Ms. Bian Yimei

aged 48, 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 the 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 Limited, 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 43, 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 Nanjing University with a PhD of Physical Geography in 1994. He obtained a Master Degree of Marine Management from Dalhousie University, Canada in 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) Inc. and the Deputy General Manager of Chiwan Container Terminal Co., Ltd.

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 2010.

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 44 to 46 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 57.

The Board had declared an interim dividend of 25 HK cents per share, totalling HK$610 million, which was paid on 26 November 2010.

The Directors have resolved to recommend the payment of a final scrip dividend of 78 HK cents per share, totalling HK$1,918 million for the year ended 31 December 2010 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 (2009: scrip dividend of 32 HK cents per share by way of issue of new shares equivalent with cash alternative), payable on or around 25 July 2011 to the shareholders whose names appear on the Register of Members of the Company as at the date of the 2011 Annual General Meeting (the "Scrip Dividend Scheme").

Subject to the approval by shareholders in the 2011 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 17 June 2011. 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 25 July 2011.

Charitable Donations

No donation was made by the Group during the year (2009: HK$4.2 million).

Reserves

Details of the movements in reserves of the Group and the Company during the year are set out in note 32 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 31 to the financial statements.

Distributable reserves

Distributable reserves of the Company as at 31 December 2010, as defined under section 79B of the Hong Kong Companies Ordinance, amounted to HK$3,919 million (2009: HK$2,402 million).

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 23.

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 2010 were:

Executive Directors:

Dr. Fu Yuning *(Chairman)*
Mr. Li Jianhong *(Vice Chairman)* (appointed on 14 October 2010)
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

Independent Non-executive Directors:

Mr. Tsang Kam Lan (passed away on 26 June 2010)
Mr. Kut Ying Hay
Mr. Lee Yip Wah Peter
Mr. Li Kwok Heem John
Mr. Li Ka Fai David
Mr. Bong Shu Ying Francis (appointed on 14 July 2010)

In accordance with Article 91 of the Company's Articles of Association (the "Articles"), Mr. Hu Zheng, Mr Kut Ying Hay, Mr. Lee Yip Wah Peter, Mr. Li Kwok Heem John and Mr. Li Ka Fai David 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. Li Jianhong shall retire from office at the AGM and shall be eligible and offer himself for re-election.

Three of the Independent Non-executive Directors have been appointed for a term of three years commencing on 22 March 2011 and two Independent Non-executive Directors have been appointed for a term of three years commencing on 1 June 2010 and 14 July 2010 respectively. 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 2010, 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 2010
Dr. Fu Yuning	Beneficial owner	Personal interest	543,680	400,000	**0.0384%**
Mr. Li Yinquan	Beneficial owner	Personal interest	—	450,000	**0.0183%**
Mr. Hu Zheng	Beneficial owner	Personal interest	—	700,000	**0.0285%**
Mr. Meng Xi	Beneficial owner	Personal interest	—	200,000	**0.0081%**
Mr. Su Xingang	Beneficial owner	Personal interest	—	350,000	**0.0142%**
Mr. Yu Liming	Beneficial owner	Personal interest	357,626	500,000	**0.0349%**
Mr. Wang Hong	Beneficial owner	Personal interest	518,037	150,000	**0.0272%**
Mr. Liu Yunshu	Beneficial owner	Personal interest	—	300,000	**0.0122%**
Mr. Lee Yip Wah Peter	Beneficial owner	Personal interest	148,308	—	**0.0060%**
Mr. Li Kwok Heem John	Interest of spouse	Family interest	1,485,422	—	**0.0604%**
			3,053,073	3,050,000	**0.2482%**

Save as disclosed above and based on the register maintained by the Company under section 352 of the SFO, as at 31 December 2010, 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.

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 30 March 2011, the total number of shares which may be issued pursuant to the exercise of options granted under the Share Option Scheme was 27,927,000 shares.

As at 30 March 2011, the total number of shares available for issue under the Share Option Scheme was 128,667,238 shares, which represented approximately 5.23% of the total issued share capital of the Company as at the same date.

Details of the share options outstanding at 31 December 2010 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 2010	Options granted during the year	Options exercised during the year	Options lapsed during the year	Options cancelled during the year	Options held as at 31 December 2010
Directors								
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	–	(100,000)	–	–	300,000
			3,150,000	–	(100,000)	–	–	3,050,000
Continuous contract employees								
(I) The Group	27 October 2004	11.08	1,430,000	–	(170,000)	–	–	1,260,000
	25 May 2006	23.03	12,861,000	–	(671,000)	(136,000)	–	12,054,000
	21 June 2006	20.91	150,000	–	–	–	–	150,000
(II) The CMHK	11 October 2002	4.985	100,000	–	(100,000)	–	–	–
Group	27 October 2004	11.08	1,058,000	–	(58,000)	–	–	1,000,000
	25 May 2006	23.03	11,644,000	–	(560,000)	–	–	11,084,000
			27,243,000	–	(1,559,000)	(136,000)	–	25,548,000
			30,393,000	–	(1,659,000)	(136,000)	–	28,598,000

Notes:

1. The above outstanding share options can be exercised at any time during a period of 10 years commencing on the date of grant of the options.
2. The weighted average closing market price per share immediately before the date on which the share options were exercised was HK$29.297.
3. No share options were granted during the year.

Substantial shareholders

As at 31 December 2010, 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[(1,2,3)]	55.03%
China Merchants Steam Navigation Company Limited	Interest of Controlled Corporation	1,349,647,266[(2)]	54.91%
China Merchants Holdings (Hong Kong) Company Limited	Interest of Controlled Corporation	1,349,647,266[(2)]	54.91%
China Merchants Union (BVI) Limited	Beneficial Owner	1,332,525,504[(2)]	54.21%
Davis Selected Advisers, L.P. (d/b/a: Davis Advisors)	Investment Manager	145,910,554	5.94%

Notes:

1. 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).

2. 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.

3. 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.

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 2010, 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 29 January 2010, the Board of Directors of the Company passed a resolution agreeing not to exercise the pre-emptive right to purchase 20% interest in China Merchants Maritime & Logistics (Shenzhen) Ltd. ("CMML") from Shenzhen Chiwan Wharf Holdings Ltd. ("Shenzhen Chiwan"). Accordingly, Shenzhen Chiwan will sell its 20% interest in CMML to a special purpose vehicle wholly-owned by China Merchants Shekou Industrial Zone Company Limited ("CMSIZ"), which in turn is a wholly-owned subsidiary of China Merchants Group Limited ("CMG"), the ultimate holding company of the Company. The sale price of the 20% interest in CMML is RMB94,000,000. Prior to the completion of the sale, CMML was owned as to 60% by CMH International (China) Investments Company Limited ("CMCIL"), a wholly-owned subsidiary of the Company, and as to 40% by Shenzhen Chiwan. After the completion of the sale, CMML is held as to 60% by CMCIL, as to 20% by Shenzhen Chiwan and as to 20% indirectly by CMSIZ and the Company's indirect interest in CMML has not changed. The Board of Directors agreed not to exercise the pre-emptive right to purchase an additional 20% interests in CMML because the Company already has control in CMML through its 60% interests and the Board of Directors believes that CMML will benefit from having effectively CMSIZ as a shareholder in seeking land resources to support potential future growth in sea transportation logistics services and in seeking greater governmental support and possible preferential policies. Pursuant to Rule 14A.70(3) of the Listing Rules, the non-exercise of the pre-emptive right shall be treated as if the right was exercised and since the right is exercisable at the Company's discretion and Shenzhen Chiwan is a substantial shareholder of several subsidiaries of the Company and hence a connected person, the non-exercise of the pre-emptive right is treated as if it was a connected transaction of the Company.

(b) On 14 April 2010, the Company entered into a supplemental joint venture contract with Shenzhen Chiwan in relation to the increase in the total investment and registered capital of Shenzhen Cyber-Harbour Network Co., Ltd. ("CH Net"), a joint venture company which was owned as to 62.5% by the Company and 37.5% by Shenzhen Chiwan. Pursuant to the supplemental joint venture contract, the total investment and registered capital of CH Net shall be increased from RMB7,060,000 to RMB7,200,000, and from RMB5,000,000 to RMB50,000,000, respectively. The additional registered capital in the amount of RMB45,000,000 shall be contributed as to RMB35,295,472.31 by the Company in cash and by transferring the undistributed profits and profit reserves of CH Net attributable to the Company to the capital of CH Net and as to RMB9,704,527.69 by Shenzhen Chiwan by transferring each of the undistributed profits and profit reserves of CH Net attributable to Shenzhen Chiwan. As the contribution to the additional registered capital to be made by the Company and Shenzhen Chiwan pursuant to the supplemental joint venture contract are not in proportion to their respective equity interests in CH Net, CH Net is owned as to 76.84% by the Company and 23.16% by Shenzhen Chiwan after the additional capital injection. CH Net specialises in e-business for the maritime logistics industry and is principally engaged in construction of an EDI customs system, which streamlined the customs clearance formalities for the western Shenzhen ports and the funding from the increase in registered capital of CH Net will be used for the purpose of the expansion and optimisation of its operations and systems and extension of its network to other key container terminals in the Pearl River Delta, which, together with the western Shenzhen ports, have been the important strategic areas for the provision of logistics services and operations of the Group. In response to the growing demand for logistics services, the Directors of the Company believe that the increase in capital in CH Net is in line with the Group's strategy and will also assist in integrating the Group's port resources and logistics services in the western area of Shenzhen. At the time of the transaction and pursuant to the Listing Rules, Shenzhen Chiwan is a connected person of the Company as it is a substantial shareholder of several subsidiaries of the Company and as CH Net was owned as to 37.5% by Shenzhen Chiwan, CH Net is an associate of Shenzhen Chiwan and therefore also a connected person of the Company.

(c) On 18 June 2010, the Company and its intermediate holding company, China Merchants Holdings (Hong Kong) Company Limited ("CMHK"), entered into an entrustment agreement ("Entrustment Agreement") pursuant to which CMHK agreed to grant to the Company the management rights and the power to direct the voting right over 23.493% of China Nanshan Development (Group) Incorporation ("China Nanshan", a joint stock limited company incorporated in the PRC, which is indirectly owned as to 37.014% by the Company) held by Guangdong Guangye Investment Holdings Limited ("Guangye Investment", a company incorporated in the PRC and a subsidiary of Guangdong Guangye Asset Management Limited Company, a state-owned enterprise) (the "Entrusted Nanshan Shares") for a one-off nominal consideration of RMB1.00. Pursuant to the Entrustment Agreement, Guangye Investment has further authorised CMHK to designate a subsidiary to exercise such management rights and power to direct the voting right. In accordance with the Hong Kong Financial Reporting Standards, the ability to exercise management rights and the power to direct the voting right over the Entrusted Nanshan Shares, together with the 37.014% of the total issued share capital of China Nanshan which the Company beneficially owns, will result in the Company being able to consolidate the assets, liabilities and the financial results of China Nanshan into the consolidated financial statements of the Group. However, as Guangye Investment has retained the right to receive dividend over the Entrusted Nanshan Shares, the Company will continue to be only entitled to any dividend declared and paid by China Nanshan in respect of its 37.014% shareholding in China Nanshan. The Entrustment Agreement and the transactions contemplated thereunder were approved by independent shareholders at the Extraordinary General Meeting of the Company held on 12 August 2010 and the Entrustment Agreement has become effective upon such approval. The Directors expect the Entrustment Agreement, which will enable the Company to further influence, through its ability to direct the voting rights of the directors appointed by Guangye Investment to the board of China Nanshan and the business operations of the Nanshan Group will enable the Company to better align the ports operations of the Nanshan Group with those of the Group and to further strengthen the Group's presence in the West Shenzhen Ports Zone, and which shall bring strategic benefits to the Group. As CMHK is a substantial shareholder of the Company, CMHK is a connected person of the Company.

(d) Details of the continuing connected transactions of the Group for the year ended 31 December 2010 are set out below:

Name of party	Nature of transaction	Note	Income/ (expenses) HK$' million
China Merchants Shekou Industrial Zone Property Company Limited ("CMSIZ1")	Rental of a piece of land in Shekou charged to the Group	(i)	(5)
CMSIZ	Rental of a piece of land in Shekou charged to the Group	(ii)	(2)
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)	32
Shenzhen Nanyou (Group) Company Limited ("Shenzhen Nanyou")	Rental of a piece of land in Nanshan charged to the Group	(iv)	(2)
CMSIZ	Rental of a piece of land in Nanshan charged to the Group	(v)	(7)
CMSIZ	Rental of 23 parcels of land in Shekou and certain property assets charged to the Group	(vi)	(49)
CMSIZ	Rental of a parcel of land in Shekou charged to the Group	(vii)	(1)
Shenzhen Chiwan Logistics Limited ("SCL")	Port-zone container horizontal transportation and related services charged to the Group	(viii)	(20)
Euroasia Dockyard Enterprise and Development Limited ("Euroasia")	Rental of a piece of land at Tsing Yi Terminal charged to the Group	(ix)	(13)
China Merchants Maritime & Logistics (Shenzhen) Ltd. ("CMML")	Usage fees for utilising centralised cargo inspection center paid to CMML	(x)	—

Name of party	Nature of transaction	Note	Income/ (expenses) HK$'million
CMSIZ	Rental of a parcel of land in Shekou charged to the Group	(xi)	(1)
China Merchants Property Development Company Limited ("SCMPD")	Rental of two floors of Shekou Industrial Park Building charged to the Group	(xii)	(2)
Yiu Lian Dockyards Limited ("Yiu Lian")	Ship berthing service fee charged to the Group	(xiii)	(4)

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. The total annual rental payable for the year ended 31 December 2010 was HK$4,923,188. 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 expired on 31 December 2010. Rental was charged at RMB88.80 per square meter per annum. On 14 December 2010, CMML entered into a new lease agreement with Shenzhen Nanyou to renew the lease of the piece of land in Shenzhen Qianhaiwan Logistics Park for a term of three years commencing 1 January 2011 at a rental of RMB78 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 12 November 2009, CMSIZ entered into a new lease agreement with CMML to renew the lease contemplated under the expired lease agreement in respect of a piece of land in Shenzhen Qianhaiwan Logistics Park, Nanshan District, Shenzhen, with a total area of 121,330.70 square meters, 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 original 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. Six of the original lease agreements expired on 31 December 2009 and on 12 November 2009, SCMPS entered into six new lease agreements with CMSIZ to lease 20 parcels of land in the Shekou Industrial Park and certain property assets for a term of two years commencing on 1 January 2010 for a total rental not exceeding RMB44,600,000 for the year ended 31 December 2010. The remaining three original lease agreements regarding the lease of three parcels of land in the Shekou Industrial Park expired on 31 December 2010 and the total rental payable under these three original lease agreements amounted to RMB2,241,634 for the year ended 31 December 2010. On 14 December 2010, SCMPS entered into three new lease agreements with CMSIZ to further extend the lease of these three parcels of land in the Shekou Industrial Park for a term of two years commencing on 1 January 2011 for a total rental of RMB1,871,514 per annum, which shall constitute de minimis continuing connected transactions pursuant to Rule 14A.33(3) of the Listing Rules. 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, with a total area of 10,298.94 square meters, for the period from 1 September 2008 to 31 December 2010 at a total rental charge of RMB1,802,316. On 14 December 2010, SCMPS entered into a new lease agreement with CMSIZ to renew the lease of the piece of land in Shekou Industrial Park for a further term of two years commencing on 1 January 2011 at a total rental charge of RMB1,544,841 during the entire lease term, which shall constitute de minimis continuing connected transactions pursuant to Rule 14A.33(3) of the Listing Rules. 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. 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 new contractor agreement with SCL on 30 December 2009 to extend the term of the expired contractor agreement of 2009 for a further term of one year commencing from 1 January 2010. Pursuant to such agreement, the Mawan Companies appointed SCL as a contractor in relation to the provision by SCL of various port-zone container horizontal transportation service 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 new cooperation agreement with Euroasia on 12 November 2009 to extend the term of the expired cooperation agreement for 2009 in respect of the lease of a piece of land in Tsing Yi from Euroasia with a total area of 679,704 square meters 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.

(xi) SCMPS entered into a lease agreement with CMSIZ on 12 November 2009 pursuant to which SCMPS agreed to lease a parcel of land in the Shekou Industrial Park, with a total area of 15,392.11 square meters for a term of one year commencing from 1 January 2010 and at an annual rental of RMB722,659.56. In view of the expiration of this lease agreement on 31 December 2010, SCMPS and CMSIZ entered into a new lease agreement on 14 December 2010 to renew the lease of the piece of land in Shekou Industrial Park for a further term of two years commencing on 1 January 2011 at a rental payable of RMB676,483.23 per annum, which shall constitute de minimis continuing connected transactions pursuant to Rule 14A.33(3) of the Listing Rules. 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. CMSIZ is an indirect wholly-owned subsidiary of CMG. Accordingly, CMSIZ is a connected person of the Company.

(xii) On 14 December 2010, CMCIL and SCMPD entered into a renewal agreement to extend the leasing of two floors of the Shekou Industrial Park Building with a total area of 2,226 square meters under the expired lease agreement for a term of 26 months commencing on 1 November 2010. The total rental payable by the Group under the renewal agreement during the entire lease term is RMB4,253,886, which shall constitute de minimis continuing connected transactions pursuant to Rule 14A.33(3) of the Listing Rules. 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. SCMPD is a subsidiary of CMG and hence a connected person of the Company.

(xiii) On 21 December 2010, China Merchants Container Services Limited ("CMCS"), an indirect wholly-owned subsidiary of the Company, entered into a ship berthing services agreement with Yiu Lian pursuant to which Yiu Lian will provide barges for bringing ships into and from the Tsing Yi Terminal. The term of the ship berthing services agreement is one year commencing on 1 January 2011 and it is expected that the total ship berthing fee payable by CMCS to Yiu Lian under the ship berthing services agreement will not exceed HK$6,000,000. CMCS and Yiu Lian have also entered into successive ship berthing agreements in the past, including more recently an agreement for the year ended 31 December 2010. The total ship berthing fee paid under the ship berthing services agreement of 2010 was HK$4,000,000 for the year ended 31 December 2010. The Directors are of the view that the Group will continue to benefit from the ship berthing services provided by Yiu Lian as such services are essential to facilitate a smooth business operation of the Group's port and port-related business, in particular, of CMCS' operations in Tsing Yi Terminal. Yiu Lian is a wholly-owned subsidiary of CMG and hence a connected person of the Company.

(e) The Independent Non-executive Directors have reviewed the continuing connected transactions set out in paragraph (d) 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 (d) of this section, the aggregate rental has not exceeded HK$5,000,000, the annual cap for the year ended 31 December 2010;

(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 (d) of this section, the aggregate rental has not exceeded RMB2,100,000, the annual cap for the year ended 31 December 2010;

(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 (d) of this section, aggregate rental received for the year ended 31 December 2010 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 (d) of this section, the aggregate rental has not exceeded RMB1,627,908, the annual cap for the year ended 31 December 2010;

(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 (d) of this section, the aggregate rental has not exceeded RMB5,900,000, the annual cap for the year ended 31 December 2010.

(vi) in respect of the lease by CMSIZ to SCMPS of 20 parcels of land in Shekou and certain property assets under the six new lease agreements entered into on 12 November 2009, details of which are set out in note (vi) to paragraph (d) of this section, the aggregate rental has not exceeded RMB44,600,000, the annual cap for the year ended 31 December 2010; and in respect of the lease by CMSIZ to SCMPS of three parcels of land in Shekou under the three original lease agreements entered into on 24 July 2008, details of which are also set out in note (vi) to paragraph (d) of this section, the aggregate rental has not exceeded RMB2,241,634, the annual cap for the year ended 31 December 2010;

(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 (d) of this section, the aggregate rental has not exceeded RMB772,421, the annual cap for the year ended 31 December 2010;

(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 (d) of this section, the aggregate amount of service fees has not exceeded RMB17,700,000, the annual cap for the year ended 31 December 2010;

(ix) in respect of the lease of a piece of land by Euroasia to CMCS, details of which are set out in note (ix) to paragraph (d) of this section, the aggregate rental has not exceeded HK$13,100,000, the cap for the year ended 31 December 2010;

(x) in respect of the utilisation by the Group of the centralised cargo inspection center in Shenzhen Western Port operated by CMML, details of which are set out in note (x) to paragraph (d) of this section, 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 2010;

(xi) in respect of the lease by CMSIZ to SCMPS of a parcel of land in Shekou, details of which are set out in note (xi) to paragraph (d) of this section, the aggregate rental has not exceeded RMB800,000, the annual cap for the year ended 31 December 2010; and

(xii) in respect of the ship berthing services provided by Yiu Lian to CMCS, details of which are set out in note (xiii) to paragraph (d) of this section, the total ship berthing fee has not exceeded HK$4,000,000, the annual cap for the year ended 31 December, 2010.

The Board of Directors has received a letter from the auditor of the Company stating that the continuing connected transactions set out in paragraph (d) (except for the de minimis continuing connected transaction set out in note (xii) to paragraph (d)) of this section:

(i) have received the approval of the Company's Board of Directors;

(ii) transactions involving the provisions of goods or services by the Group were in accordance with the pricing policies of the Company;

(iii) have been entered into in accordance with the terms of the relevant agreements governing the transactions; and

(iv) where applicable, have not exceeded the caps as disclosed in previous announcements.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed by the Group in page 49 to 51 of the Annual Report in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

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 2010, 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.

Events after the reporting period

Details of events after the reporting period of the Company are set out in note 43 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, 30 March 2011

PRICEWATERHOUSECOOPERS

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 57 to 165, which comprise the consolidated and company statements of financial position as at 31 December 2010, 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 information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 2010, 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, 30 March 2011

Consolidated Income Statement

For the year ended 31 December 2010

	Note	**2010 HK$'million**	2009 HK$'million
Continuing operations			
Revenue	5	**5,811**	3,588
Cost of sales	8	**(3,025)**	(2,055)
Gross profit		**2,786**	1,533
Other gains, net	7	**1,975**	190
Other income	7	**139**	206
Distribution costs	8	**(21)**	—
Administrative expenses	8	**(690)**	(388)
Operating profit		**4,189**	1,541
Finance income	11	**112**	16
Finance costs	11	**(753)**	(668)
Finance costs - net	11	**(641)**	(652)
Share of profits less losses of			
Associates	22	**3,366**	2,226
Jointly controlled entities	23	**324**	128
Profit before taxation		**7,238**	3,243
Taxation	12	**(558)**	(278)
Profit for the year from continuing operations		**6,680**	2,965
Discontinued operation			
Profit for the year from discontinued operation	13	**—**	492
Profit for the year		**6,680**	3,457

Consolidated Income Statement

For the year ended 31 December 2010

	Note	2010 HK$'million	2009 HK$'million
Attributable to:			
Equity holders of the Company			
– continuing operations		**5,876**	2,746
– discontinued operation		**—**	492
		5,876	3,238
Non-controlling interests			
– continuing operations		**804**	219
Profit for the year		**6,680**	3,457
Dividends	15	**2,528**	1,386
Earnings per share for profit attributable to equity holders of the Company	16		
From continuing operations			
– basic (HK cents)		**239.13**	112.94
– diluted (HK cents)		**238.52**	112.87
From discontinued operation			
– basic (HK cents)		**—**	20.24
– diluted (HK cents)		**—**	20.23

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Note	**2010 HK$'million**	2009 HK$'million
Profit for the year		**6,680**	3,457
Other comprehensive income:			
Realisation of investment revaluation reserve of an available-for-sale financial asset upon step acquisition of subsidiaries	40(a)	**(214)**	—
Realisation of reserves upon disposal of subsidiaries	38(c)	**—**	(19)
Realisation of reserves of associates upon step acquisition of subsidiaries	40(a)	**(255)**	—
Realisation of reserves of a jointly controlled entity upon step acquisition of subsidiaries	40(a)	**(3)**	—
Share of investment revaluation reserves of associates		**(156)**	186
Share of capital reserve of an associate		**(66)**	56
Share of investment revaluation reserve of a jointly controlled entity		**3**	—
Exchange differences from retranslation of investments in subsidiaries, associates and jointly controlled entities		**1,348**	38
Increase in fair values of available-for-sale financial assets, net of deferred taxation		**52**	1,023
Share of net actuarial (losses)/gains on defined benefit plans of associates and a jointly controlled entity		**(17)**	121
Total other comprehensive income for the year, net of tax		**692**	1,405
Total comprehensive income for the year		**7,372**	4,862
Total comprehensive income attributable to:			
– equity holders of the Company		**6,179**	4,645
– non-controlling interests		**1,193**	217
		7,372	4,862

Consolidated Statement of Financial Position

As at 31 December 2010

	Note	**As at 31 December 2010 HK$'million**	As at 31 December 2009 HK$'million (restated)	As at 1 January 2009 HK$'million (restated)
ASSETS				
Non-current assets				
Intangible assets	17	**3,389**	2,513	2,513
Property, plant and equipment	2.1(i), 18	**16,835**	10,990	13,070
Investment properties	19	**3,662**	919	744
Land use rights	2.1(i), 20	**9,683**	6,893	7,277
Interests in associates	22	**23,701**	18,787	17,392
Interests in jointly controlled entities	23	**4,589**	2,742	2,646
Other financial assets	24	**2,418**	2,837	1,609
Prepayments	25	**342**	68	—
Deferred tax assets	36	**114**	34	27
		64,733	45,783	45,278
Current assets				
Inventories	26	**159**	40	41
Properties under development and held for sale	27	**2,241**	—	—
Other financial assets	24	**382**	—	—
Debtors, deposits and prepayments	28	**4,484**	886	684
Cash and cash equivalents	29	**6,352**	3,206	2,806
		13,618	4,132	3,531
Assets of disposal group classified as held for sale		**—**	—	1,684
Non-current assets held for sale	30	**—**	2,553	—
		13,618	6,685	5,215
Total assets		**78,351**	52,468	50,493
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Share capital	31	**246**	243	242
Reserves		**36,878**	32,541	29,069
Proposed dividend		**1,918**	779	969
		39,042	33,563	30,280
Non-controlling interests		**10,329**	2,056	2,434
Total equity		**49,371**	35,619	32,714

Consolidated Statement of Financial Position

As at 31 December 2010

	Note	As at 31 December 2010 HK$'million	As at 31 December 2009 HK$'million (restated)	As at 1 January 2009 HK$'million (restated)
LIABILITIES				
Non-current liabilities				
Loans from the ultimate holding company	33	**938**	—	—
Loans from an intermediate holding company	34	**587**	—	—
Other financial liabilities	35	**14,144**	9,298	10,246
Deferred tax liabilities	36	**2,065**	736	631
		17,734	10,034	10,877
Current liabilities				
Creditors and accruals	37	**4,382**	1,593	2,355
Loans from the ultimate holding company	33	**1,748**	2,566	2,649
Loans from an intermediate holding company	34	**—**	738	—
Other financial liabilities	35	**4,855**	1,857	1,237
Taxation payable		**261**	61	19
		11,246	6,815	6,260
Liabilities of disposal group classified as held for sale		**—**	—	642
		11,246	6,815	6,902
Total liabilities		**28,980**	16,849	17,779
Total equity and liabilities		**78,351**	52,468	50,493
Net current assets/(liabilities)		**2,372**	(130)	(1,687)
Total assets less current liabilities		**67,105**	45,653	43,591

Dr. Fu Yuning
Director

Mr. Hu Jianhua
Director

Statement of Financial Position

As at 31 December 2010

	Note	2010 HK$'million	2009 HK$'million
ASSETS			
Non-current assets			
Property, plant and equipment	18	**—**	—
Interests in subsidiaries	21	**28,651**	27,069
Interest in a jointly controlled entity	23	**—**	3
		28,651	27,072
Current assets			
Debtors, deposits and prepayments	28	**483**	7
Advances to subsidiaries	21	**77**	195
Cash and cash equivalents	29	**1,481**	2,048
		2,041	2,250
Total assets		**30,692**	29,322
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	31	**246**	243
Reserves	32(b)	**19,613**	18,552
Proposed dividend	32(b)	**1,918**	779
Total equity		**21,777**	19,574

Statement of Financial Position

As at 31 December 2010

	Note	2010 HK$'million	2009 HK$'million
LIABILITIES			
Non-current liabilities			
Other financial liabilities	35	**497**	—
Advances from subsidiaries	21	**7,488**	8,874
		7,985	8,874
Current liabilities			
Creditors and accruals	37	**65**	224
Advances from subsidiaries	21	**65**	650
Other financial liabilities	35	**800**	—
		930	874
Total liabilities		**8,915**	9,748
Total equity and liabilities		**30,692**	29,322
Net current assets		**1,111**	1,376
Total assets less current liabilities		**29,762**	28,448

Dr. Fu Yuning
Director

Mr. Hu Jianhua
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Attributable to equity holders of the Company				Non-controlling interests	Total
	Share capital HK$'million	Share premium HK$'million	Other reserves (note 32(a)) HK$'million	Retained earnings HK$'million	HK$'million	HK$'million
At 1 January 2010	243	14,399	6,424	12,497	2,056	35,619
Comprehensive income						
Profit for the year	—	—	—	5,876	804	6,680
Other comprehensive income						
Realisation of investment revaluation reserve of an available-for-sale financial asset upon step acquisition of subsidiaries (note 40(a))	—	—	(214)	—	—	(214)
Realisation of reserves of associates upon step acquisition of subsidiaries (note 40(a))	—	—	(614)	359	—	(255)
Realisation of reserves of a jointly controlled entity upon step acquisition of subsidiaries (note 40(a))	—	—	(6)	3	—	(3)
Share of investment revaluation reserves of associates (note 22(a))	—	—	(156)	—	—	(156)
Share of capital reserves of an associate (note 22(a))	—	—	(66)	—	—	(66)
Share of investment revaluation reserve of a jointly controlled entity (note 23(a))	—	—	3	—	—	3
Exchange differences from retranslation of investments in subsidiaries, associates and jointly controlled entities	—	—	959	—	389	1,348
Increase in fair value of available-for-sale financial assets, net of deferred taxation	—	—	52	—	—	52
Share of net actuarial losses on defined benefit plans of associates	—	—	—	(17)	—	(17)
Total other comprehensive income for the year, net of tax	—	—	(42)	345	389	692
Total comprehensive income for the year	—	—	(42)	6,221	1,193	7,372

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Attributable to equity holders of the Company				Non-controlling interests	Total
	Share capital HK$'million	Share premium HK$'million	Other reserves (note 32(a)) HK$'million	Retained earnings HK$'million	HK$'million	HK$'million
Transactions with owners						
Issue of shares on exercise of share options, net of share issue expenses (note 31(a))	—	33	—	—	—	33
Issue of shares in lieu of dividends (note 31(b))	3	653	—	—	—	656
Transfer to reserves	—	—	149	(149)	—	—
Step acquisition of subsidiaries (note 40(a))	—	—	—	—	6,829	6,829
Capital injection	—	—	—	—	865	865
Repayment of loan from a non-controlling equity holder	—	—	—	—	(70)	(70)
Dividends	—	—	—	(1,389)	(544)	(1,933)
Total transactions with owners for the year	3	686	149	(1,538)	7,080	6,380
At 31 December 2010	246	15,085	6,531	17,180	10,329	49,371

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Attributable to equity holders of the Company				Non-controlling interests	Total
	Share capital HK$'million	Share premium HK$'million	Other reserves (note 32(a)) HK$'million	Retained earnings HK$'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 38(c))	–	–	(148)	129	–	(19)
Share of investment revaluation reserves of associates	–	–	186	–	–	186
Share of capital reserve of an associate	–	–	56	–	–	56
Exchange differences from retranslation of investments in 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 for the year, 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 38(c))	–	–	–	–	(375)	(375)
Purchase of additional interest in a subsidiary	–	–	–	–	(9)	(9)
Dividends	–	–	–	(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 Cash Flows

For the year ended 31December 2010

	Note	2010 HK$'million	2009 HK$'million
Cash flows from operating activities			
Net cash inflow from operations	38(a)	**2,093**	1,627
Hong Kong profit tax paid		**(4)**	—
PRC corporate income tax paid		**(286)**	(55)
Withholding tax paid on dividends received		**(139)**	(92)
Dividends received from associates and jointly controlled entities		**1,254**	1,279
Net cash generated from operating activities		**2,918**	2,759
Cash flows from investing activities			
Interest income received		**112**	16
Proceeds from disposal of property, plant and equipment and land use rights		**1,175**	38
Proceeds from disposal of subsidiaries, net of cash disposed	38(c)	**—**	775
Income received from held-to-maturity investments		**2**	2
Purchase of property, plant and equipment and land use rights		**(1,072)**	(1,206)
Purchase of subsidiaries, net of cash acquired	38(b)	**2,395**	(9)
Purchase of additional interest in subsidiaries and an associate		**(46)**	(9)
Acquisitions of interests in associates and jointly controlled entities		**(2,552)**	—
Acquisitions of other financial assets		**(382)**	(208)
Deposits paid for investment		**(39)**	—
Net cash used in investing activities		**(407)**	(601)
Net cash inflow before financing activities carried forward		**2,511**	2,158

Consolidated Statement of Cash Flows

For the year ended 31December 2010

	Note	2010 HK$'million	2009 HK$'million
Net cash inflow before financing activities brought forward		**2,511**	2,158
Cash flows from financing activities			
Net proceeds from exercise of share options		**33**	11
Proceeds from new other financial liabilities		**7,639**	1,716
Loans from the ultimate holding company		**2,398**	1,645
Loans from an intermediate holding company		**287**	2,440
Capital contributions from non-controlling equity holders of subsidiaries		**865**	—
Dividends paid		**(733)**	(1,374)
Dividends paid to non-controlling equity holders of subsidiaries		**(544)**	(211)
Interest paid		**(745)**	(675)
Repayment of other financial liabilities		**(5,855)**	(2,272)
Repayment of loans from the ultimate holding company		**(2,364)**	(1,702)
Repayment of loans from an intermediate holding company		**(459)**	(1,702)
Net cash generated from/(used in) financing activities		**522**	(2,124)
Increase in cash and cash equivalents		**3,033**	34
Cash and cash equivalents at 1 January		**3,206**	3,171
Effect of foreign exchange rate changes		**113**	1
Cash and cash equivalents at 31 December		**6,352**	3,206

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 operation and bonded logistics and cold chain 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 2010, China Merchants Group Limited ("CMG"), directly or indirectly, held 55.03% 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 state-owned enterprise 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 Board of Directors on 30 March 2011.

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.

2.1 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 and financial assets 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.

(i) Revision and amendments to existing Standards adopted by the Group

The following revision and amendments to existing Standards are mandatory for the first time for the financial year beginning 1 January 2010. Except for the adoption of HKAS 17 (Amendment) "Leases" which required restatement of prior years' consolidated financial statements, no other adjustments have been made to the prior years' consolidated financial statements.

- HKFRS 3 (Revised) "Business combinations", and consequential amendments to HKAS 27 "Consolidated and separate financial statements", HKAS 28 "Investments in associates", and HKAS 31 "Interests in joint ventures", are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(i) Revision and amendments to existing Standards adopted by the Group (Continued)

The revised standard continues to apply the acquisition method to business combinations but with some significant changes as compared with HKFRS 3. For example: (i) all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement; (ii) 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; (iii) all acquisition-related costs are expensed.

As the Group has adopted HKFRS 3 (Revised), it is required to adopt HKAS 27 (Revised) "Consolidated and separate financial statements", at the same time. HKAS 27 (Revised) requires the effects of all transactions with non-controlling interests 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. The standard also specifies the accounting 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 has adopted the revised Standards to all business combinations prospectively from 1 January 2010.

The revised standard was applied to all acquisitions during the year. For step acquisition of China Nanshan Development (Group) Incorporation ("Nanshan Group"), it requires goodwill to be determined only at the date control is obtained rather than at the previous stages. The determination of goodwill includes the previously held equity interest to be adjusted to fair value, with any gain or loss recorded in the consolidated income statement. Acquisition-related costs of HK$10 million have been recognised in the consolidated income statement, which previously would have been included in the consideration for the business combination. The Group has chosen to recognise the non-controlling interest at the proportionate share of net assets of Nanshan Group rather than fair value. Previously, only proportionate share of net assets is allowed. Details of the acquisitions during the year are disclosed in notes 40 and 41.

- HKFRS 5 (Amendment) "Non-current assets held for sale and discontinued operations" under the first improvements to HKFRSs (2008) issued in October 2008 and under second improvements to HKFRSs (2009) issued in May 2009 by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The amendment requires that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. If the subsidiary is a disposal group meeting the definition of a discontinued operation, the relevant disclosures should be made. The amendment also specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirements of HKAS1 (Amendment) "Presentation of financial statements" still apply, in particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of HKAS 1.

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(i) Revision and amendments to existing Standards adopted by the Group (Continued)

- HKAS 17 (Amendment) "Lease" deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease term was classified as operating lease under "Leasehold land and land use rights", and amortised over the lease term.

  HKAS 17 (Amendment) has been applied retrospectively for annual periods beginning 1 January 2010 in accordance with the effective date and transitional provisions of the amendment. The Group has reassessed the classification of unexpired leasehold land and land use rights as at 1 January 2010 on the basis of information existing at the inception of those leases, and recognised the leasehold land in Hong Kong as finance lease retrospectively. As a result of the reassessment, the Group has reclassified certain leasehold land from operating lease to finance lease.

  The land interest of the Group that is held for own use is accounted for as property, plant and equipment and is depreciated from the land interest available for its intended use over the shorter of the useful life of the asset and the lease term.

The effect of the adoption of this amendment is as below:

	As at 31 December 2010 HK$'million	As at 31 December 2009 HK$'million	As at 1 January 2009 HK$'million
Decrease in leasehold land and land use rights	**(143)**	(146)	(149)
Increase in property, plant and equipment	**143**	146	149

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(ii) Amendments and interpretations to existing Standards effective in 2010 but not relevant to the Group

- HKAS 39 (Amendment) "Eligible hedged items"
- HKFRS 2 (Amendment) "Group cash-settled share-based payment transactions"
- HK(IFRIC)-Int 17 "Distributions of non-cash assets to owners"
- HK-Int 5 "Presentation of financial statements – classification by the borrower of a term loan that contains a repayment on demand clause"
- Second improvements to HKFRSs (2009) were issued in May 2009 by HKICPA
  - HKAS 1 (Amendment) "Presentation of financial statements"
  - HKAS 7 (Amendment) "Classification of expenditures on unrecognised assets"
  - HKAS 36 (Amendment) "Impairment of assets"
  - HK(IFRIC)-Int 9 "Reassessment of embedded derivatives" and HKAS 39 "Financial instruments: Recognition and measurement"
  - HK(IFRIC)-Int 16 "Hedges of a net investment in a foreign operation"

(iii) Revised Standard that is not effective in 2010 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 partially early adopted the exemption for disclosures of transactions among government-related entities and the government since 1 January 2009.

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(iv) The following new/revised Standards, new interpretations and amendments to Standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted:

		Effective for annual periods beginning on or after
HKAS 12 (Amendment)	"Deferred tax: Recovery of underlying assets"	1 January 2012
HKAS 24 (Revised)	"Related party disclosures - Change of definition of related party"	1 January 2011
HKAS 32 (Amendment)	"Classification of rights issue"	1 February 2010
HKFRS 7 (Amendment)	"Dislcosure – Transfer of financial assets"	1 July 2011
HKFRS 9	"Financial instruments"	1 January 2013
Amendments to HK(IFRIC) Int-14	"Prepayments of a minimum funding requirement"	1 January 2011
HK(IFRIC)-Int 19	"Extinguishing financial liabilities with equity instruments"	1 July 2010

(v) HKICPA's improvements to HKFRSs published in May 2010

HKICPA's third annual improvements project to HKFRSs has been published in May 2010. These improvements to HKFRSs have introduced certain amendments to those standards set out below. These amendments are not effective in 2010 and have not been early adopted. The Group is assessing the impact of these amendments. The Group will apply these amendments from 1 January 2011.

- HKAS 1 "Presentation of financial statements"
- HKAS 27 "Consolidated and separate financial statements"
- HKAS 34 "Interim financial reporting"
- HKFRS 3 (Revised) "Business combinations"
- HKFRS 7 "Financial instruments: Disclosures"
- HK(IFRIC)-Int 13 "Customer loyalty programmes"

2 Summary of significant accounting policies (Continued)

2.2 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 (including special purpose 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 Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any 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.

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

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement (note 2.7).

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 to ensure consistency with the policies adopted by the Group.

2 Summary of significant accounting policies (Continued)

2.2 Consolidation (Continued)

(i) Subsidiaries (Continued)

Change in accounting policy

For a business combination achieved in stages, it applies acquisition method at the acquisition date. The previously held interest is remeasured to fair value at the acquisition date and a gain or loss is recognised in the consolidated income statement. Goodwill is calculated by deducting the fair value of identifiable net assets from the fair value of the previously held interest, the consideration and non-controlling interest.

Previously, where a business combination involves more than one transaction, each purchase should be treated separately by the acquirer, using the transaction's cost and fair value information at the date of each purchase to determine the amount of goodwill associated with the transaction. Any adjustment to the fair values of the acquiree's identifiable assets, liabilities and contingent liabilities at the date of acquisition, relating to the acquirer's previously held interests is taken to revaluation reserve.

(ii) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, 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 non-controlling interests 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 2.7).

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 other comprehensive income is recognised in the consolidated statement of comprehensive income. 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.

2 Summary of significant accounting policies (Continued)

2.2 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 2.7).

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 other comprehensive income is recognised in other comprehensive income. 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.

2.3 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, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the key management team of the Company that makes strategic decisions.

2 Summary of significant accounting policies (Continued)

2.4 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities 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 (HK$) which is the Company's functional and the Group's presentation currency.

(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 in the consolidated income statement.

All foreign exchange gains and losses are presented in the consolidated income statement within "other gains/(losses) – net".

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 other comprehensive income.

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

(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 other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in other comprehensive income 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.

2 Summary of significant accounting policies (Continued)

2.5 Property, plant and equipment

Property, plant and equipment comprise mainly buildings, harbour works, buildings and dockyard, plant and machinery, furniture and equipment, vessels and ship, motor vehicles and leasehold improvements. Leasehold land classified as finance lease and all other property, plant and equipment are stated at historical cost less depreciation. 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.

Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land classified as finance lease and depreciation of other assets is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Leasehold land classified as finance lease	Shorter of remaining lease term of 50 years or useful life
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 2.8).

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)

2.6 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. It also includes properties that are being constructed or developed for future use as investment properties. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases.

Investment property is initially measured at cost, including related transaction costs. After initial recognition at cost, investment properties are carried at fair value, representing open market value determined at each reporting date 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 the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recognised in the consolidated income statement as part of a valuation gain or loss in other gains, net.

2.7 Intangible assets

(i) 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 at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. 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.

(ii) Trademarks

Trademarks acquired in a business combination are recognised at fair value at the acquisition date. Trademarks have indefinite useful life and are tested annually for impairment and carried at cost less accumulated impairment losses.

(iii) Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the customer relationship of 8 to 14 years.

2 Summary of significant accounting policies (Continued)

2.8 Impairment of 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.

2.9 Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount 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 and a sale is considered highly probably.

2.10 Financial assets

Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity 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 or 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, if expected to be settled within 12 months; otherwise, they are classified as non-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. The Group's loans and receivables comprise "debtors and deposits" and "cash and cash equivalents" in the statement of financial position (notes 2.14 and 2.15).

2 Summary of significant accounting policies (Continued)

2.10 Financial assets (Continued)

Classification (Continued)

(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 investment matures or management intends to dispose of within 12 months of the end of the reporting period.

Recognition and measurement

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 are subsequently 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.

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 "other gains, net".

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement as part of other income. Dividends on available-for-sale equity instruments are 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)

2.11 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 that 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.

The Group first assesses whether objective evidence of impairment exists.

For loans and receivables category, 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.

2 Summary of significant accounting policies (Continued)

2.11 Impairment of financial assets (Continued)

(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.

(iii) Impairment testing on investments

Impairment testing of the investments in subsidiaries or associates or jointly controlled entities is required upon declaration of 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.

2.12 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.

2.13 Properties under development and held for sale

Properties under development and held for sale are stated at the lower of cost and net realisable value. Development cost of properties comprises cost of land use rights, construction costs and borrowing costs incurred during the construction period. Upon completion, the properties are transferred to completed properties held for sale.

Net realisable value takes into account the price ultimately expected to be realised, less applicable variable selling expenses and the anticipated costs to completion.

Properties under development and held for sale are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

2 Summary of significant accounting policies (Continued)

2.14 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.

Impairment testing of debtors is described in note 2.11.

2.15 Cash and cash equivalents

In the consolidated statement of cash flows, 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. In the consolidated statement of financial position, bank overdrafts are shown within other financial liabilities in current liabilities.

2.16 Share capital

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

2.17 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.

2.18 Other financial liabilities

Other financial liabilities are recognised initially at fair value, net of transaction costs incurred. Other financial liabilities are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the 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.

2 Summary of significant accounting policies (Continued)

2.19 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, 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 substantively 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.

2 Summary of significant accounting policies (Continued)

2.20 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.

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.

2 Summary of significant accounting policies (Continued)

2.20 Employee benefits (Continued)

(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-market 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.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(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 a termination when the entity has a detailed formal plan to terminate 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.

2 Summary of significant accounting policies (Continued)

2.21 Provisions

Provisions are 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.

Provisions are 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.

2.22 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, transportation income, container service and container yard management income and logistics services income are recognised when the relevant services are rendered.

(ii) Sales of properties

Revenue from sale of properties is recognised when the risks and rewards of properties are transferred to the purchasers, which is when the construction of relevant properties has been completed and the properties have been delivered to the purchasers and collectability of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the consolidated statement of financial position as advanced proceeds received from customers under current liabilities.

(iii) Sales of goods

Sales of goods are 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)

2.22 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.

2.23 Borrowing costs

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

2.24 Lease

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

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

2.25 Dividend distribution

Dividend distribution to the Company's equity holders 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 equity holders.

3 Financial risk management

3.1 Financial risk factors

The Group's principal activities expose it to a variety of financial risks: market risk (including foreign exchange 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.

57% of the Group's borrowings (including loans from the ultimate holding company and an intermediate holding company) as at 31 December 2010 (2009: 74%) are denominated in Hong Kong dollar and United States dollar while the remaining are denominated in Renminbi. Majority of the Group's 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 2010, if Renminbi had strengthened/weakened by 3% (2009: 0.16%) with all other variables held constant, profit for the year would have been approximately HK$103 million higher/lower (2009: HK$516,000 higher/lower) mainly as a result of increase/decrease (2009: 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.

At 31 December 2010, if United States dollar had strengthened/weakened by 0.3% (2009: 0.06%) with all other variables held constant, profit for the year would have been approximately HK$25 million (2009: HK$4 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.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(i) Market risk (Continued)

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 either available-for-sale or at fair value through profit or loss. At 31 December 2010, if there had been a 10% increase/decrease in the listed share prices or price-earnings multiples of certain listed companies in the same industry with all other variables held constant, the Group's available-for sale financial assets and financial asset at fair value through profit or loss would have increased/decreased by approximately HK$205 million (2009: HK$275 million) and HK$38 million (2009: nil) respectively. Post-tax profit for the year would increase/decrease as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other components of equity would increase/decrease as a result of gains/losses on equity securities classified as available-for-sale. 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 as at 31 December 2010, 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 2010, if interest rates on borrowings had been 100 basis points (2009: 100 basis points) higher/lower with all other variables held constant, post-tax profit for the year would have been HK$112 million (2009: HK$34 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

3 Financial risk management (Continued)

3.1 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 and deposits 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 operation 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 reputable and established banks or financial institutions in Hong Kong and the PRC. 94% (2009: 97%) of cash are deposited in State-controlled banking enterprises as of 31 December 2010. 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 35(e)) and cash and cash equivalents (note 29) 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.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(iii) Liquidity risk (Continued)

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.

	Within 1 year		Between 1 and 2 years		Between 2 and 5 years		Over 5 years		Total	
	2010 HK$'million	2009 HK$'million	**2010 HK$'million**	2009 HK$'million	**2010 HK$'million**	2009 HK$'million	**2010 HK$'million**	2009 HK$'million	**2010 HK$'million**	2009 HK$'million
Group										
Other financial liabilities	**5,651**	2,370	**2,870**	891	**10,277**	4,662	**3,287**	5,996	**22,085**	13,919
Trade creditors	**418**	86	**–**	–	**–**	–	**–**	–	**418**	86
Other payables	**3,623**	985	**–**	–	**–**	–	**–**	–	**3,623**	985
Loans from the ultimate holding company	**1,815**	2,566	**49**	–	**984**	–	**–**	–	**2,848**	2,566
Loans from an intermediate holding company	**26**	738	**601**	–	**–**	–	**–**	–	**627**	738
Amount due to an intermediate holding company	**4**	4	**–**	–	**–**	–	**–**	–	**4**	4
Amounts due to fellow subsidiaries	**197**	193	**–**	–	**–**	–	**–**	–	**197**	193
Amounts due to associates	**1**	9	**–**	–	**–**	–	**–**	–	**1**	9
Amounts due to jointly controlled entities	**3**	4	**–**	–	**–**	–	**–**	–	**3**	4
	11,738	6,955	**3,520**	891	**11,261**	4,662	**3,287**	5,996	**29,806**	18,504
Company										
Other financial liabilities	**807**	–	**6**	–	**505**	–	**–**	–	**1,318**	–
Other payables	**18**	11	**–**	–	**–**	–	**–**	–	**18**	11
Advances from subsidiaries	**65**	650	**86**	1,491	**7,562**	8,057	**2,534**	2,735	**10,247**	12,933
	890	661	**92**	1,491	**8,067**	8,057	**2,534**	2,735	**11,583**	12,944

3 Financial risk management (Continued)

3.2 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 equity holders of the Company.

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 2010 and 2009 were as follows:

	2010 HK$'million	2009 HK$'million
Interest bearing other financial liabilities (note 35)	**18,971**	11,093
Loans from the ultimate holding company (note 33)	**2,686**	2,566
Loans from an intermediate holding company (note 34)	**587**	738
Total interest bearing debts	**22,244**	14,397
Less: cash and cash equivalents (note 29)	**(6,352)**	(3,206)
Net interest bearing debts	**15,892**	11,191
Net assets attributable to equity holders of the Company	**39,042**	33,563
Net gearing ratio	**40.7%**	33.3%

3 Financial risk management (Continued)

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- 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).

The following table presents the Group's assets and liabilities that are measured at their fair values at 31 December 2010.

	Level 1 HK$'million	**Level 2 HK$'million**	**Level 3 HK$'million**	**Total HK$'million**
Financial assets at fair value through profit or loss (note 24)	**—**	**—**	**382**	**382**
Available-for-sale financial assets (note 24)	**2,145**	**—**	**273**	**2,418**
	2,145	**—**	**655**	**2,800**

The following table presents the Group's assets and liabilities that were 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.

3 Financial risk management (Continued)

3.3 Fair value estimation (Continued)

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 2010:

	Financial assets at fair value through profit or loss HK$'million	Available-for-sale financial assets HK$'million	Total HK$'million
Opening balance as at 1 January 2010	**—**	**2,171**	**2,171**
Transfers out of level 3 to level 1 (note)	**—**	**(1,506)**	**(1,506)**
Exchange adjustments	**—**	**2**	**2**
Addition upon step acquisition of subsidiaries		**15**	**15**
Addition	**382**	**—**	**382**
Losses recognised in other comprehensive income	**—**	**(409)**	**(409)**
Closing balance as at 31 December 2010	**382**	**273**	**655**
Opening balance as at 1 January 2009	—	1,450	1,450
Gains and losses recognised in other comprehensive income	—	721	721
Closing balance as at 31 December 2009	—	2,171	2,171

Note:

One of the available-for-sale financial assets has been transferred out from level 3 to level 1 upon its listing during the year.

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.

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.

4.1 Critical accounting estimates and assumption

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2.7. 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.

(b) Estimated fair value of investment properties

The Group carries its investment properties at fair value with changes in the fair values recognised in profit or loss. It obtains independent valuations at least annually. At the end of each reporting period, the management update their assessment of the fair value of each property, taking into account the most recent independent valuations.

(c) Current and deferred income tax

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

4.2 Critical accounting judgement

Fair value assessment of the previously held interests of Nanshan Group and its fair value at the acquisition date

During the year, the Group acquired control on Nanshan Group through step acquisition and in accordance with HKFRS 3 (revised), the previously held interests in Nanshan Group and its subsidiaries is deemed to be disposed of at its fair value and it is remeasured to fair value at the acquisition date. The fair value of the previously held interests and its fair value at the acquisition date are determined by an independent professionally qualified valuer. In determining the fair value, the valuer used assumptions and estimates that reflect, amongst other thing, prices at which stocks of similar companies are trading in a public market. Judgement is required to determine the principal valuation assumptions in arriving the fair values.

5 Revenue

The principal activities of the Group comprise ports operation, bonded logistics and cold chain operations, port-related manufacturing operations and property development and investment. Revenue consists of turnover recognised under the following business activities during the year.

	2010 **HK$'million**	2009 HK$'million
Ports service, transportation income, container service and container yard management income	**5,008**	3,427
Logistics services income (including rental income)	**645**	129
Sales of properties and goods	**126**	—
Gross rental income from investment properties	**32**	32
	5,811	3,588

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 business and geographic perspective. Following the step acquisition of Nanshan Group, the segment information reviewed by the CODM has been amended. From a business perspective, management assesses the performance of business operations including ports operation, bonded logistics and cold chain operations, port-related manufacturing operations and other operations. Ports operation are further evaluated on a geographic basis including Shenzhen, Hong Kong, Ningbo and Shanghai and other locations. The segment information presented in the prior year has been restated accordingly.

Ports operation include container terminal operation, bulk and general cargo terminal operation operated by the Group and the Group's associates and jointly controlled entities. Bonded logistics and cold chain operations include logistic park operation, ports transportation, cold storage and logistics operation and airport cargo handling operated by the Group and the Group's associates and jointly controlled entities. Port-related manufacturing operations includes construction of modular housing and container manufacturing operated by the Group and the Group's associates. Other operations include property development and investment and corporate functions.

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 is derived from ports operations in Mainland China. There is no single customer who accounted for over 10% of the Group's total revenue.

6 Segment information (Continued)

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 2010								
	Ports operation					Bonded logistics and cold chain operations	Port-related manufacturing operations	Other operations	Total
	Shenzhen HK$'million	Hong Kong HK$'million	Ningbo and Shanghai HK$'million	Other locations HK$'million	Sub-total HK$'million	HK$'million	HK$'million	Property development and investment HK$'million	HK$'million
Revenue									
Company and subsidiaries	4,364	208	–	436	5,008	645	121	37	5,811
Share of associates	1,383	877	4,500	48	6,808	231	15,619	352	23,010
Share of jointly controlled entities	21	20	242	1,122	1,405	–	–	371	1,776
Total	5,768	1,105	4,742	1,606	13,221	876	15,740	760	30,597

	For the year ended 31 December 2009								
	Ports operation					Bonded logistics and cold chain operations	Port-related manufacturing operations	Other operations	Total
	Shenzhen HK$'million	Hong Kong HK$'million	Ningbo and Shanghai HK$'million	Other locations HK$'million	Sub-total HK$'million	HK$'million	HK$'million	Property development and investment HK$'million	HK$'million
Revenue									
Company and subsidiaries	2,966	175	–	286	3,427	129	–	32	3,588
Share of associates	2,344	767	3,801	–	6,912	128	5,751	–	12,791
Share of jointly controlled entities	31	10	192	674	907	–	–	–	907
Total	5,341	952	3,993	960	11,246	257	5,751	32	17,286

6 Segment information (Continued)

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

	For the year ended 31 December 2010										
	Ports operation					Bonded logistics and cold chain operations	Port-related manufacturing operations	Other operations			Total
	Shenzhen HK$'million	Hong Kong HK$'million	Ningbo and Shanghai HK$'million	Other locations HK$'million	Sub-total HK$'million	HK$'million	HK$'million	Property development and investment HK$'million	Corporate function HK$'million	Sub-total HK$'million	HK$'million
Continuing operations											
Operating profit/(loss), net of gain on remeasurement of previously held interest upon step acquisition of subsidiaries	2,092	23	85	159	2,359	357	(10)	237	(132)	105	2,811
Share of profits less losses of											
– Associates	341	348	1,591	(4)	2,276	75	921	94	–	94	3,366
– Jointly controlled entities	3	1	69	244	317	–	–	7	–	7	324
	2,436	372	1,745	399	4,952	432	911	338	(132)	206	6,501
Gain on remeasurement of previously held interest upon step acquisition of subsidiaries (note 7)											1,378
Finance costs – net	(52)	–	–	(78)	(130)	(80)	(9)	43	(465)	(422)	(641)
Taxation	(282)	(4)	(85)	(11)	(382)	(102)	(44)	(29)	(1)	(30)	(558)
Profit/(loss) for the year from continuing operations	2,102	368	1,660	310	4,440	250	858	352	(598)	(246)	6,680
Non-controlling interests	(643)	–	–	(9)	(652)	(68)	(67)	(17)	–	(17)	(804)
Profit/(loss) attributable to equity holders of the Company	1,459	368	1,660	301	3,788	182	791	335	(598)	(263)	5,876
Other information:											
Continuing operations											
Depreciation and amortisation	655	8	–	188	851	129	20	13	6	19	1,019
Capital expenditure (excluding capital expenditure from step acquisition of subsidiaries)	493	7	–	97	597	1,011	32	14	–	14	1,654

6 Segment information (Continued)

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

	For the year ended 31 December 2009										
	Ports operation					Bonded logistics and cold chain operations	Port-related manufacturing operations	Other operations			Total
	Shenzhen HK$'million	Hong Kong HK$'million	Ningbo and Shanghai HK$'million	Other locations HK$'million	Sub-total HK$'million	HK$'million	HK$'million	Property development and investment HK$'million	Corporate function HK$'million	Sub-total HK$'million	HK$'million
Continuing operations											
Operating profit/(loss)	1,465	8	88	(135)	1,426	37	(5)	200	(117)	83	1,541
Share of profits less losses of											
– Associates	530	332	1,076	–	1,938	20	268	–	–	–	2,226
– Jointly controlled entities	5	–	40	83	128	–	–	–	–	–	128
	2,000	340	1,204	(52)	3,492	57	263	200	(117)	83	3,895
Finance costs - net	(56)	–	–	(68)	(124)	(55)	–	–	(473)	(473)	(652)
Taxation	(166)	–	(62)	(6)	(234)	–	(30)	(14)	–	(14)	(278)
Profit/(loss) for the year from continuing operations	1,778	340	1,142	(126)	3,134	2	233	186	(590)	(404)	2,965
Non-controlling interests	(236)	–	–	8	(228)	9	–	–	–	–	(219)
Profit/(loss) attributable to equity holders of the Company	1,542	340	1,142	(118)	2,906	11	233	186	(590)	(404)	2,746
Discontinued operation											
Gain on disposal of discontinued operation	–	–	–	–	–	–	492	–	–	–	492
Non-controlling interests											219
Profit attributable to equity holders of the Company											3,238
Profit for the year											3,457
Other information:											
Continuing operations											
Depreciation and amortisation	542	8	–	209	759	71	–	–	7	7	837
Capital expenditure	551	3	–	269	823	183	–	–	–	–	1,006

6 Segment information (Continued)

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

	As at 31 December 2010										
	Ports operation					Bonded logistics and cold chain operations	Port-related manufacturing operations	Other operations			Total
	Shenzhen HK$'million	Hong Kong HK$'million	Ningbo and Shanghai HK$'million	Other locations HK$'million	Sub-total HK$'million	HK$'million	HK$'million	Property development and investment HK$'million	Corporate function HK$'million	Sub-total HK$'million	HK$'million
Segment assets (excluding interests in associates and jointly controlled entities)	22,998	103	2,140	4,426	29,667	7,131	690	10,326	2,133	12,459	49,947
Interests in associates	899	1,988	11,322	1,194	15,403	815	6,702	781	–	781	23,701
Interests in jointly controlled entities	88	4	729	3,682	4,503	–	–	86	–	86	4,589
Total segment assets	23,985	2,095	14,191	9,302	49,573	7,946	7,392	11,193	2,133	13,326	78,237
Deferred tax assets											114
Total assets											78,351
Segment liabilities	(5,443)	(38)	(54)	(2,069)	(7,604)	(3,290)	(449)	(5,480)	(9,831)	(15,311)	(26,654)
Taxation payable											(261)
Deferred tax liabilities											(2,065)
Total liabilities											(28,980)

6 Segment information (Continued)

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

	As at 31 December 2009										
	Ports operation					Bonded logistics and cold chain operations	Port-related manufacturing operations	Other operations			Total
	Shenzhen HK$'million	Hong Kong HK$'million	Ningbo and Shanghai HK$'million	Other locations HK$'million	Sub-total HK$'million	HK$'million	HK$'million	Property development and investment HK$'million	Corporate function HK$'million	Sub-total HK$'million	HK$'million
Segment assets (excluding interests in associates and jointly controlled entities)	17,816	89	1,924	2,980	22,809	2,064	–	927	2,552	3,479	28,352
Interests in associates	2,117	1,872	10,061	–	14,050	377	4,360	–	–	–	18,787
Interests in jointly controlled entities	22	3	675	2,042	2,742	–	–	–	–	–	2,742
Total segment assets	19,955	1,964	12,660	5,022	39,601	2,441	4,360	927	2,552	3,479	49,881
Non-current assets held for sale	–	–	–	2,553	2,553	–	–	–	–	–	2,553
	19,955	1,964	12,660	7,575	42,154	2,441	4,360	927	2,552	3,479	52,434
Deferred tax assets											34
Total assets											52,468
Segment liabilities	(3,230)	(41)	(105)	(2,318)	(5,694)	(1,227)	–	(5)	(9,126)	(9,131)	(16,052)
Taxation payable											(61)
Deferred tax liabilities											(736)
Total liabilities											(16,849)

7 Other gains, net and other income

	2010 HK$'million	2009 HK$'million
Other gains, net		
Increase in fair value of investment properties (note 19)	**331**	175
Reversal of provision for terminal construction cost	**57**	—
Gain on disposal of land use rights, property, plant and equipment	**130**	22
Gain on remeasurement of previously held interest upon step acquisition of subsidiaries (note 40(a))	**1,378**	—
Net exchange gains/(losses)	**79**	(7)
	1,975	190
Other income		
Income from held-to-maturity investments	**1**	1
Dividend income from available-for-sale financial assets		
– Listed equity investments	**102**	29
– Unlisted equity investments	**12**	114
Government subsidy	**—**	48
Others	**24**	14
	139	206

8 Expenses by nature

	2010 HK$'million	2009 HK$'million (restated)
Cost of inventories	**125**	—
Staff costs (including Directors' emoluments) (note 9)	**894**	523
Depreciation of property, plant and equipment	**887**	698
Amortisation of intangible assets and land use rights	**131**	139
Auditors' remuneration	**14**	10
Fuel and utilities	**373**	237
Subcontracting fees	**544**	371
Operating lease rentals in respect of		
– land and buildings	**102**	90
– plant and machinery	**29**	31
Transportation and delivery	**107**	—
Other expenses	**530**	344
Total cost of sales, distribution costs and administrative expenses	**3,736**	2,443

9 Staff costs (including Directors' emoluments)

	2010 HK$'million	2009 HK$'million
Wages and salaries	**808**	462
Retirement benefit scheme contributions (Note)	**86**	61
	894	523

Note:

No forfeiture was utilised during 2010 (2009: HK$55,345), leaving no available balance at the year end to reduce future contributions.

10 Directors' and senior management's emoluments

(a) Directors' emoluments comprise payments to the following Directors of the Company 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	2010 Total HK$'million	2009 Total HK$'million
Fu Yuning	–	–	–	–	**–**	–
Li Jianhong (i)	–	–	–	–	**–**	–
Li Yinquan	–	–	–	–	**–**	–
Hu Zheng	–	–	–	–	**–**	–
Meng Xi	–	–	–	–	**–**	–
Su Xingang	–	–	–	–	**–**	–
Yu Liming	–	–	–	–	**–**	–
Hu Jian Hua	–	0.85	1.20	0.08	**2.13**	1.20
Wang Hong	–	–	0.02	–	**0.02**	0.41
Liu Yunshu (ii)	–	0.63	0.85	0.03	**1.51**	0.84
To Wing Sing (iii)	–	–	–	–	**–**	0.77
Tsang Kam Lam (iv)	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
Bong Shu Ying Francis (v)	0.16	–	–	–	**0.16**	–
Total for the year 2010	0.96	1.48	2.07	0.11	**4.62**	
Total for the year 2009	0.80	1.48	1.58	0.16		4.02

No Director waived emoluments in respect of the years ended 31 December 2010 and 2009.

Notes:

(i) Appointed on 14 October 2010

(ii) Appointed on 3 June 2009

(iii) Resigned on 3 June 2009

(iv) Passed away on 26 June 2010

(v) Appointed on 14 July 2010

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 (2009: 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 (2009: four) individuals is as follows:

	2010 HK$'million	2009 HK$'million
Salaries, other allowances and benefit-in-kinds	**4**	5
Performance related incentive payments	**4**	2
	8	7

The emoluments fell within the following bands:

	Number of individuals	
	2010	2009
HK$1,000,001 - HK$1,500,000	**—**	1
HK$1,500,001 - HK$2,000,000	**2**	3
HK$2,000,001 - HK$2,500,000	**2**	—
	4	4

11 Finance income and costs

	2010 HK$'million	2009 HK$'million
Finance income - interest income from bank deposits	**112**	16
Interest expense on:		
Bank borrowings		
– wholly repayable within five years	**(185)**	(84)
– not wholly repayable within five years	**(38)**	(5)
Listed notes payable		
– wholly repayable within five years	**(358)**	(145)
– not wholly repayable within five years	**(113)**	(322)
Loans from the ultimate holding company	**(100)**	(110)
Loans from an intermediate holding company	**(31)**	(37)
Total borrowing costs incurred	**(825)**	(703)
Less: amount capitalised in assets under construction	**72**	35
Finance cost	**(753)**	(668)
Finance costs - net	**(641)**	(652)

Capitalisation rate of 4.765% per annum (2009: 4.526% 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% (2009: 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 20%, 22% and 24% in 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.

12 Taxation (Continued)

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

	2010 HK$'million	2009 HK$'million
Hong Kong profits tax	**5**	1
PRC corporate income tax	**323**	96
PRC withholding income tax	**128**	177
Deferred taxation	**102**	4
	558	278

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:

	2010 HK$'million	2009 HK$'million
Profit before taxation (excluding share of profits of associates and jointly controlled entities)		
Continuing operations	**3,548**	889
Discontinued operation	**—**	492
	3,548	1,381
Expected tax calculated at the weighted average applicable tax rate	**775**	265
Income not subject to taxation	**(524)**	(313)
Expenses not deductible for taxation purposes	**100**	101
Tax losses for which no deferred income tax asset was recognised	**4**	51
Utilisation of previously unrecognised tax losses	**(15)**	(3)
Withholding tax on unremitted earnings of subsidiaries, associates and jointly controlled entities in Mainland China	**218**	177
Taxation charge	**558**	278

The weighted average applicable tax rate was 21.8% (2009: 19.2%). The increase is mainly caused by the increase in PRC corporate income tax rates.

13 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 Hempel A/S, the non-controlling 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 had been recognised in the consolidated income statement in 2009.

14 Profit attributable to equity holders

Profit attributable to equity holders is dealt with in the financial statements of the Company to the extent of HK$2,903 million (2009: HK$977 million).

15 Dividends

	2010 **HK$'million**	2009 HK$'million
Interim, paid, of 25 HK cents (2009: 25 HK cents) per share	**610**	607
Final, proposed, of 78 HK cents (2009: 32 HK cents) per share	**1,918**	779
	2,528	1,386

At a meeting held on 30 March 2011, the Directors proposed a final dividend of 78 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 equity holders 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 2010 was based on 2,458,698,459 (2009: 2,433,199,023) shares in issue as at 30 March 2011.

16 Earnings per share

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

Basic	Continuing operations	Discontinued operation	Total
For the year ended 31 December 2010			
Profit attributable to equity holders of the Company (HK$'million)	**5,876**	**—**	**5,876**
Weighted average number of ordinary shares in issue	**2,457,060,786**	**2,457,060,786**	**2,457,060,786**
Basic earnings per share (HK cents)	**239.13**	**—**	**239.13**
For the year ended 31 December 2009			
Profit attributable to equity holders of the Company (HK$'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

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 that would have been issued assuming the exercise of the share options.

Diluted	**Continuing operations**	**Discontinued operation**	**Total**
For the year ended 31 December 2010			
Profit attributable to equity holders of the Company (HK$'million)	**5,876**	**—**	**5,876**
Weighted average number of ordinary shares in issue	**2,457,060,786**	**2,457,060,786**	**2,457,060,786**
Adjustment for share options	**6,265,867**	**6,265,867**	**6,265,867**
Weighted average number of ordinary shares for diluted earnings per share	**2,463,326,653**	**2,463,326,653**	**2,463,326,653**
Diluted earnings per share (HK cents)	**238.52**	**—**	**238.52**
For the year ended 31 December 2009			
Profit attributable to equity holders of the Company (HK$'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

17 Intangible assets

	Goodwill HK$'million	Trademarks HK$'million	Contractual customer relationships HK$'million	Total HK$'million
At 1 January 2009 and 31 December 2009				
Cost	2,513	—	—	2,513
Accumulated amortisation	—	—	—	—
Net book value	2,513	—	—	2,513
Year ended 31 December 2009				
Opening and closing net book value	2,513	—	—	2,513
Year ended 31 December 2010				
Opening net book value	**2,513**	**—**	**—**	**2,513**
Exchange difference	**19**	**—**	**—**	**19**
Step acquisition of subsidiaries (Note 40(a))	**485**	**—**	**—**	**485**
Acquisition of subsidiaries (Note (40(b))	**281**	**6**	**86**	**373**
Amortisation	**—**	**—**	**(1)**	**(1)**
Closing net book value	**3,298**	**6**	**85**	**3,389**
At 31 December 2010				
Cost	**3,298**	**6**	**86**	**3,390**
Accumulated amortisation	**—**	**—**	**(1)**	**(1)**
Net book value	**3,298**	**6**	**85**	**3,389**

17 Intangible assets (Continued)

Notes:

(a) Amortisation of HK$1 million (2009: nil) is included in 'cost of sales' in the consolidated income statement.

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

	2010 **HK$'million**	2009 HK$'million
Ports operation		
– Shenzhen	**2,904**	2,449
– Hong Kong	**52**	52
– Other locations	**10**	10
Bonded logistics and cold chain operations	**332**	2
	3,298	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 determines 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:

	Growth rate (i)		**Discount rate (ii)**	
	2010	2009	**2010**	2009
Ports operation				
– Shenzhen	**5%**	5%	**10.20% to 11.00%**	10.48%
– Hong Kong	**5%**	5%	**10.20%**	10.48%
– Other locations	**5%**	5%	**10.20%**	10.48%
Bonded logistics and cold chain operations	**5%**	5%	**10.20%**	10.48%

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 2010, there is no impairment of any of its CGUs or group of CGUs containing goodwill with indefinite useful lives (2009: nil).

18 Property, plant and equipment

	Group						Company
	Land and buildings HK$'million	Harbour works, buildings and dockyard HK$'million	Plant, machinery, furniture and equipment HK$'million	Others HK$'million	Assets under construction HK$'million	Total HK$'million	Furniture and equipment and motor vehicles HK$'million
At 1 January 2009							
Cost, as previously reported	308	7,745	5,325	365	1,930	15,673	7
Effect of adoption of HKAS 17 (Amendment)	209	–	–	–	–	209	–
Cost, as restated	517	7,745	5,325	365	1,930	15,882	7
Accumulated depreciation and impairment, as previously reported	(82)	(1,125)	(1,412)	(133)	–	(2,752)	(6)
Effect of adoption of HKAS 17 (Amendment)	(60)	–	–	–	–	(60)	–
Accumulated depreciation and impairment, as restated	(142)	(1,125)	(1,412)	(133)	–	(2,812)	(6)
Net book value, as restated	375	6,620	3,913	232	1,930	13,070	1

18 Property, plant and equipment (Continued)

	Group						Company
	Land and buildings HK$'million	Harbour works, buildings and dockyard HK$'million	Plant, machinery, furniture and equipment HK$'million	Others HK$'million	Assets under construction HK$'million	Total HK$'million	Furniture and equipment and motor vehicles HK$'million
Year ended 31 December 2009							
Opening net book value, as previously reported	226	6,620	3,913	232	1,930	12,921	1
Effect of adoption of HKAS 17 (Amendment)	149	–	–	–	–	149	–
Opening net book value, as restated	375	6,620	3,913	232	1,930	13,070	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 30)	(10)	(1,022)	(976)	–	(312)	(2,320)	–
Depreciation	(12)	(282)	(373)	(31)	–	(698)	(1)
Closing net book value, as restated	359	6,162	3,207	287	975	10,990	–

18 Property, plant and equipment (Continued)

	Group						Company
	Land and buildings HK$'million	Harbour works, buildings and dockyard HK$'million	Plant, machinery, furniture and equipment HK$'million	Others HK$'million	Assets under construction HK$'million	Total HK$'million	Furniture and equipment and motor vehicles HK$'million
At 31 December 2009							
Cost, as previously reported	303	7,477	4,828	446	975	14,029	7
Effect of adoption of HKAS 17 (Amendment)	209	–	–	–	–	209	–
Cost, as restated	512	7,477	4,828	446	975	14,238	7
Accumulated depreciation and impairment, as previously reported	(90)	(1,315)	(1,621)	(159)	–	(3,185)	(7)
Effect of adoption of HKAS 17 (Amendment)	(63)	–	–	–	–	(63)	–
Accumulated depreciation and impairment, as restated	(153)	(1,315)	(1,621)	(159)	–	(3,248)	(7)
Net book value, as restated	359	6,162	3,207	287	975	10,990	–

18 Property, plant and equipment (Continued)

	Group						Company
	Land and buildings HK$'million	Harbour works, buildings and dockyard HK$'million	Plant, machinery, furniture and equipment HK$'million	Others HK$'million	Assets under construction HK$'million	Total HK$'million	Furniture and equipment and motor vehicles HK$'million
Year ended 31 December 2010							
Opening net book value, as previously reported	213	6,162	3,207	287	975	10,844	—
Effect of adoption of HKAS 17 (Amendment)	146	—	—	—	—	146	—
Opening net book value, as restated	359	6,162	3,207	287	975	10,990	—
Exchange adjustments	7	196	116	24	34	377	—
Acquisition of subsidiaries	152	1,811	1,279	610	965	4,817	
Additions	—	103	33	151	591	878	—
Disposals	(6)	(315)	(78)	(14)	(9)	(422)	—
Transfer	2	1,155	557	44	(1,758)	—	—
Transfer from investment properties and non-current assets held for sale	—	99	983	—	—	1,082	—
Depreciation	(12)	(331)	(476)	(68)	—	(887)	—
Closing net book value	502	8,880	5,621	1,034	798	16,835	—
At 31 December 2010							
Cost	667	11,283	9,136	1,745	798	23,629	7
Accumulated depreciation and impairment	(165)	(2,403)	(3,515)	(711)	—	(6,794)	(7)
Net book value	502	8,880	5,621	1,034	798	16,835	—

18 Property, plant and equipment (Continued)

Notes:

(a) Included in assets under construction is capitalised interest of approximately HK$5 million (2009: HK$20 million).

(b) At 31 December 2010, plant, machinery, furniture and equipment with net book value of HK$71 million (2009: HK$47 million) and land use right with net book values of HK$558 million (2009: nil) were pledged as security for the Group's bank borrowings (note 35(a)).

(c) Others comprise vessels and ships, motor vehicles and leasehold improvements with net book values of HK$391 million (2009: HK$232 million), HK$201 million (2009: HK$20 million) and HK$442 million (2009: HK$35 million) respectively as at 31 December 2010.

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

	2010 HK$'million	2009 HK$'million (restated)
Cost of sales	**851**	672
Administrative expenses	**36**	26
	887	698

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

	Group			
	Land and buildings		**Harbour works, buildings and dockyard**	
	2010 HK$'million	2009 HK$'million (restated)	**2010 HK$'million**	2009 HK$'million
Land and buildings in Hong Kong, held on leases of between 10 to 50 years	**197**	203	**—**	—
Land and buildings outside Hong Kong, held on leases of between 10 to 50 years	**305**	156	**8,880**	6,162
	502	359	**8,880**	6,162

19 Investment properties

	2010 HK$'million	2009 HK$'million
Carrying value at 1 January	**919**	744
Exchange adjustments	**71**	—
Step acquisition of subsidiaries (note 40(a))	**2,423**	—
Transfer to property, plant and equipment (note 18)	**(82)**	—
Increase in fair value (note 7)	**331**	175
Carrying value at 31 December	**3,662**	919

Notes:

(a) The investment properties were revalued at 31 December 2010 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
– Mainland China	Grant Sherman Appraisal Limited ; and
	Shenzhenshi 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:

	2010 HK$'million	2009 HK$'million
Hong Kong	**1,054**	913
Mainland China	**2,608**	6
	3,662	919

20 Land use rights

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

	2010 HK$'million	2009 HK$'million (restated)
At 1 January, as previously reported	**7,039**	7,426
Effect of adoption of HKAS 17 (Amendment)	**(146)**	(149)
At 1 January, as restated	**6,893**	7,277
Exchange adjustments	**237**	6
Additions	**33**	—
Step acquisition of subsidiaries (Note 40(a))	**2,750**	—
Acquisition of subsidiaries (Note 40(b))	**21**	—
Disposals	**(121)**	(18)
Transfer to non-current assets held for sale (note 30)	**—**	(233)
Amortisation	**(130)**	(139)
At 31 December	**9,683**	6,893

The Group's interests in land use rights, held on leases of between 10 to 50 years and stated at their net book values, are located in Mainland China.

21 Interests in subsidiaries

	Company	
	2010 **HK$'million**	2009 HK$'million
Unlisted shares, at cost	**8,679**	8,635
Advances to subsidiaries - non-current portion (note (a))		
– interest free	**19,529**	18,002
– interest bearing	**443**	432
	28,651	27,069
Advances to subsidiaries - current portion (note (b))	**77**	195
Advances from subsidiaries - non-current portion (note (c))		
– interest free	**567**	1,978
– interest bearing	**6,921**	6,896
	7,488	8,874
Advances from subsidiaries – current portion (note (d))	**65**	650

Notes:

(a) The non-current portion of advances to subsidiaries of HK$19,529 million (2009: HK$18,002 million) are unsecured, interest free, will not be repayable within one year and are considered as equity in nature. The amount of HK$443 million (2009: HK$432 million) is unsecured, interest bearing at an effective interest rate of 1.53% to 1.81% per annum (2009: 1.18% to 1.20% per annum) and will not be repayable within one year.

(b) As at 31 December 2010, the current portion of advances to subsidiaries are unsecured, interest bearing at an effective interest rate of 1.21% per annum (2009: 0.84% to 2.58% per annum) and will be repayable within one year.

(c) The non-current portion of advances from subsidiaries of HK$6,921 million (2009: HK$6,896 million) is unsecured, interest bearing at 7.25% (2009: 7.25%) and will not be repayable within one year. The amount of HK$567 million (2009: HK$1,978 million) is unsecured, interest free and will not be repayable within one year.

(d) The current portion of advances from subsidiaries are unsecured, interest free and will be repayable within one year.

(e) Particulars of the Company's principal subsidiaries at 31 December 2010 are set out in note 44 to the financial statements.

22 Interests in associates

	2010 HK$'million	2009 HK$'million
Share of net assets of (note (a)):		
Listed associates	**17,098**	13,982
Unlisted associates	**5,257**	4,226
	22,355	18,208
Goodwill (note (b)):		
Listed associates	**802**	439
Unlisted associates	**140**	140
	942	579
Advance to an associate (note (c))	**404**	—
Total	**23,701**	18,787
Market value of listed associates	**39,766**	43,144

Notes:

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

	2010 HK$'million	2009 HK$'million
Carrying value as at 1 January	**18,208**	16,823
Exchange adjustments	**764**	103
Acquisition upon step acquisition of subsidiaries (note 40(a))	**1,744**	—
Acquisition of additional interest	**30**	—
Acquisition of associates	**2,075**	—
Disposals upon step acquisition of subsidiaries	**(2,379)**	—
Share of profits less losses	**3,366**	2,226
Share of investment revaluation reserves	**(156)**	186
Share of capital reserve	**(66)**	56
Share of net actuarial (losses)/gains on defined benefit plans of associates	**(17)**	66
Dividends received and receivable	**(1,214)**	(1,252)
Carrying value as at 31 December	**22,355**	18,208

22 Interests in associates (Continued)

Notes: (Continued)

(b) Movement of goodwill during the year:

	2010 HK$'million	2009 HK$'million
Carrying value as at 1 January	**579**	569
Exchange adjustments	**22**	10
Step acquisition of subsidiaries (note 40(a))	**325**	—
Acquisition of additional interest	**16**	—
Carrying value as at 31 December	**942**	579

(c) Advance to an associate is unsecured and interest bearing at 5.81%.

(d) On 27 October 2010, Shanghai International Port (Group) Co., Ltd. ("SIPG"), an associate of the Group, entered into certain agreements to issue 1,764,379,518 shares to 上海同盛投資(集團)有限公司(Shanghai Tongsheng Investment (Group) Co., Ltd., being an unofficial English name) as the consideration for the acquisition of the ports assets in Yangshan Ports Phase II and Phase III. Upon the issuance of the above mentioned additional shares, the Group's equity interest in SIPG will be diluted by 2.06% from 26.539% to 24.48%. The transaction is subject to approval by the relevant regulatory bodies and is not yet completed as of the date of approval of these financial statements.

(e) 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"), SIPG and other associates which are included in the consolidated income statement and consolidated statement of financial position using equity method are as follows:

	2010				2009			
	CIMC HK$'million	SIPG HK$'million	Others HK$'million	Total HK$'million	CIMC HK$'million	SIPG HK$'million	Others HK$'million	Total HK$'million
Revenue	**14,828**	**4,500**	**3,682**	**23,010**	5,751	3,801	3,239	12,791
Net interest expenses	**(112)**	**(119)**	**(64)**	**(295)**	(26)	(124)	(29)	(179)
Depreciation and amortisation	**(392)**	**(440)**	**(337)**	**(1,169)**	(232)	(391)	(383)	(1,006)
Profit for the year	**864**	**1,590**	**912**	**3,366**	268	1,076	882	2,226
Non-current assets	**5,975**	**13,084**	**9,203**	**28,262**	4,738	12,012	9,793	26,543
Current assets	**9,928**	**6,048**	**3,084**	**19,060**	5,788	5,713	3,480	14,981
Current liabilities	**(8,806)**	**(5,569)**	**(2,394)**	**(16,769)**	(4,283)	(4,643)	(2,948)	(11,874)
Non-current liabilities and non-controlling interests	**(2,332)**	**(2,323)**	**(3,543)**	**(8,198)**	(2,244)	(3,100)	(6,098)	(11,442)
Net assets attributable to the Group	**4,765**	**11,240**	**6,350**	**22,355**	3,999	9,982	4,227	18,208

(f) Particulars of the Group's principal associates at 31 December 2010 are set out in note 45 to the financial statements.

23 Interests in jointly controlled entities

	Group		Company	
	2010 **HK$'million**	2009 HK$'million	**2010** **HK$'million**	2009 HK$'million
Unlisted investment, at cost	**—**	—	**—**	3
Share of net assets of jointly controlled entities (note (a))	**4,537**	2,692	**—**	—
Goodwill (note (b))	**52**	50	**—**	—
	4,589	2,742	**—**	3

Notes:

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

	2010 **HK$'million**	2009 HK$'million
Carrying value as at 1 January	**2,692**	2,596
Exchange adjustments	**135**	3
Acquisitions (note 41(b))	**1,347**	—
Acquisitions upon step acquisition of subsidiaries (note 40(a))	**165**	—
Disposal upon step acquisition of subsidiaries (note 40(a))	**(25)**	—
Disposal	**—**	(12)
Share of profits less losses	**324**	128
Share of investment revaluation reserve	**3**	—
Share of net actuarial gain on defined benefit plan of a jointly controlled entity	**—**	55
Dividends received and receivable	**(104)**	(78)
Carrying value as at 31 December	**4,537**	2,692

(b) Movement of goodwill during the year:

	2010 **HK$'million**	2009 HK$'million
Carrying value as at 1 January	**50**	50
Exchange adjustments	**2**	—
Carrying value as at 31 December	**52**	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:

	2010 **HK$'million**	2009 HK$'million
Revenue	**1,776**	907
Net interest expenses	**(69)**	(70)
Depreciation and amortisation	**(232)**	(181)
Profit for the year	**324**	128
Non-current assets	**8,084**	5,517
Current assets	**1,697**	491
Current liabilities	**(3,023)**	(989)
Non-current liabilities and non-controlling interests	**(2,221)**	(2,327)
Net assets attributable to the Group	**4,537**	2,692

(d) Particulars of the Company's and the Group's jointly controlled entities at 31 December 2010 are set out in note 46 to the financial statements.

24 Other financial assets

	2010 **HK$'million**	2009 HK$'million
Non-current assets		
Held-to-maturity investments (note (a))	**—**	2
Available-for-sale financial assets (note (b))	**2,418**	2,835
	2,418	2,837
Current asset		
Financial asset at fair value through profit or loss (note (c))	**382**	—

24 Other financial assets (Continued)

Notes:

(a) Held-to-maturity investment

	2010 HK$'million	2009 HK$'million
Unlisted investment with fixed interest rate of 8.5% per annum in Mainland China, matured in 2010	**—**	2

The movement in held-to-maturity investment is summarised as follows:

	2010 HK$'million	2009 HK$'million
Carrying value as at 1 January	**2**	5
Capital repayment	**(2)**	(3)
Carrying value as at 31 December	**—**	2

The held-to-maturity investment was denominated in Renminbi.

(b) Available-for-sale financial assets

	2010 HK$'million	2009 HK$'million
Listed equity investments in Mainland China	**2,145**	664
Unlisted equity investments in Mainland China	**273**	2,171
	2,418	2,835

24 Other financial assets (Continued)

Notes: (Continued)

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

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

	2010 HK$'million	2009 HK$'million
Carrying value as at 1 January	**2,835**	1,604
Exchange adjustments	**2**	—
Acquisition	**—**	208
Acquisition upon step acquisition of subsidiaries (note 40(a))	**22**	—
Net change in fair value transferred to equity	**182**	1,023
Disposal upon step acquisition of subsidiaries	**(623)**	—
Carrying value as at 31 December	**2,418**	2,835

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

(c) Financial asset at fair value through profit or loss

	2010 HK$'million	2009 HK$'million
Unlisted convertible preference shares in United States	**382**	—

The movement in financial asset at fair value through profit or loss is summarised as follows:

	2010 HK$'million	2009 HK$'million
Carrying value as at 1 January	**—**	—
Addition (note 42(b))	**382**	—
Carrying value as at 31 December	**382**	—

The financial asset at fair value through profit or loss is denominated in US dollar.

25 Prepayments

	2010 HK$'million	2009 HK$'million
Prepayments for the purchase of land use rights	**303**	68
Deposits for the acquisition of 20% interest of Chu Kong River Trade Terminal Company Limited (note 43)	**39**	—
	342	68

26 Inventories

	2010 HK$'million	2009 HK$'million
Raw materials	**79**	19
Spare parts and consumables	**80**	21
	159	40

27 Properties under development and held for sale

	2010 HK$'million	2009 HK$'million
As at 1 January	**—**	—
Exchange adjustments	**29**	—
Step acquisition of subsidiaries (note 40(a))	**1,148**	—
Additions	**1,339**	—
Properties sold	**(275)**	—
As at 31 December	**2,241**	—

	2010 HK$'million	2009 HK$'million
Land use rights in Mainland China	**1,514**	—
Interest capitalised	**165**	—
Construction costs	**510**	—
Properties under development for sale	**2,189**	—
Completed properties held for sale	**52**	—
	2,241	—

All properties under development and held for sale are located in Mainland China and the land held are on leases of between 10 to 50 years.

The amount of properties under development for sale of HK$2,189 million (2009: nil) is expected to be recovered after more than one year. The completed properties held for sale of HK$52 million (2009: nil) is expected to be recovered within one year.

28 Debtors, deposits and prepayments

	Group		Company	
	2010 HK$'million	2009 HK$'million	**2010 HK$'million**	2009 HK$'million
Trade debtors	**1,003**	581	**—**	—
Less: provision for impairment of receivables (note (a))	**(33)**	(25)	**—**	—
Trade debtors, net (note (c))	**970**	556	**—**	—
Amounts due from fellow subsidiaries (note (f))	**3**	9	**—**	1
Amounts due from associates (note (f))	**70**	5	**—**	—
Amounts due from jointly controlled entities (note (f))	**611**	—	**—**	—
Amounts due from a non-controlling shareholder (note (g))	**479**	—	**479**	—
Dividends receivable from an available-for-sale financial asset, an associate and a jointly controlled entity	**148**	111	**—**	—
	2,281	681	**479**	1
Prepayment for land use rights for property development	**876**	—	**—**	—
Other debtors, deposits and prepayments	**1,327**	205	**4**	6
	4,484	886	**483**	7

Notes:

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

	2010 HK$'million	2009 HK$'million
At 1 January	**25**	36
Provision for impairment of receivables	**15**	1
Reversal of provision	**(4)**	(5)
Receivables written off for the year	**(3)**	(7)
At 31 December	**33**	25

28 Debtors, deposits and prepayments (Continued)

Notes: (Continued)

(a) 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$101 million (2009: HK$36 million) are included in trade debtors as at 31 December 2010.

(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:

	2010 **HK$'million**	2009 HK$'million
Not yet due	**558**	165
1 - 90 days	**330**	343
91 - 180 days	**45**	16
181 - 365 days	**21**	9
Over 365 days	**16**	23
	970	556

(d) As at 31 December 2010, trade debtors of HK$628 million (2009: HK$227 million) and balances with group companies of HK$1,311 million (2009: HK$125 million) were neither past due nor impaired and were fully performing.

(e) As at 31 December 2010, trade debtors of HK$375 million (2009: HK$354 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:

	2010 **HK$'million**	2009 HK$'million
1 to 90 days	**330**	343
91 to 180 days	**45**	11
	375	354

Trade debtors of HK$70 million (2009: HK$62 million) have indication of impairment, in which provision of HK$33 million (2009: HK$25 million) has been made as at 31 December 2010. 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.

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

(g) The amount is unsecured, interest bearing at LIBOR plus 2% and repayable on demand.

28 Debtors, deposits and prepayments (Continued)

Notes: (Continued)

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

	Group		Company	
	2010 **HK$'million**	2009 HK$'million	**2010** **HK$'million**	2009 HK$'million
Hong Kong dollar	**83**	121	**—**	1
Renminbi	**1,692**	556	**—**	—
United States dollar	**506**	4	**479**	—
	2,281	681	**479**	1

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

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

29 Cash and cash equivalents

	Group		Company	
	2010 **HK$'million**	2009 HK$'million	**2010** **HK$'million**	2009 HK$'million
Cash at bank and in hand	**3,804**	867	**125**	13
Short-term bank deposits	**2,548**	2,339	**1,356**	2,035
	6,352	3,206	**1,481**	2,048

The weighted average effective interest rate on time deposits as at year end was approximately 1.64% (2009: 0.27%) per annum. These deposits had an average maturity period of 86 days (2009: 56 days).

29 Cash and cash equivalents (Continued)

Cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2010 HK$'million	2009 HK$'million	**2010 HK$'million**	2009 HK$'million
Hong Kong dollar	**1,966**	1,854	**1,316**	1,663
Renminbi	**4,132**	954	**31**	—
United States dollar	**230**	373	**111**	360
Other currencies	**24**	25	**23**	25
	6,352	3,206	**1,481**	2,048

30 Non-current assets held for sale

On 18 December 2009, the Group entered into a Joint Venture Agreement ("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 was 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 had been presented as non-current assets held for sale in the consolidated financial statements as at 31 December 2009.

During the year, the Group injected and sold certain assets amounting to HK$1,553 million previously classified as non-current assets held for sale to QQCTU and recognised a gain on disposal of HK$60 million during the year. The remaining HK$1,000 million has been reclassified to property, plant and equipment as the assets are not expected to be sold within one year.

31 Share capital

	Company			
	Number of shares		Share capital	
	2010	2009	**2010 HK$'million**	2009 HK$'million
Ordinary shares of HK$0.1 each				
Authorised:				
At 1 January and 31 December	**5,000,000,000**	5,000,000,000	**500**	500
Issued and fully paid ordinary shares of HK$0.1 each:				
At 1 January	**2,432,749,023**	2,423,435,842	**243**	242
Issue of shares on exercise of share options (note (a))	**1,659,000**	551,000	**—**	—
Issue of scrip dividend shares (note (b))	**23,619,436**	8,762,181	**3**	1
At 31 December	**2,458,027,459**	2,432,749,023	**246**	243

Notes:

(a) During the year, 1,659,000 (2009: 551,000) shares were issued upon exercise of share options. Total proceeds were HK$33 million (2009: HK$11 million).

The weighted average share price at the time of exercise was HK$29.46 (2009: HK$27.33) 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
2009 final dividend	16 July 2010	6,439,274	1	157	158
2010 interim dividend	**26 November 2010**	**17,180,162**	**2**	**496**	**498**
2010 Total		**23,619,436**	**3**	**653**	**656**
2009 Total		8,762,181	1	202	203

31 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:

	2010		2009	
	Weighted average exercise price HK$	**Number of share options**	Weighted average exercise price HK$	Number of share options
At 1 January	**21.84**	**30,393,000**	21.83	31,124,000
Exercised	**20.30**	**(1,659,000)**	20.86	(551,000)
Lapsed	**23.03**	**(136,000)**	23.03	(180,000)
At 31 December	**21.93**	**28,598,000**	21.84	30,393,000

All share options were exercisable as at 31 December 2010. Share options outstanding at 31 December 2010 have the following expiry dates and exercise prices:

		Share options	
Year of expiry	Exercise price HK$	**2010 Number of share options**	2009 Number of share options
2012	4.985	**—**	100,000
2014	11.08	**2,610,000**	2,838,000
2016	23.03	**25,838,000**	27,305,000
2016	20.91	**150,000**	150,000
		28,598,000	30,393,000

32 Reserves

(a) Other reserves

	Group					
	Share-based compensation reserve HK$'million	(Note (i)) Capital reserve HK$'million	Investment revaluation reserve HK$'million	Translation reserve HK$'million	(Note (ii)) Statutory reserves HK$'million	Total HK$'million
At 1 January 2010	190	(504)	2,062	3,189	1,487	6,424
Realisation of investment revaluation reserve of an available-for sale financial asset upon step acquisition of subsidiaries	—	—	(214)	—	—	(214)
Realisation of reserves of associates upon step acquisition of subsidiaries	—	90	(1)	(255)	(448)	(614)
Realisation of reserves of a jointly controlled entity upon step acquisition of subsidiaries	—	—	—	(3)	(3)	(6)
Realisation of reserve upon partial disposal of subsidiaries	—	2	—	(2)	—	—
Share of reserves of associates (note 22(a))	—	(66)	(156)	—	—	(222)
Share of reserves of a jointly controlled entity (note 23(a))	—	—	3	—	—	3
Exchange adjustments	—	—	—	959	—	959
Increase in fair value of available-for-sale financial assets, net of deferred taxation	—	—	52	—	—	52
Transfer from retained earnings	—	—	—	—	149	149
At 31 December 2010	190	(478)	1,746	3,888	1,185	6,531

32 Reserves (Continued)

(a) Other reserves (Continued)

	Group					
	Share-based compensation reserve HK$'million	(Note (i)) Capital reserve HK$'million	Investment revaluation reserve HK$'million	Translation reserve HK$'million	(Note (ii)) Statutory reserves 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

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.

32 Reserves (Continued)

(b) Reserves

	Company				
	Share premium HK$'million	Share-based compensation reserve HK$'million	(Note) Capital reserve HK$'million	Retained earnings HK$'million	Total HK$'million
At 1 January 2010	**14,399**	**190**	**2,340**	**2,402**	**19,331**
Issue of shares on exercise of share options, net of share issue expenses of HK$0.1 million	**33**	**—**	**—**	**—**	**33**
Profit for the year	**—**	**—**	**—**	**2,903**	**2,903**
Dividends paid (note 31(b))	**653**	**—**	**—**	**(1,389)**	**(736)**
At 31 December 2010	**15,085**	**190**	**2,340**	**3,916**	**21,531**
Representing:					
Reserves				**1,998**	
Proposed dividend				**1,918**	
				3,916	
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 31(b))	202	—	—	(1,576)	(1,374)
At 31 December 2009	14,399	190	2,340	2,402	19,331
Representing:					
Reserves				1,623	
Proposed dividend				779	
				2,402	

32 Reserves (Continued)

(b) Reserves (Continued)

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.

33 Loans from the ultimate holding company

The loans from the ultimate holding company are unsecured, interest bearing at annual rates of 2.92% to 5.2% (2009: 2.45% to 5.2%) and are denominated in Renminbi.

The loans from the ultimate holding company are repayable as follows:

	2010 **HK$'million**	2009 HK$'million
Within 1 year	**1,748**	2,566
Between 2 to 5 years	**938**	—
	2,686	2,566

34 Loans from an intermediate holding company

The loans from an intermediate holding company are unsecured, interest bearing at annual rate of 4.35% (2009: 4.35%) and are denominated in Renminbi.

The loans from an intermediate holding company are repayable as follows:

	2010 **HK$'million**	2009 HK$'million
Within1 year	**—**	738
Between 2 to 5 years	**587**	—
	587	738

35 Other financial liabilities

	Group		Company	
	2010 HK$'million	2009 HK$'million	**2010 HK$'million**	2009 HK$'million
Short-term bank loans				
– unsecured	**3,812**	892	**800**	—
– secured (note (a))	**136**	—	**—**	—
Long-term bank loans, wholly repayable within five years				
– unsecured	**5,559**	2,413	**497**	—
– secured (note (a))	**315**	7	**—**	—
Unsecured long-term bank loans, not wholly repayable within five years	**1,410**	79	**—**	—
	11,232	3,391	**1,297**	—
Loan from a non-controlling equity holder of a subsidiary (note (c))	**28**	62	**—**	—
Listed notes payable (note (d))				
– US$300 million, 6.125% guaranteed listed notes maturing in 2013	**2,324**	2,312	**—**	—
– US$500 million, 5.375% guaranteed listed notes maturing in 2015	**3,879**	3,862	**—**	—
– US$200 million, 7.125% guaranteed listed notes maturing in 2018	**1,536**	1,528	**—**	—
Total	**18,999**	11,155	**1,297**	—
Less: amounts due within one year included under current liabilities	**(4,855)**	(1,857)	**(800)**	—
Non-current portion	**14,144**	9,298	**497**	—

Notes:

(a) Bank loans are secured by property, plant and equipment with net book value HK$71 million (2009: HK$47 million) and land use right with net book value HK$558 million (2009: nil).

(b) Bank borrowings drawn and listed notes issued by subsidiaries of the Group of HK$8,389 million (2009: HK$9,002 million) are secured by corporate guarantees provided by the Company.

(c) Loan from a non-controlling equity holder of a subsidiary is unsecured, interest free and is repayable on demand.

35 Other financial liabilities (Continued)

Notes: (Continued)

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

	2010	2009
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 2010, the Group has undrawn bank loan facilities amounting to HK$27,045 million (2009: HK$7,310 million), out of which HK$25,995 million (2009: HK$6,610 million) and HK$1,050 million (2009: HK$700 million) are committed and uncommitted credit facilities respectively.

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

	Group							
	Bank borrowings		Listed notes payable		Loan from a non-controlling equity holder of a subsidiary		Total	
	2010 HK$'million	2009 HK$'million	**2010 HK$'million**	2009 HK$'million	**2010 HK$'million**	2009 HK$'million	**2010 HK$'million**	2009 HK$'million
Within 1 year	**4,827**	1,795	**—**	–	**28**	62	**4,855**	1,857
Between 1 and 2 years	**2,182**	394	**—**	–	**—**	–	**2,182**	394
Between 2 and 5 years	**2,813**	1,123	**6,203**	2,312	**—**	–	**9,016**	3,435
Wholly repayable within 5 years	**9,822**	3,312	**6,203**	2,312	**28**	62	**16,053**	5,686
Not wholly repayable within 5 years	**1,410**	79	**1,536**	5,390	**—**	–	**2,946**	5,469
	11,232	3,391	**7,739**	7,702	**28**	62	**18,999**	11,155

	Company	
	2010 HK$'million	2009 HK$'million
Within 1 year	**800**	–
Between 2 and 5 years	**497**	–
Wholly repayable within 5 years	**1,297**	–

35 Other financial liabilities (Continued)

Notes: (Continued)

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

	Group		Company	
	2010	2009	**2010**	2009
Hong Kong dollar	**0.74% to 5.60%**	0.94% to 1.67%	**1.15% to 1.40%**	–
Renminbi	**4.59% to 5.81%**	4.37% to 5.51%	**—**	–

(h) The fair values of long-term bank loans and the listed notes payable were HK$7,253 million (2009: HK$2,495 million) and HK$8,396 million (2009: HK$8,131 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 2010.

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

	Group		Company	
	2010 HK$'million	2009 HK$'million	**2010 HK$'million**	2009 HK$'million
Hong Kong dollar	**5,000**	2,988	**1,297**	–
Renminbi	**6,260**	465	**—**	–
United States dollar	**7,739**	7,702	**—**	–
	18,999	11,155	**1,297**	–

36 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:

	2010 HK$'million	2009 HK$'million
At 1 January	**(702)**	(604)
Exchange adjustments	**(16)**	(9)
Step acquisition of subsidiaries	**(974)**	—
Acquisition of subsidiaries	**(28)**	—
Charged to consolidated income statement (note 12)	**(102)**	(89)
Charged to other comprehensive income	**(129)**	—
At 31 December	**(1,951)**	(702)

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$515 million (2009: HK$583 million) to be carried forward against future taxable income. The unrecognised tax losses of HK$22 million (2009: HK$22 million) can be carried forward indefinitely. The remaining HK$493 million (2009: HK$561 million) expires in the following years:

	2010 HK$'million	2009 HK$'million
2010	**—**	2
2011	**14**	52
2012	**81**	110
2013	**145**	145
2014	**253**	252
	493	561

36 Deferred taxation (Continued)

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

Deferred tax liabilities

	Withholding tax relating to unremitted earnings		Accelerated tax depreciation allowance		Fair value gains		Total	
	2010 HK$'million	2009 HK$'million	**2010 HK$'million**	2009 HK$'million	**2010 HK$'million**	2009 HK$'million	**2010 HK$'million**	2009 HK$'million
At 1 January	**(248)**	(162)	**(488)**	(469)	**–**	–	**(736)**	(631)
Exchange adjustment	**–**	(1)	**(18)**	(9)	**–**	–	**(18)**	(10)
Step acquisition of subsidiaries (note 40(a))	**(153)**	–	**(866)**	–	**–**	–	**(1,019)**	–
Acquisition of subsidiaries (note 40(b))	**–**	–	**(28)**	–	**–**	–	**(28)**	–
Charged to consolidated income statement (Note)	**(90)**	(85)	**(45)**	(10)	**–**	–	**(135)**	(95)
Charged to other comprehensive income	**–**	–	**–**	–	**(129)**	–	**(129)**	–
At 31 December	**(491)**	(248)	**(1,445)**	(488)	**(129)**	–	**(2,065)**	(736)

Note:

During the year, the Group has paid HK$139 million (2009: HK$92 million) withholding tax on dividend declared by subsidiaries, associates and jointly controlled entities.

Deferred tax assets

	Provision		Others		Total	
	2010 HK$'million	2009 HK$'million	**2010 HK$'million**	2009 HK$'million	**2010 HK$'million**	2009 HK$'million
At 1 January	**1**	1	**33**	26	**34**	27
Exchange adjustment	**2**	–	**–**	1	**2**	1
Step acquisition of subsidiaries (note 40(a))	**32**	–	**13**	–	**45**	–
Credited to consolidated income statement	**31**	–	**2**	6	**33**	6
At 31 December	**66**	1	**48**	33	**114**	34

37 Creditors and accruals

	Group		Company	
	2010 HK$'million	2009 HK$'million	**2010 HK$'million**	2009 HK$'million
Trade creditors (note (a))	**418**	86	**—**	—
Amount due to an intermediate holding company (note (b))	**4**	4	**—**	—
Amounts due to fellow subsidiaries (note (b))	**197**	193	**—**	—
Amounts due to associates (note (b))	**1**	9	**—**	—
Amounts due to jointly controlled entities (note (b))	**3**	4	**—**	—
	623	296	**—**	—
Receipt in advance from sales of properties	**880**	—	**—**	—
Other payables and accruals	**2,879**	1,297	**65**	224
	4,382	1,593	**65**	224

Notes:

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

	2010 HK$'million	2009 HK$'million
Not yet due	**12**	—
1 - 90 days	**287**	63
91 - 180 days	**41**	4
181 - 365 days	**38**	1
Over 365 days	**40**	18
	418	86

(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	
	2010 HK$'million	2009 HK$'million	**2010 HK$'million**	2009 HK$'million
Hong Kong dollar	**34**	42	**—**	—
Renminbi	**589**	253	**—**	—
United States dollar	**—**	1	**—**	—
	623	296	**—**	—

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

38 Consolidated statement of cash flows

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

	2010 HK$'million	2009 HK$'million
Operating profit	**4,189**	1,541
Adjustments for:		
Depreciation and amortisation	**1,018**	837
Gain on disposal of property, plant and equipment and land use rights	**(130)**	(22)
Income received from held-to-maturity investments	**(1)**	(1)
Increase in fair value of investment properties	**(331)**	(175)
Gain on remeasurement of previously held interest upon step acquisition of subsidiaries	**(1,378)**	—
Operating profit before working capital changes	**3,367**	2,180
(Increase)/decrease in inventories, properties under development and held for sale	**(1,089)**	1
Increase in debtors, deposits and prepayments	**(1,224)**	(152)
Increase/(decrease) in creditors and accruals	**1,039**	(402)
Net cash inflow from operations	**2,093**	1,627

38 Consolidated statement of cash flows (Continued)

(b) Purchase of subsidiaries

	2010 HK$'million	2009 HK$'million
The fair value of assets acquired and liabilities assumed:		
Intangible assets	**92**	—
Property, plant and equipment	**4,817**	45
Investment properties	**2,423**	—
Land use rights	**2,771**	—
Interests in associates	**2,473**	—
Interests in jointly controlled entities	**165**	—
Other financial assets	**22**	—
Prepayments	**118**	—
Deferred tax assets	**45**	—
Inventories	**94**	1
Properties under development and held for sale	**1,148**	—
Debtors, deposits and prepayments	**1,979**	1
Cash and cash equivalents	**2,911**	2
Creditors and accruals	**(1,412)**	(2)
Other financial liabilities	**(5,790)**	(24)
Taxation payable	**(143)**	—
Deferred tax liabilities	**(1,047)**	—
Non-controlling interests	**(6,829)**	—
	3,837	23
Interest in a jointly controlled entity previously recognised	**—**	(12)
	3,837	11
Goodwill arose from acquisition	**766**	—
	4,603	11
Representing:		
Cash consideration	**516**	11
Fair value of equity interest held before the business combination (note 40 (a))	**4,087**	—
	4,603	11
Analysis of cash flows on purchase of subsidiaries:		
Cash consideration paid	**(516)**	(11)
Bank balances and cash in hand acquired	**2,911**	2
Net cash inflow/(outflow) on purchase of subsidiaries	**2,395**	(9)

38 Consolidated statement of cash flows (Continued)

(c) Disposal of subsidiaries

	2010 HK$'million	2009 HK$'million
Net assets disposed		
Assets of disposal group classified as held for sale	—	1,684
Liabilities of disposal group classified as held for sale	—	(642)
Non-controlling interests	—	(375)
	—	667
Realisation of reserves upon disposal of subsidiaries	—	(19)
	—	648
Cash consideration, net	—	1,140
Gain on disposal of subsidiaries	—	492
Analysis of cash flows on disposal of subsidiaries		
Cash consideration	—	1,146
Less: transaction costs paid	—	(6)
	—	1,140
Cash and cash equivalents disposed	—	(365)
Net cash inflow on disposal of subsidiaries	—	775

39 Commitments

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

	Group	
	2010 HK$'million	2009 HK$'million
Company and subsidiaries		
Authorised but not contracted		
– Property, plant and equipment	**285**	723
– Land use rights	**2**	—
	287	723
Contracted but not provided for		
– Property, plant and equipment	**1,305**	731
– Land use rights	**412**	60
	1,717	791
Jointly controlled entities		
Authorised but not contracted		
– Property, plant and equipment	**119**	—
Contracted but not provided for		
– Property, plant and equipment	**879**	254
	998	254
	3,002	1,768

(b) Capital commitments for investments

	Group	
	2010 HK$'million	2009 HK$'million
Company and subsidiaries		
Contracted but not provided for		
– Investments	**92**	—
– Port projects	**608**	1,748
	700	1,748

39 Commitments (Continued)

(b) Capital commitments for investments (Continued)

	Company	
	2010 **HK$'million**	2009 HK$'million
Contracted but not provided for		
– Investments	**92**	–

(c) Commitments under operating leases

At 31 December 2010, the Group had future aggregate minimum lease payments under non-cancellable operating leases for land use rights and property, plant and equipment as follows:

	2010 **HK$'million**	2009 HK$'million
Within one year	**107**	88
In the second to fifth year inclusive	**111**	99
After the fifth year	**51**	38
	269	225

(d) Future operating lease receivables

At 31 December 2010, the Group had future aggregate lease receivables under non-cancellable operating leases for land and buildings as follows:

	2010 **HK$'million**	2009 HK$'million
Within one year	**123**	68
In the second to fifth year inclusive	**68**	71
After the fifth year	**—**	2
	191	141

40 Business combination

(a) China Nanshan Development (Group) Incoporation - Step acquisition from associates to subsidiaries

Pursuant to an entrusted agreement entered between the Company and China Merchants Holdings (Hong Kong) Company Limited ("CMHK"), an intermediate holding company of the Company, the Company was granted the management rights and the power to direct the voting right over 23.493% of Nanshan Group for a consideration of RMB1.

On 12 August 2010, the transaction was completed. Together with the 37.01% equity interest previously held by the Group, the Group is able to exercise control over Nanshan Group and Nanshan Group became a subsidiary of the Company from that date.

Nanshan Group is principally engaged in ports operation, port-related manufacturing operations, property development and investment. The goodwill of HK$485 million arising from the step acquisition is attributable to the future economic benefits that are expected to accrue to the Group from greater influence over ports and other related businesses in the West Shenzhen Ports Zone through control over Nanshan Group.

None of the goodwill recognised is expected to be deductible for income tax purposes. The following table summarises the consideration paid for Nanshan Group and the amounts of the assets acquired and liabilities assumed recognised at the step acquisition date.

40 Business combination (Continued)

(a) China Nanshan Development (Group) Incoporation - Step acquisition from associates to subsidiaries (Continued)

	2010 HK$'million
Consideration	
Fair value of equity interest in Nanshan Group held before the business combination	**4,087**
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment	**4,581**
Investment properties (note 19)	**2,423**
Land use rights (note 20)	**2,750**
Interests in associates (included goodwill and advance to an associate from step acquisition) (note 22)	**2,473**
Interests in jointly controlled entities (note 23)	**165**
Prepayments	**118**
Deferred tax assets (note 36)	**45**
Inventories	**92**
Properties under development and held for sale (note 27)	**1,148**
Debtors, deposits and prepayments	**1,926**
Other financial assets (note 24)	**22**
Cash and cash equivalents	**2,896**
Other financial liabilities	**(5,659)**
Deferred tax liabilities (note 36)	**(1,019)**
Creditors and accruals	**(1,387)**
Taxation payable	**(143)**
Total identifiable net assets	**10,431**
Non-controlling interests	**(6,829)**
Goodwill (note 17)	**485**
Acquisition-related costs (included in administrative expenses in the consolidated income statement for the year ended 31 December 2010)	**10**

No contingent consideration arrangements or contingent liabilities were identified upon step acquisition.

40 Business combination (Continued)

(a) China Nanshan Development (Group) Incoporation - Step acquisition from associates to subsidiaries (Continued)

The Group recognised a gain of HK$1,378 million as a result of the remeasurement of previously held interest, of which HK$255 million, HK$3 million and HK$214 million represents the realisation of reserves of associates, a jointly controlled entity and an available-for-sale financial asset respectively. The gain is included in other gains, net in the Group's consolidated income statement for the year ended 31 December 2010.

The fair value of Nanshan Group, an unlisted company, was estimated by an independent and professionally qualified valuer. The fair value estimates are based on prices at which stocks of similar companies are trading in a public market. The companies that are comparable to Nanshan Group in terms of business nature and associated risks are selected based on the following relevant criteria: (a) products, (b) markets, (c) earnings and growth, (d) capital structure, (e) nature of competition and (f) the characteristics of driving underlying investment risk and expected rate of return. The Group recognised the non-controlling interests at the proportionate share of net assets of Nanshan Group.

Nanshan Group contributed HK$1,394 million revenue and HK$134 million profit to the Group since step acquisition.

Had Nanshan Group been consolidated from 1 January 2010, the Group's consolidated income statement would have shown a revenue of HK$7,611 million and the profit attributable to the equity holders of the Company would not be materially different.

40 Business combination (Continued)

(b) Acquisition of subsidiaries engaged in cold storage services and logistic business

During the year, the Company acquired 100% interests in Kangxin Logistics (Tianjin) Co., Ltd. ("KXL Tianjin") and Kangxin Logistics (Harbin) Co., Ltd. ("KXL Harbin") through a 51% indirectly held subsidiary for a cash consideration of HK$516 million.

The principal activities of KXL Tianjin and KXL Harbin are the provision of cold storage services and logistics businesses in the PRC. Details of the acquisitions are as follows:

	2010 **HK$'million**
Consideration satisfied in cash	**516**
Recognised amounts of identifiable assets acquired and liabilities assumed	
Trademarks (included in intangible assets) (note 17)	**6**
Contractual customer relationships (included in intangible assets) (note 17)	**86**
Property, plant and equipment	**236**
Land use rights (note 20)	**21**
Inventories	**2**
Debtors, deposits and prepayments	**53**
Cash and cash equivalents	**15**
Deferred tax liabilities (note 36)	**(28)**
Other financial liabilities	**(131)**
Creditors and accruals	**(25)**
Total identifiable net assets	**235**
Goodwill (note 17)	**281**

Goodwill represented the synergy generated from the logistic and cold chain business in Mainland China.

KXL (Tianjin) and KXL (Harbin) contributed HK$96 million revenue and HK$2 million profit to the Group since acquisition.

Had KXL (Tianjin) and KXL (Harbin) been consolidated from 1 January 2010, the Group's consolidated income statement would have shown a revenue of HK$5,932 million and the profit attributable to the equity holders of the Company of HK$5,880 million.

41 Other acquisitions

(a) Acquisition of 47.5% interest in Tin-Can Island Container Terminal Limited

On 5 November 2010, the Company acquired a 47.5% interest in Tin-Can Island Container Terminal Limited ("TICT") for a cash consideration of HK$1,194 million through a 60% indirectly held subsidiary. The Group has accounted for its investment in TICT as an interest in an associate. TICT is principally engaged in terminal services in Tin Can Island Port in Largos, Nigeria. The fair value of the underlying assets less assumed liabilities is HK$1,194 million and no goodwill arose from the acquisition.

(b) Establishment of jointly controlled entities in Qingdao

On 18 December 2009, the Group entered into a joint venture agreement with QQCTN to establish a joint venture, QQCTU, in which the Group and QQCTN each holds a 50% equity interest. 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.

On 5 June 2010, the Group entered into another joint venture agreement with Qingdao Port (Group) Co., Ltd. ("Qingdao Port Group") to establish another joint venture, Qingdao Qianwan West Port United Terminal Co., Ltd. ("QQTU"), in which the Group and Qingdao Port Group holds a 49% and a 51% equity interest respectively. The principal activities of QQTU are construction, operation and management of a bulk cargo terminal in Qianwan Harbour District of Qingdao Port and the provision of port-related services.

42 Related party transactions

The Directors regard CMG, a stated-owned enterprise incorporated in the PRC, as being the ultimate holding company of the 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 2010 are as follows:

(a) Balances and transactions with the CMG, its subsidiaries and jointly controlled entities (together, "CMG Group")

	Note	**2010 HK$'million**	2009 HK$'million
Rental income from	(i)		
– an associate		**2**	—
– an intermediate holding company		**22**	22
– a fellow subsidiary		**10**	10
Service income from	(ii)		
– an associate		**2**	3
– fellow subsidiaries		**9**	2
– jointly controlled entities		**90**	3
Rental expenses paid to fellow subsidiaries	(i)	**88**	120
Service fees paid to			
– fellow subsidiaries	(iii)	**11**	5
– a jointly controlled entity	(iv)	**3**	7
Interest expenses and upfront fee paid to			
– the ultimate holding company	(v)	**96**	110
– an intermediate holding company	(v)	**33**	37

42 Related party transactions (Continued)

(a) Balances and transactions with the CMG, its subsidiaries and jointly controlled entities (together, "CMG Group") (Continued)

Notes:

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

(ii) The service income were charged by reference to market rates.

(iii) 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.

(iv) The jointly controlled entity provided information technology system and services to the Group. The service fees were charged by reference to market rates.

(v) Interest expenses were charged at interest rate as specified in note 33 and note 34 to the financial statements on the outstanding loans from the ultimate holding company and an intermediate holding company.

(vi) During the year, the Group injected and sold certain assets to QQCTU and QQTU, jointly controlled entities of the Company, and recognised a gain on disposal of HK$84 million.

(vii) As at 31 December 2010, the Group placed deposits of HK$1,816 million (2009: HK$1,712 million) with and drew bank loans of HK$1,703 million (2009: HK$580 million) from China Merchants Bank, an associate of CMG Group. During the year, interest income from and interest expense paid and payable to China Merchants Bank amounted to HK$16 million (2009: HK$6 million) and HK$46 million (2009: HK$11 million) respectively.

The balances with entities within the CMG Group as at 31 December 2010 are disclosed in notes 28, 33, 34 and 37 to the financial statements.

(b) Balance and transaction with non-controlling equity holders of subsidiaries:

	Note	**2010 HK$'million**	2009 HK$'million
Service expense	(i)	**9**	15

Notes:

(i) Service expense was based on the number and type of vehicles to be used for container transportation and the operators required for such transportation in accordance with respective agreement.

(ii) During the year, the Group acquired unlisted convertible preference shares issued by a non-controlling equity holder, Americold Realty Trust at a consideration of HK$382 million.

The balance with a non-controlling equity holder of a subsidiary is disclosed in note 35 to the financial statements.

42 Related party transactions (Continued)

(c) Key management compensation

	2010 HK$'million	2009 HK$'million
Salaries and other short-term employee benefits	**13**	9

43 Events after the reporting period

Acquisition of 20% of interest in Chu Kong River Trade Terminal Company Limited

On 14 December 2010, the Group entered into an agreement to acquire a 20% equity interest in Chu Kong River Trade Terminal Company Limited ("CKRTT") for a cash consideration of HK$131 million. The principal activities of CKRTT are shuttle-barge ports operations in the Pearl River Delta region. As at 31 December 2010, the Group has paid a deposit of HK$39 million. The acquisition was completed on 1 February 2011.

44 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 Directly	Indirectly	Principal activities
China Merchants Container Services Limited	Hong Kong	HK$500,000	–	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
CMH International (China) Investment Co., Ltd. # 1	PRC	US$30,000,000	100.00%	–	Investment holding
China Merchants International Cold Chain (Shenzhen) Company Limited ^	PRC	US$5,000,000	–	35.7%	Operation of reefer warehouses in Shenzhen, PRC
China Merchants International Terminals (Ningbo) Limited	British Virgin Islands	US$1	100.00%	–	Investment holding
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 International Terminal (Qingdao) Company Ltd. ^	PRC	US$12,000,000	–	90.10%	Port, container terminal and logistic business
China Merchants Towage (Qingdao) Co., Ltd. ^ ø	PRC	RMB27,000,000	–	100.00%	Operation of tugboats

44 Particulars of principal subsidiaries (Continued)

Name of subsidiary	Place of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of issued capital/ registered capital held by the Company Directly	Indirectly	Principal activities
China Merchants Maritime & Logistics (Shenzhen) Ltd. #	PRC	RMB400,000,000	–	60.00%	Provision of container related logistics services
China Merchants Port Services (Shenzhen) Company Limited # ø	PRC	RMB550,000,000	–	100.00%	Provision of terminal services and ports transportation
China Nanshan Development (Group) Incorporation ^* 1	PRC	RMB500,000,000	–	37.01%	Investment holding
Kangxin Logistics (Harbin) Co., Ltd #	PRC	US$5,000,000	–	51.00%	Provision of cold storage services
Kangxin Logistics (Tianjin) Co., Ltd #	PRC	US$5,619,300	–	51.00%	Provision of cold storage and logistics services
Rich Products (Tianjin) Co., Ltd. #	PRC	US$5,000,000	–	51.00%	Holding a piece of land in Tianjin, PRC
Mega Shekou Container Terminals Limited	British Virgin Islands	US$120	–	80.00%	Investment holding
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
Shekou Container Terminals (Phase III) Company Limited # ø	PRC	RMB1,276,000,000	–	80.00%	Operation of berth No.5 to No.9 in Shekou, PRC
Shenzhen Chiwan Wharf Holdings Limited (A, B Shares listed in the Mainland China)**	PRC	RMB644,763,730	–	29.27%	Port operations

44 Particulars of principal subsidiaries (Continued)

Name of subsidiary	Place of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of issued capital/ registered capital held by the Company Directly	Indirectly	Principal activities
Shenzhen Chiwan Petroleum Supply Base Co., Ltd (B Shares listed in the Mainland China) **1	PRC	RMB230,600,000	–	19.17%	Port transportation and petroleum services
Shenzhen Haiqin Engineering Supervision & Management Co., Ltd. ^1ø	PRC	RMB3,000,000	–	55.00%	Provision of services on ports construction
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 Mawan Port Service Co., Ltd. ^	PRC	RMB200,000,000	–	70.00%	Operation of berth No. 5 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 Mawan Wharf Co., Ltd. ^	PRC	RMB200,000,000	–	70.00%	Operation of berth No. 0 in Mawan, Shenzhen, PRC
Universal Sheen Investment Limited	Hong Kong	HK$100	100.00%	–	Property holding
Xia Men Bay China Merchants Terminals Co., Ltd. ^1	PRC	RMB80,000,000	–	60.00%	Provision of container terminal services and ports transportation

44 Particulars of principal subsidiaries (Continued)

Name of subsidiary	Place of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of issued capital/ registered capital held by the Company Directly	Indirectly	Principal activities
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
招商局國際信息技術有限公司 (formerly known as Shenzhen Cyber- Harbour Network Co., Limited) ^1	PRC	RMB50,000,000	76.84%	—	Provision of computer network services
安通捷碼頭倉儲服務（深圳）有限公司 #1	PRC	HK$100,000,000	—	100.00%	Holding of a piece of land in Shekou, PRC
安速捷碼頭倉儲服務（深圳）有限公司 #1	PRC	HK$100,000,000	—	100.00%	Holding of a piece of land in Shekou, PRC
安運捷碼頭倉儲服務（深圳）有限公司 #1	PRC	RMB60,600,000	—	80.00%	Holding of certain pieces of land in Shekou, PRC
深圳市南山房地產開發有限公司 **1	PRC	RMB300,000,000	—	37.01%	Investment holdings, property development and investments

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

Foreign investment enterprises

^ Sino-foreign joint ventures

* Upon the step acquisition as described in note 40(a), Nanshan Group became a subsidiary of the Group.

** These companies being subsidiaries of Nanshan Group, a subsidiary of the Group

º Being unofficial English name

45 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 [1]	Hong Kong	20.00%	Airfreight
China International Marine Containers (Group) Co., Ltd. (B shares listed in the Mainland China)[1]	PRC	25.00%	Design, manufacture and sales of dry freight containers and refrigerated containers
Modern Terminals Limited [1]	Hong Kong	27.01%	Provides container terminal services and warehouse services
Shanghai International Port (Group) Co., Ltd.(A shares listed in the Mainland China) ^ [1]	PRC	26.54%	Ports and container terminal business
Shenzhen Tiehe Storage & Transportation Co., Ltd.^ [1]	PRC	45.00%	Provision of logistics and storage services
Tianjin Haitian Bonded Logistics Co., Ltd. ^ [1]	PRC	49.00%	Provides container terminal services and warehouse services
Tin-Can Island Container Terminal Ltd. ^ [1]	Nigeria	28.50%	Terminal operation
China Overseas Harbour Affairs (Laizhou) Co., Ltd * [1]	PRC	11.71%	Port operations
Shenzhen Chiwan Sembawang Engineering Co., Ltd * [1]	PRC	3.83%	Manufacturing and selling steel structure products
Yahgee Modular House Company Limited (A Shares listed in the Mainland China) * [1]	PRC	18.05%	Development manufacture and sales of prefabricated houses

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

^ Sino-foreign joint ventures

* These being associates of Nanshan Group, a subsidiary of the Group

46 Particulars of principal jointly controlled entities

Name of associate	Place of incorporation/ registration and operation	Proportion of issued capital/ registered capital indirectly held by the Company	Principal activities
Ningbo Daxie China Merchants International Terminals Co., Ltd ^ 1	RMB1,209,090,000	45.00%	Ports and container terminal business
Qingdao Qianwan United Container Terminal Co., Ltd.	RMB2,000,000,000	50.00%	Ports and container terminal business
Qingdao Qianwan West Port United Terminal Co., Ltd.	RMB500,000,000	49.00%	Ports and bulk cargo terminal business
Regional Merchants International Freight Forwarding Co., Ltd. ^ 1	HK$12,000,000	20.00%	Provision of transportation service
Regional Merchants Maritime Limited 1	HK$8,000,000	20.00%	Provision of shipping service
Zhanjiang Port (Group) Co., Ltd. ^ 1	RMB4,020,690,955	40.29%	Ports and container terminal business
惠陽新城市房地產開發有限公司 * 1	RMB60,000,000	18.51%	Property development

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

^ Sino-foreign joint ventures

* This being a jointly controlled entity of Nanshan Group, a subsidiary of the Group

Corporate Information

BOARD OF DIRECTORS

Dr. Fu Yuning *(Chairman)*
Mr. Li Jianhong *(Vice Chairman)* (appointed on 14 October 2010)
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
Mr. Tsang Kam Lan* (passed away on 26 June 2010)
Mr. Kut Ying Hay*
Mr. Lee Yip Wah Peter*
Mr. Li Kwok Heem John*
Mr. Li Ka Fai David*
Mr. Bong Shu Ying Francis* (appointed on 14 July 2010)

* 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
Mayer Brown JSM
Vincent T.K. Cheung, Yap & Co.

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 Thursday, 9 June 2011 at 9:30 a.m. for the following purposes:

1. To receive and consider the Audited Consolidated Financial Statements for the year ended 31 December 2010 together with the Report of the Directors and the Independent Auditor's Report.

2. To declare a final dividend of 78 HK cents per share for the year ended 31 December 2010 in scrip form with cash option.

3. To re-elect the retiring Directors and to authorise the Board to fix the remuneration of Directors.

4. To re-appoint PricewaterhouseCoopers as Auditors 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;

(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, 27 April 2011

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

Notice of Annual General Meeting

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 Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for the meeting or at any adjournment thereof.

3. The register of members of the Company will be closed from 3 June 2011 to 9 June 2011, 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 2 June 2011.

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.

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 Jianhong, 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. Kut Ying Hay, Mr. Lee Yip Wah Peter, Mr. Li Kwok Heem John, Mr. Li Ka Fai David and Mr. Bong Shu Ying Francis as independent non-executive directors.

DESIGNED BY MONOPLOLY DESIGN LIMITED

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