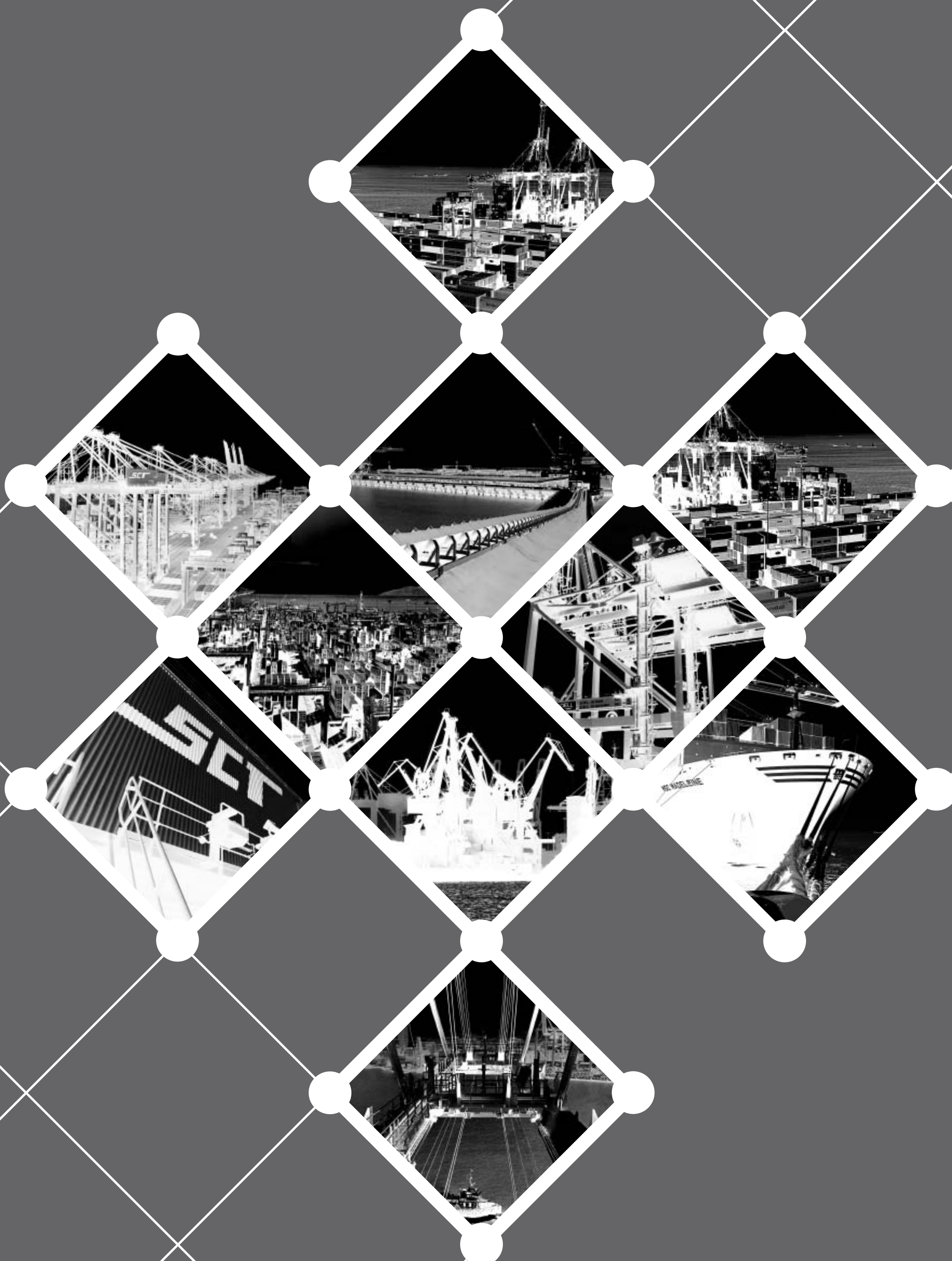
招商局國際有限公司
CHINA MERCHANTS HOLDINGS (INTERNATIONAL) COMPANY LIMITED

Stock Code: 00144



ANNUAL REPORT 2011

2011
Contents

Financial Highlights

	2011 HK$'million	2010 HK$'million	Changes
Consolidated income statement highlights			
Revenue[1]	**40,973**	30,597	33.9%
Profit attributable to equity holders of the Company	**5,569**	5,876	(5.2%)
Non-recurrent gains, net of tax[2]	**(1,501)**	(1,530)	(1.9%)
Recurrent profit	**4,068**	4,346	(6.4%)
Earnings per share (HK cents)			
Basic	**225.12**	239.13	(5.9%)
Diluted	**224.56**	238.52	(5.9%)
Dividend per share (HK cents)			
Interim dividend	**30.00**	25.00	20.0%
Final dividend	**68.00**	78.00	(12.8%)
	98.00	103.00	(4.9%)
Consolidated statement of financial position highlights			
Total assets	**87,086**	78,351	11.1%
Capital and reserves attributable to the equity holders of the Company	**43,405**	39,042	11.2%
Net interest bearing debts[3]	**17,887**	15,892	12.6%
Consolidated statement of cash flows highlights			
Net cash generated from operating activities	**4,671**	2,918	60.1%
Income received from held-to-maturity investments	**—**	2	N/A
Recurrent net cash inflow	**4,671**	2,920	60.0%

	2011 HK$'million	2010 HK$'million	Changes
Revenue[1]			
Ports operation	**15,006**	13,221	13.5%
Bonded logistics and cold chain operations	**1,996**	876	127.9%
Port-related manufacturing operations	**21,382**	15,740	35.8%
Other operations	**2,589**	760	240.7%
Total	**40,973**	30,597	33.9%
EBITDA[4]			
Ports operation	**8,316**	7,532	10.4%
Bonded logistics and cold chain operations	**844**	606	39.3%
Port-related manufacturing operations	**2,123**	1,714	23.9%
Other operations	**574**	388	47.9%
EBITDA	**11,857**	10,240	15.8%
Unallocated net income [6]	**1,240**	1,246	(0.5%)
Net interest expenses [5]	**(1,369)**	(1,004)	36.4%
Taxation [5]	**(2,072)**	(1,390)	49.1%
Depreciation and amortisation [5]	**(2,985)**	(2,412)	23.8%
Profit for the year	**6,671**	6,680	(0.1%)
Non-controlling interests	**(1,102)**	(804)	37.1%
Profit attributable to equity holders of the Company	**5,569**	5,876	(5.2%)

1. Include revenue of the Company, its subsidiaries and share of revenue of its associates and jointly controlled entities.

2. Include gain on deemed disposal of interest in an associate of HK$1,367 million (2010: nil), and additional provision of HK$144 million deferred taxation upon deemed disposal (2010: nil), increase in fair value of investment properties and decrease in fair value of financial assets at fair value through profit or loss, net of tax, of HK$278 million (2010: HK$152 million), gain on remeasurement of previously held interest upon step acquisition of subsidiaries of HK$1,378 million in 2010.

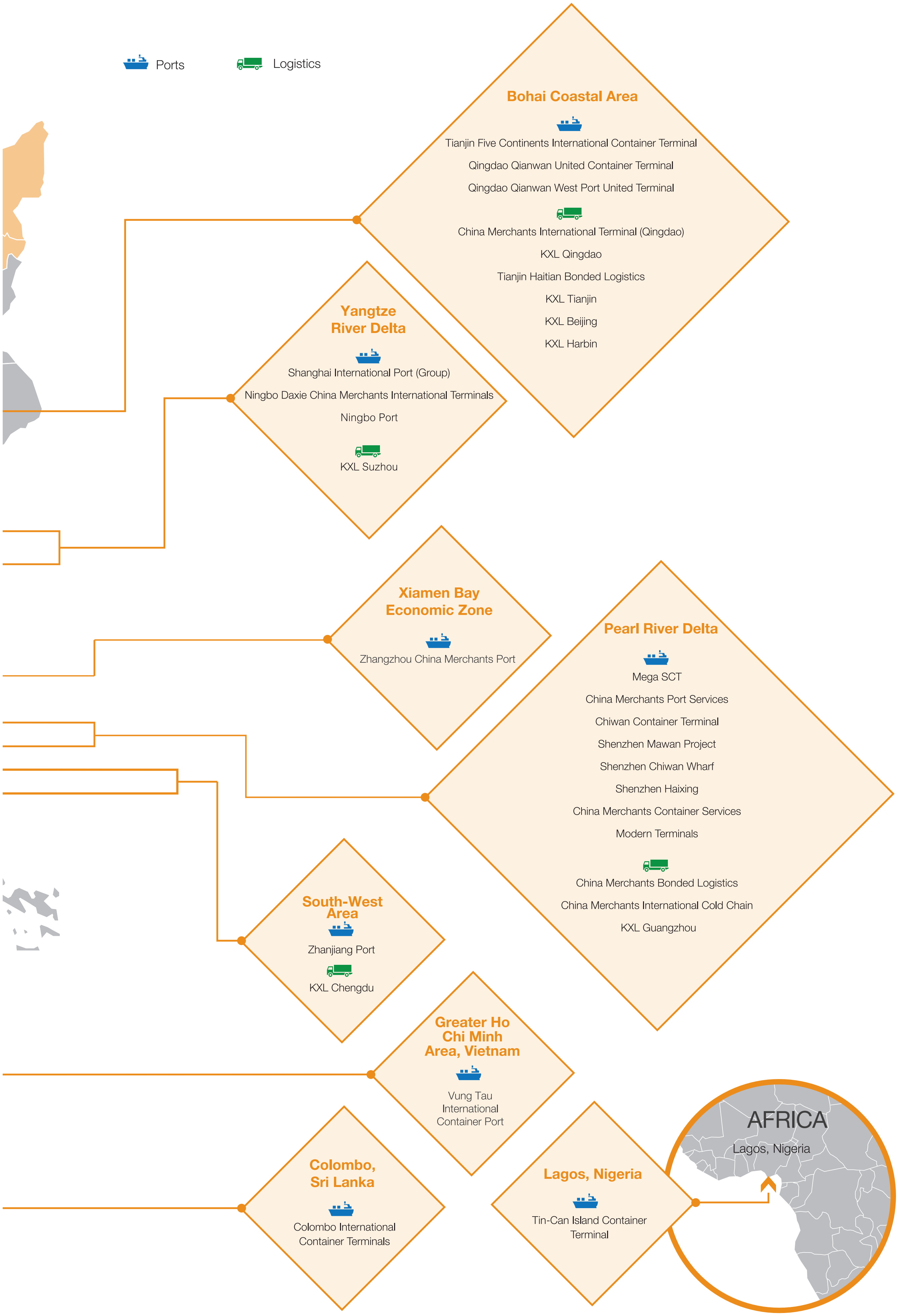
3. Interest bearing debts less cash and bank balances.

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, gain on deemed disposal of interest in an associate in 2011 and gain on remeasurement of previously held interest upon step acquisition of subsidiaries in 2010.

Key Operations of China Merchants Holdings (International) Company Limited


Ports
Logistics
Bohai Coastal Area
Tianjin Five Continents International Container Terminal
Qingdao Qianwan United Container Terminal
Qingdao Qianwan West Port United Terminal
China Merchants International Terminal (Qingdao)
KXL Qingdao
Tianjin Haitian Bonded Logistics
KXL Tianjin
KXL Beijing
KXL Harbin
Yangtze River Delta
Shanghai International Port (Group)
Ningbo Daxie China Merchants International Terminals
Ningbo Port
KXL Suzhou
Xiamen Bay Economic Zone
Zhangzhou China Merchants Port
Pearl River Delta
Mega SCT
China Merchants Port Services
Chiwan Container Terminal
Shenzhen Mawan Project
Shenzhen Chiwan Wharf
Shenzhen Haixing
China Merchants Container Services
Modern Terminals
China Merchants Bonded Logistics
China Merchants International Cold Chain
KXL Guangzhou
South-West Area
Zhanjiang Port
KXL Chengdu
Greater Ho Chi Minh Area, Vietnam
Vung Tau International Container Port
Colombo, Sri Lanka
Colombo International Container Terminals
Lagos, Nigeria
Tin-Can Island Container Terminal
AFRICA
Lagos, Nigeria

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, Sri Lanka, Nigeria and Vietnam.

Top Ten Container Ports in China - 2011

Unit: million TEUs

	Port	CMHI Presence	2011	11 vs 10 Change
1.	Shanghai	●	31.74	+9.2%
2.	Hong Kong	●	24.38	+2.9%
3.	Shenzhen	●	22.56	+0.3%
4.	Ningbo	●	14.69	+11.7%
5.	Guangzhou		14.40	+14.7%
6.	Qingdao	●	13.02	+8.4%
7.	Tianjin	●	11.50	+14.1%
8.	Xiamen	●	6.46	+11.0%
9.	Dalian		6.40	+22.1%
10.	Lianyungang		4.85	+25.3%

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

CMHI strives to provide 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 2011

FEB 11

CMHI completed the acquisition of a 20% stake in Chu Kong River Trade Terminal Co., Ltd., a subsidiary of Chu Kong Shipping Development Company Limited, which owns 11 river trade terminals along the Pearl River, further supplementing CMHI's feeder coverage over the PRD out of West Shenzhen

APR 11

Shanghai International Port (Group) Co., Ltd. completed the acquisition of Yangshan's Phases II & III for RMB 22.5 billion from Shanghai Tong Sheng Investment (Group) Co., Ltd., against both debt and equity financing, and CMHI's stake thus lowered to 24.48%

MAY 11

Qingdao Qianwan United Container Terminal Co., Ltd. ("QQCTU") entered into a 70-30 joint venture with APL Co. Pte Ltd. ("APL") -SITC Container Lines Company Limited ("SITC") JV to operate and manage 2 partially developed QQCTU berths so as to service business channeled from APL and SITC

JUL 11

A strategic cooperation memorandum was signed between parties including China Merchants Group ("CMG") and Qingdao Ports (Group) Co., Ltd. for the setting up of a JV company to own and manage a bulk terminal in Dongjiakou of Shandong Province

AUG 11

The CMHI-led consortium, Colombo International Container Terminals Limited signed the 35-year Build-Operate-Transfer ("BOT") Concession Agreement for the Colombo South Terminal project

SEP 11

China Merchants Americold Holdings Limited and China Merchants Americold Logistics Company Limited entered into a Memorandum of Understanding ("MOU") with Shenzhen Agricultural Products Co., Ltd, a Shenzhen-listed wholesaler and e-commerce service provider of agricultural products, for strategic co-operations

DEC 11

A MOU was signed between parties including CMG and Guangzhou Port Group for the investment in Nansha (Phase 3)

Construction of the Colombo South Terminal project commenced

Chairman's Statement

As China Merchants Holdings (International) Company Limited marks its 20th anniversary of public-listing, I like to express, on behalf of all my fellow directors and colleagues, our heart-felt appreciation to all communities at large for the invaluable support afforded to the Group throughout the years without which the Group could not have achieved what it has today.

I am pleased to present the Group's 2011 annual report and audited financial statements for the year ended 31 December 2011.

During the year under review, evidencing the softening growth in the global economy and trade, the Group has focused its efforts on integrating its port resources in Mainland China, expanding overseas, as well as further refining its operational flow aimed towards efficiency improvement, all of which have brought remarkable results for the year. In the international front, pleasing growing contributions were being derived from certain projects while construction for a newly-signed green-field development project has commenced. A number of ports and logistics operations in Mainland China have all reported greatly-enhanced performances alongside operational enhancements brought about by intensified management refinement. Notwithstanding the above, the Group's container handling operation has been dragged by the softened macroeconomic conditions and has grown lesser than expected.

Along with the ongoing shifting of the world's productivity, the Group continues to adhere to its strategy of "Going Out" by, on the one hand, identifying new business growth drivers and, on the other, gradually establishing its market position among global terminal operators. 2011 marked a year of breakthrough for the Group in expanding overseas, as the South Container Terminal of Colombo Port, the Group's second international project and also its first international to be granted the right to operate, commenced construction in December. The year also marked another year of efficiency improvement for the Group through integrating resources and excavating potential. Through focusing on integrating its port resources in Mainland China, streamlining its business structure, seeking and adopting innovated service models, synergising project values and refining management processes, the Group has effectively mitigated the pressure on its operations derived from the softened macro-economic growth and costs escalation, and achieved satisfactory results as reflected in progress made by a number of the Group's projects.

Operating results

The profit attributable to the equity holders of the Company in 2011 amounted to HK$5,569 million, representing a decrease of 5.2% over last year. Of this amount, recurrent profit totaled HK$4,068 million, a decrease of 6.4% year-on-year. The proportion of EBITDA derived from the Group's core ports operation, relative to the Group's total was 70.1% (2010: 73.6%).

In 2011, the Group recorded revenue of HK$9,470 million, representing an increase of 63.0% year-on-year.

Dividends

The Board of Directors has resolved to propose at the forthcoming Annual General Meeting the payment of a final scrip dividend of 68 HK cents per share which, together with the interim dividend already paid, will give a total dividend of 98 HK cents per share for the whole year (giving a payout ratio of 43.5%). Subject to the approval by shareholders at the forthcoming general meeting, the final dividend will be payable on or around 20 July 2012 to shareholders whose names appear on the register of members of the Company as at 6 June 2012.

Review for the year

As 2011 rolled out, the world economy has displayed an obvious slowing down in growth when the deep-rooted negative impact derived from the global financial crisis continued to prevail. The International Monetary Fund (the "IMF") has revised downwards, for consequently three times, its growth projections for the world's economy during the year. Lacking economic growth momentum, European debts crisis and natural disasters combined have caused global trade in goods to slow significantly. Statistics published by the IMF revealed that 2011's world trade volume (for goods and services) rose 6.9% year-on-year, down by 5.8 percentage points when compared to 2010's growth rate of 12.7%.

Although the growth in China's trade and economy remained on top of the world's league in 2011, the magnitude of its growth has noticeably softened. China's GDP for the whole year grew 9.2%, 1.1 percentage points lower than that for 2010. Total import and export trade rose by 22.5%, down by 12.2 percentage points year-on-year. Container volume throughput handled by ports in China totalled 162 million TEUs, up 11.4% year-on-year but slow down of approximately 7 percentage points when compared to 2010's growth rate.

During the year under review, the Group's ports handled a total container throughput of 57.29 million TEUs, an increase of 9.6% year-on-year of the Group's portfolio of ports, excepting the Shenzhen Western Port Zone and Modern Terminals Limited in Hong Kong both of which saw mild decreases in their respective container volume handled, all operations have achieved different degrees of growth in containers handled. Among them, the Group's Qingdao ports delivered a growth rate in containers handled of 87.8% to reach 2.07 million TEUs. The Group handled 325 million tonnes of bulk cargos for the whole year, up 15.5% from last year.

During the year, spinning around the Group's business directives of "expanding overseas markets, optimizing its Mainland assets' positioning and intensifying refined management processes", the Group continued to actively seek overseas expansion projects, integrate Shenzhen Western Port Zone, refine its operational procedures, establish its bonded port zone development and nurture its cold-chain logistics operation, thereby achieving considerable results and progress.

In 2011, aimed towards facilitating the integration of Shenzhen Western Port Zone, the Group focused its efforts on centralizing its operational management process, and on improving the on-site collection-and-disbursement system and the Customs-inspection environment. The building of a centralized business operation centre through which to unify business operation, procurement, contractor management, recruitment, training and technology application has helped to unify its management approach, optimize the Group's shipping route mix, and enhance its resource utilization rate alongside the test-run of a unified container terminal operating system (CTOS) and the implementation of a standardised performance assessment system. During 2011, members for the South China Express Shuttle Alliance in Shenzhen Western Port Zone have gone up to 28 whereas container volume fed by barge shuttles in the Pearl River Delta ("PRD") has been growing, against the less favorable economic trends shown by the PRD proximity. The concerted co-operation between the Shenzhen Western Port Zone and the river terminals operated by Chu Kong River Trade Terminal Co., Ltd ("CKRTT") has resulted in the volume of containers handled grow 75.0% year-on-year. As regards improvements at the Customs-inspection environment, along with berths' capability having been upgraded came the smooth loading/unloading of cargos within the Bonded Port Zone, which not only facilitates the collaboration between the bonded logistics park and the ports but also improves the efficiency of cargo flows between ports within the Shenzhen Western Port Zone, thereby, in turn, bringing a step closer to seamless the connectivity between ports in the proximity.

Having proactively implemented for years measures towards refining its operational management, the Group has made further progress in 2011. During the year, the Group has engaged a renowned consulting firm to help establish a standardized system that will lay a solid foundation with which for the Group to enhance the quality levels in managing its operational and performance-related measurements in the future. Leveraging on information technologies to elevate management qualities has seen significant progress as a number of IT application systems to aid the managing of business, budget and assets has been trial-run and then put into operation at terminals. In the front of technical transformation and process innovation which are important means for enhancing the ports' core competitiveness, in 2011, the Group has completed 78 such projects. Among technical transformation projects implemented at the Group's terminals include graphic-aided instruction for quay crane operators, dual-box-trailers for container trucks, process to drop bulk grain into storage and to dedust, as well as process to load-unload logs, which significantly improved the efficiency and effectiveness of the ports. In addition, during the year the Group has continued its efforts towards making greener its port operation by establishing, in co-operation with the local government, a low-carbon demonstration port zone that not only conserves the Group's unit energy consumption but also enables the Group to gain recognisable economic and social benefits. By the end of 2011, the Group has been awarded national patented right for two green port projects pursued, for which the Group was granted various government subsidies in excess of RMB30 million.

During 2011, development at Shenzhen Qianhaiwan Bonded Port Zone ("SQBPZ") accelerated and Shenzhen China Merchants Maritime Logistics Co., Ltd., a subsidiary of the Group, increased its registered capital by RMB300 million after which it was renamed China Merchants Bonded Logistics Co., Ltd. ("CMBL"). Adhering to the directives of "expand the market, elevate efficiency and refine management", CMBL has delivered encouraging achievements in the areas of expanding its customer base and business scale along with improvements in efficiency and effectiveness. Operating data such as percentage of letting, unit rental price, cargo volume handled and customs declaration service all recorded faster-than-expected growth during the year, with container volume derived from bonded port-collaboration up 24% year-on-year and the accompanying profit, up approximately 70% for the same period. Meanwhile, "unloading cargoes immediately upon entering the park" practiced by the Customs within SQBPZ has greatly enhanced the efficiency in customs clearance. Services provided by and the development path of SQBPZ are increasingly recognized as the benchmark for other bonded port zones in China. Shenzhen's Qianhai getting underway in the establishment of the Shenzhen–Hong Kong Modern Service Industry Cooperation Zone will, we believe, subject our bonded port zone to more growth opportunities and enable the zone to lend greater support to the development of Shenzhen Western Port Zone.

China's cold chain logistics service, as a new area of expertise and a new industry, is gradually being recognized for its status and development potential. Urbanization, food safety and affluence-derived consumption are the main drivers for the growth in the demand for cold chain logistics service. Presently, the industry is very fragmented. With industry standards improving and related government policies released over time will accelerate the industry's integration and segmentation. Service providers possessing relevant resources, management skills, and service and talent advantages are expected to differentiate itself among market competition in future. While China Merchants Americold Holdings Limited and China Merchants Americold Logistics Company Limited (collectively known as "CMAC"), an entity controlled and managed by the Group, commands advantages in brandname, ports network and operational expertise, the cold chain logistics service industry in domestic China has yet to be nurtured that the Group focuses its efforts on positioning its resources while endeavouring to extend its value chain and cultivate its management expertise with a view to becoming China's leading cold chain logistics service provider.

Another growth driver the Group focuses on is new overseas project development and, in this regard, the Group achieved a breakthrough in 2011. A Build-Operate-Transfer (BOT) agreement for the development of the Colombo Port South Container Terminal in Sri Lanka was signed in August, with construction having commenced in December and operation expected to commence during 2013. This dedicated container terminal development project in which the Group has operation and management rights represents the Group's first overseas. Experiences the Group has derived and will derive from this project in respect of the co-operation mode, engineering development and operational management expertise are expected to cast great significance to the Group in its effort to expand internationally.

Prospects

Forecast released on 24 January 2012 by World Economic Outlook of the IMF projects global economy to grow 3.3% and 3.9% in respectively 2012 and 2013, representing respectively a decrease of 0.7 and 0.6 percentage point when compared to an earlier forecast made in September 2011. The European debt crisis has intensified the uncertainty of global economic growth and the softening growth in global trade and economy is expected to continue for sometime in the future. With developed economies lacking growth momentum will subject developing economies to challenges induced by declines in both internal growth rate and external demand. IMF forecasts China's economic growth rate to be respectively 8.2% and 8.8% in 2012 and 2013. Against this macro-economic and trade environment, the growth of global port business is expected to continue its slowdown trend in 2012.

Ports as an essential component of international transportation commands an irreplaceable position in international trade that, despite the prevailing volatility encountered in the world's economic growth, the trade-induced-economic growth pattern confirms ports' nature in continuing development and stability. With its ports portfolio being primarily in Mainland China, the Group's ports business will on the one hand be supported by China's rapidly growing domestic economy and on the other commands growth driven by its participation in new projects.

In the coming year, the Group will continue to pursue its established development strategy for ports of "expanding internationally while optimizing assets in domestic China" with a view to fostering new business growth drivers. Stemmed from the basis in and experiences drawn from developing and managing the Group's existing overseas projects, the Group will align itself with the global trend in productivity relocation and actively seek opportunities for new overseas port projects with a view to positioning itself internationally. As regards domestic China, whilst continuing to integrate its resources, the Group will closely monitor available opportunities with a view to further enhancing its capabilities in ports.

Refining its management skills is an on-going and strenuous task through which the Group achieves its goal of enhancing its overall competitiveness. In 2012, the Group aims to carry on deepening its refined management skills by means of standardizing its operational control, applying IT management systems, conserving energy, and technology and process innovation, so as to enhance the Group's operational management quality, excavate potential and elevate efficiency. The Group also aims to establish an effective incentive mechanism that stimulates the potential of staff and mobilises the management initiative of the Group's projects.

In 2012, the Group will continue its efforts to integrate and consolidate its homebase ports in Western Shenzhen, leverage upon unifying the ports' operation that in turn ensures standardizing their management platform, thus releasing the overall advantage and efficiency of resources located in the port zone. The Group will strengthen the interaction between the ports and the Bonded Port Zone as a means to attract customers and secure cargo flow. The Group will also encourage the functional co-operation between ports in the Western Shenzhen Port Zone and CKRTT's existing river terminals whilst actively monitoring the operating environment with a view to further improving the accessibility of the PRD barge network. The Group will continue to develop its sea-rail connectivity, and work towards establishing a co-ordinated and harmonious market in the region.

In 2012, springboarding from CMAC the Group will accelerate its efforts to pan out its cold chain logistics service business, taking advantage of the window of opportunities resulted from the prevailing consolidation of the cold chain logistics industry in the domestic market to enhance our market position. The Group will adopt innovative business model to establish its brandname for quality service and management thereby resulting in elevating its influence and position in the industry.

Looking ahead, in the face of unfavourable macroeconomic environment in 2012, the Group aims to enhance its ability to sustain through expanding overseas markets, optimizing port structure in China, refining management skills and nurturing new growth drivers, resulting in turn in elevating its position in the industry and recognition by the international community. Simultaneous as it seeks to optimise benefits to shareholders, in fulfilling its responsibilities and obligations as a responsible corporate citizen, the Group will actively pursue the development of "green" port capabilities and participate in social welfare and charitable activities.

Investor relations

The Group as always places great emphasis on investor relations and is fully committed to ensuring a high level of information transparency is 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. Approximately 200 visits by investors and analysts were received and/or met by the Group during the year, in addition to numerous tours arranged for investors to visit the Group's projects and to meet with our senior management. The Group continues to maintain smooth relationships with shareholders in the United States, Europe and Asia through roadshow activities and participations in investors conferences. The Group recognizes that prompt and effective communication is the 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.

Appreciation

The Group's achievements in 2011 were accomplished with the dedicated efforts from all our staff, as well as the support from all our shareholders, business partners and those who take to heart the Group's interest. For this, to all parties concerned, I would like to extend my sincere appreciation and deepest gratitude.

Dr. Fu Yuning
Chairman
Hong Kong, 29 March 2012

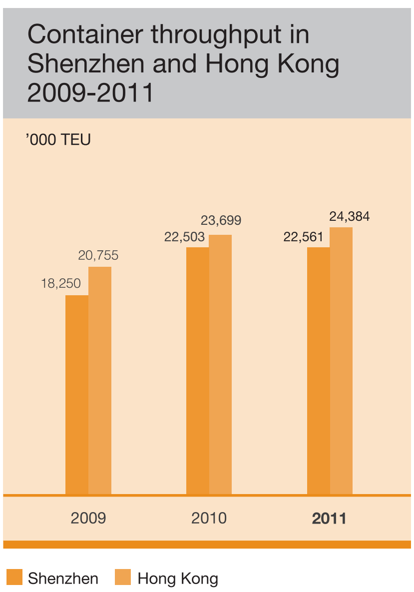
Management Discussion and Analysis

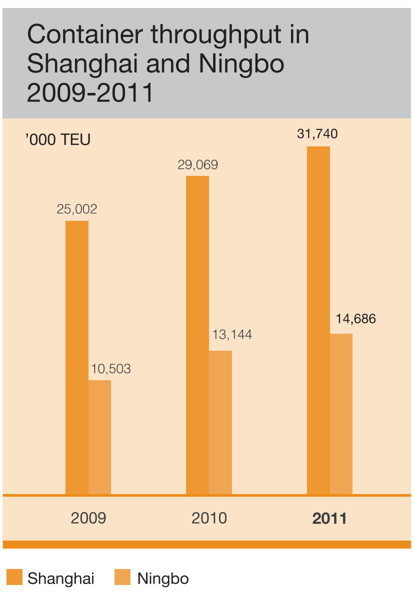
Business review

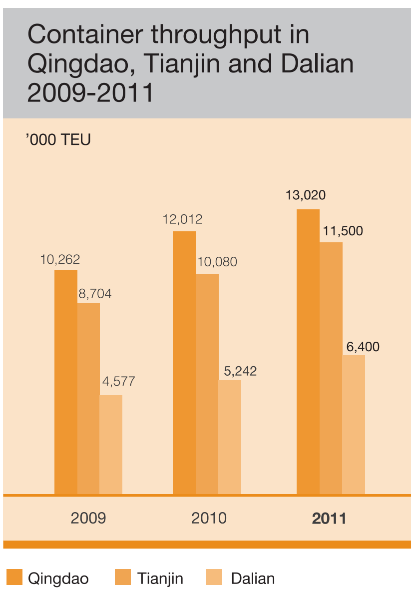
In 2011, the global economy recovery slowed down. As the profound impact exposed from the international financial crisis continuously appeared, and the uncertainties and unstable factors increased, the possibility of economic downturn heightened. The International Monetary Fund ("IMF") lowered the global economic growth forecast for three consecutive times in April, June and September, respectively. According to the data published by IMF, the global economic growth rate recorded 3.8%, which was 1.4 percentage points below that of the same period last year. Of this amount, the developed economies increased by 1.6%, representing a decrease of 1.6 percentage points in growth rate; the developing economies increased by 6.2%, representing a decrease of 1.1 percentage points in growth rate. The process of economic recovery was further delayed by the sluggish growth of developed economies, the challenges arising from the internal slowdown and the reduced external demand in developing economies, as well as the debt crises in Europe. In view of the above-mentioned, the global trade growth saw a significant slowdown in 2011. According to the published data of IMF's report, the total global trade increased by 6.9% in 2011, representing a decrease of 5.8 percentage points in growth rate.

As the growth of global economy and trade slowed down, the port industry faced a new round of upward pressure. Drewry predicted, in its report published in August 2011, that the container throughput handled by the world's major ports would record a year-on-year increase of 8.0% in 2011, representing a decrease of nearly 50.0% in growth rate. In respect of the ports in Asia predominately led by Chinese ports, their business growth would also drop significantly. According to the data published by the Ministry of Transport, Chinese ports handled a total of 162,000,000 TEUs in 2011, up 11.4% year-on-year but a considerable 7 percentage points below the corresponding growth rate for the same period last year. Due to the industrial upgrade and transfer in some hinterlands and other factors, the slowdown trend of growth was relatively obvious in the container operations of southern ports.

In 2011, the Group's port projects handled a total container throughput of 57,290,000 TEUs, an increase of 9.6% over that of the same period last year; the bulk cargo business handled a throughput of 325,000,000 tonnes, an increase of 15.5% year-on-year. China International Marine Container (Group) Co., Ltd. ("CIMC Group"), of which the Group was the single largest shareholder, driven by the delivery of new container vessels globally, sold 1,591,000 TEUs of dry cargo and reefer containers and 77,100 TEUs of special-purpose containers during the year, reflecting a growth of 15.1% and 24.6% year-on-year respectively, which maintained a good growth momentum.







For the year ended 31 December 2011, the profit attributable to the equity holders of the Company totaled HK$5,569 million, representing a decrease of 5.2% over that of the same period last year. Of this amount, recurrent profit was HK$4,068 million, a decrease of 6.4% year-on-year. The Group recorded revenue of HK$9,470 million for 2011, an increase of 63.0% over that of the same period last year. Revenue derived from the Group's core segment of ports operation amounted to HK$6,394 million, an increase of 27.7% over that of the same period last year.

Based on the entrustment agreement in respect China Nanshan Development (Group) Incorporation ("Nanshan Group") effective in August 2010, the Group started to consolidate the accounts of Nanshan Group. The full-year impact of consolidating the results of Nanshan Group for 2011 was reflected in the considerable increases in a number of financial items of the Group, such as Revenue, Cost of sales, Distribution costs, Administrative expenses, Finance costs, and Taxation for the year.

The Group's core segment of ports operation recorded an EBITDA of HK$8,316 million, representing an increase of 10.4% year-on-year. The EBITDA contributions from the core segment of ports operation accounted for 70.1% of the Group's total EBITDA.

Ports operation

In 2011, EBIT derived from the Group's ports operation amounted to HK$6,051 million, representing an increase of 5.3% over that of last year and accounting for 68.2% of the overall EBIT of the Group, down from 73.4% last year.

During the year 2011, the growth rate of the Group´s container business slightly above the industry level. The Group's port projects in Mainland China handled a total container throughput of 50,820,000 TEUs, representing an increase of 10.3% over 2010, which kept its leading position among domestic port operators. The Group's port projects in Hong Kong and overseas achieved a total container throughput of 6,460,000 TEUs, an increase of 4.0% over last year.

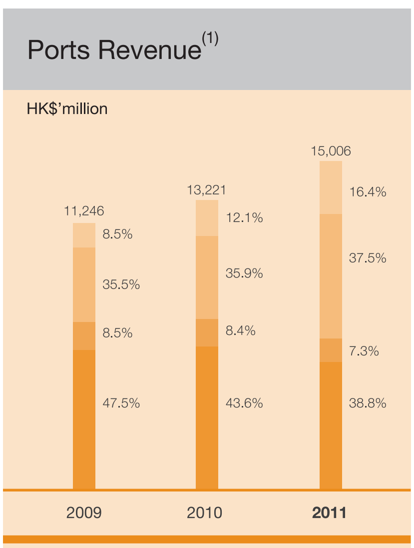
Among all the port projects of the Group, except the slight fall in the container volume in western Shenzhen and Modern Terminals Limited ("MTL") in Hong Kong, other port projects of the Group have achieved different levels of growth in their respective container operations. In particular, the container throughput handled by Qingdao Qianwan United Container Terminal Co., Ltd. ("QQCTU") was significantly increased by 87.8% to 2,070,000 TEUs due to the Group's ability to attract new sources of containers and cargos. Shanghai International Port (Group) Co., Ltd. ("SIPG") created a record of 31,740,000 TEUs in the global ports, up 9.2% year-on-year. The throughput of Ningbo Daxie China Merchants International Terminals Co., Ltd. ("Ningbo Daxie") rose 12.1% year-on-year to 1,750,000 TEUs, and its business growth rate still remained higher than that of the local region. Chu Kong River Trade Terminal Co., Ltd ("CKRTT"), in which the Group acquired a stake in early 2011, contributed a total of 910,000 TEUs. Tin-Can Island Container Terminal Limited ("TICT") in Nigeria, the Group's first overseas port project, handled a container throughput of 378,000 TEUs, representing an increase of 28.1%. Due to the factors such as shorting of demand and reduction on resources, the container throughput handled by Shenzhen Western Port Zone and MTL were slightly decreased.

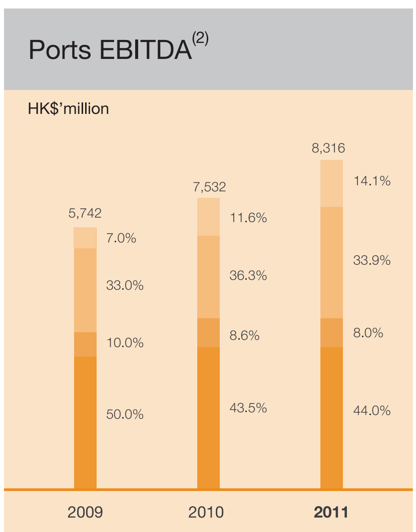
The growth rate of the Group's bulk cargo business remained higher than the domestic average level in 2011, mainly benefited from the business growth contributed by SIPG, Zhanjiang Port (Group) Co., Ltd. ("Zhanjiang Port Group"), Qingdao Qianwan West Port United Terminal Co., Ltd. ("QQTU") and Zhangzhou China Merchants Port Co., Ltd ("Zhangzhou Port"). Of this total, SIPG and Zhanjiang Port Group handled a throughput of 178,290,000 tonnes and 73,370,000 tonnes, respectively, with both of the growth rates being over 15.0%. QQTU accounted for 28,390,000 tonnes, an increase of 69.1% year-on-year. The bulk cargo throughput handled by Zhangzhou Port amounted to 8,500,000 tonnes, an increase of 17.1% year-on-year, while the throughput of Shenzhen Western Port Zone decreased by 12.1% due to reduction on resources.

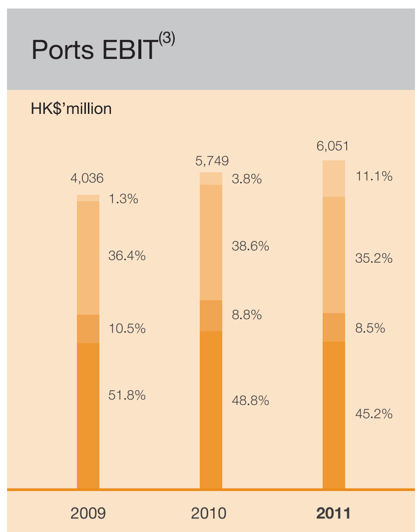
As the global economic growth during the year 2011 was slower than expected, and the shipping market saw severe downturn, port operators faced the dual pressures of rising internal costs along with reducing external demand. Despite the adverse operation environment, the Group has been adhering to the concept of "internal exploring and external pursuing". On the one hand, the Group actively explored new overseas projects, optimized the layout of domestic ports in order to pursue new growth points; and on the other hand, the Group improved the resource efficiency and asset effectiveness through integrating the existing port resources and vigorously facilitating sophisticated management. Over the past year, various efforts achieved remarkable results. For example, Build-Operate-Transfer (BOT) projects of some overseas ports commenced to construct, the operation results of several port projects in Mainland China made breakthroughs, and sophisticated management made greater progress.

Colombo International Container Terminals Limited, located in the South Container Terminal Sri Lanka, was the first overseas terminal project with the independent operation right owned by the Group. It was also the second overseas port project following TICT in Nigeria, and first phase is expected to complete construction and commence operation in mid-2013. The successful development and future operation and management of this project would have a far-reaching significance for the Group to explore overseas markets. Since the Group's investment in TICT at the beginning of this year, its business volume has increased by nearly 30.0% and the performance results have improved.

In respect of optimizing the layout of domestic ports, following the joint ventures which involves Qingdao Port (Group) Co. Ltd ("QPG") in container terminal operations, QQCTU, at the end of 2009 and bulk cargo terminal operations, QQTU, in 2010, the Group has further intensified its cooperation with QPG during this year. On the basis of QQCTU, the Group established a new entity through joint venture, the Qingdao Qinwan United Advanced Container Terminal Co., Ltd. ("QQCTUA") with APL Co. Pte Ltd. and SITC Container Lines Company Limited, so as to create the asset cooperation ties between the Group and these shipping companies by operating two berths at QQCTU. QQCTU held 70% equity interests of QQCTUA. A series of successful cooperation with QPG have enhanced the business scale and operation efficiency of our ports in Qingdao, and also increased the degree of participation of the Group in the market of the Bohai Rim region, which laid a solid foundation for further cooperation in the next step.







Shenzhen Hong Kong Shanghai and Ningbo Others

Note 1 Include revenue of the Company, its subsidiaries and share of revenue of its associates and jointly controlled entities.

Note 2 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.

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

In respect of integrating the homebase port in Western Shenzhen, the Group established an operating centre based in Shekou to oversee the co-ordination of the business operations of ports within the Shenzhen Western Port Zone in terms of integrating business and management resources for container terminals in the Zone during 2011. The Group built an integrated management system covering business, operation, purchase, outsourcer management, recruitment, training and technology applications. These two ports implemented joint business promotion, optimized the unified route structure, and established a resource coordination mechanism, which further enhanced the efficiency of port resources.

An important measure for the Group to enhance its competitiveness of ports in Western Shenzhen was to leverage on the connectivity offered by the already-established comprehensively-connected shuttle barge network in the Pearl River Delta ("PRD"). The Group continued to take advantage on resources, routes, business and geographical position of Shenzhen Western Port Zone to further expand the capability of terminals in western Shenzhen to attract container freight sources in the Pan-Pearl River Delta region. Member of South China shuttle barge services rose to 28 in 2011 (2010: 21). The PRD barge network now covers 21 cities, 52 river trade terminals and 40 barge express routes. The PRD barge volume handled increased by 3.4% compared to the corresponding period of last year. In February 2011, the Group successfully completed its acquisition from Chu Kong Shipping Development Company Limited ("CKS") of the 20% equity stake in CKRTT, otherwise a 100% subsidiary of CKS. This acquisition complemented the connectivity between ports in Western Shenzhen and river terminals in the Pearl River Delta and laid a solid foundation for further cooperation with CKS in future. In 2011, the container throughput handled by CKRTT in collaboration with the Group's Western Shenzhen ports significantly grew 75.0% year-on-year.

In respect of ports management, on the basis of the cost control experience accumulated over recent years, the Group has comprehensively implemented sophisticated measures which brought various tasks to enhanced levels. In 2011, the Group has engaged well-known international consulting firms in order to vigorously promote the establishment of port standardization systems. Through building quantifiable management evaluation tools and establishing normal supervision and control mechanisms, the continuously improving management loop was formed so as to enhance the management level of the Group's terminal units and the management and control capability of its head office on an ongoing basis. Meanwhile, the Group actively promoted the application of IT in management functions. By way of building management models, developing IT application systems, the Group continuously enhanced the overall port management level and improved port resource efficiency and asset effectiveness.

Bonded logistics and cold chain operations

In 2011, the Group's bonded logistics and cold chain operations achieved a revenue of HK$1,414 million, an increase of 119.2% over last year, and an EBIT of HK$581 million, an increase of 31.7% over last year.

In 2011, the Group made significant progress in its bonded logistics operations. As a reflection, the service and development pattern in its bonded port zones became an industrial benchmark with increasing importance in the PRC and its logistics parks ranked top among the bonded logistics port zones in the PRC in terms of, inter alia, cargos handled, efficiency in customs clearance and business innovation. As compared to the same period last year, major business indicators such as the occupancy rate and rental level of warehouses and the number of customs declarations showed rapid growth, with an increase of over 20.0% in the amount of cargos handled via port-cargo-park collaboration and a growth of nearly 70.0% in the profit of its logistics parks. Currently, the business demand in its logistics parks is growing rapidly. The Group will speed up the construction of related facilities and commence the second phase of expansion works for its bonded logistics parks. Looking forward, in view of the construction of the Qianhai-Shenzhen-Hong Kong Modern Service Cooperation Zone, we are full of confidence in the development of our bonded port zones. In the logistics park in Qingdao of China Merchants International Container Terminal (Qingdao) Co., Ltd., we turned into a positive gain from loss in recurrent operating profits due to the growth of revenue driven by the increasing amount of cargos handled. We also realized a positive gain from loss in the Tianjin Haitian Logistics Park of Tianjin Haitian Bonded Logistics Company Limited due to an increase in the occupancy rate of warehouses and storage yards and a decline in costs.

As a platform for the cold chain logistics operation of the Group, China Merchants Americold Holdings Limited and China Merchants Americold Logistics Company Limited (collectively known as "CMAC") established an initial cold chain logistics network in the PRC in 2011 by making a layout in critical locations and extending its transportation network. As a result, CMAC's reefer transportation capability was further enhanced and its reputation and brand name were initially established in the domestic market. The execution of a strategic cooperation agreement between Yum! Restaurants China and CMAC was one of the top ten events in the cold chain industry of the PRC in 2011. The cold chain logistics industry is highly segmented at present and industrial consolidation and classification will accelerate in the future. In the course of consolidation in the industry, CMAC may gain a favourable position in the market by leveraging on its strengths in resources, management, service and human resources to speed up its business deployment in the market so as to seize market opportunities. The Group considers that, as the development pattern of the PRC economy evolves, the growth in domestic demand will gradually become the primary driver of the economic growth of the PRC, which, together with people's upgrading concept on consumption and stricter requirements on food safety, will bring a broad prospect for the cold chain logistics industry.

In 2011, due to a slowdown in the growth of global trade, the total amount of cargos handled at the two major air cargo terminals in Hong Kong declined by 6.0%, whereas Asia Airfrieght Terminal Company Limited in which the Group is interested handled a total of 700,000 tonnes of cargos, down 1.9% year-on-year alongside an increase in its market share.

Port-related manufacturing operation

In 2011, EBIT generated by the Group's manufacturing operation amounted to HK$1,760 million, an increase of 38.5% over last year.

In 2011, driven by the demand brought by the delivery of new container vessels, the CIMC Group maintained growth momentum in its container sales in spite of the severe downturn in the shipping market. During the year, it sold 1,591,000 TEUs of dry cargo and reefer containers, reflecting a growth of 15.1% year-on-year. Increases in selling prices during the year have led to the revenue of the container business grow more than that in container sales. In 2011, the CIMC Group sold 152,000 units of special road vehicles, reflecting a slight decrease. In 2011, the CIMC Group realized a net profit of RMB3,694 million, an increase of 22.8% over last year.

Corporate social responsibility

Over the recent years, apart from committing itself to maximize the investment returns for shareholders, the Group has also placed great emphasis on performing its corporate social responsibilities as a corporate citizen by vigorously promoting the construction of "green ports" and taking an active part in social welfare and charitable activities.

In respect of the construction of green ports, the Group took an active part in social practices promoting the concept of "energy saving, environment protection and low-carbon economy". As the largest public terminal operator in the PRC and with a view to promoting operating efficiency and social benefits, the Group well answered the calls for energy-saving and emission-reduction by continuously boosting the construction of green ports and speeding up the transformation of its port enterprises into environmentally friendly and cost saving enterprises. The "Low-carbon Green Demonstration Port Zone" established by the Group was listed by the Ministry of Transport as one of the four low-carbon pilot ports in the PRC.

Liquidity and treasury policies

As at 31 December 2011, the Group had approximately HK$6,811 million in cash, 21.8% of which was denominated in Hong Kong dollars, 3.6% in United States dollars, 74.2% in Renminbi and 0.4% in other currencies.

The Group mainly derived its funding sources from both its operating activities related to ports operation, bonded logistics and cold chain operations, port-related manufacturing operations, property development and investment, and investment returns from associates and jointly controlled entities, which together contributed HK$4,671 million in total.

During the year, the Group's capital expenditure amounted to HK$3,340 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.

Share capital and financial resources

As at 31 December 2011, the Company had 2,474,411,236 shares in issue. During the year, the Company issued 1,441,000 new shares upon the exercise of share options and received approximately HK$30 million as a result. Other than the above-mentioned newly issued shares, the Company issued 14,942,777 shares under the Company's scrip dividend scheme.

As at 31 December 2011, the Group's net gearing ratio (net interest-bearing debts divided by net assets attributable to the Company's equity holders) was approximately 41.2%.

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.

As at 31 December 2011, the Group's outstanding interest-bearing debts were analyzed as below:

	2011 **HK$'million**	2010 HK$'million
Floating-rate bank borrowings which are repayable (note):		
Within 1 year	**5,239**	4,827
Between 1 and 2 years	**2,099**	2,182
Between 2 and 5 years	**3,204**	2,813
Not wholly repayable within 5 years	**106**	1,410
	10,648	11,232
Fixed-rate listed notes payables are repayable:		
In 2013	**2,325**	2,324
In 2015	**3,877**	3,879
In 2018	**1,536**	1,536
	7,738	7,739
Fixed-rate unlisted notes payable is repayable:		
In 2016	**3,084**	—
Loans from the ultimate holding company		
Within 1 year	**1,615**	1,748
Between 1 and 2 years	**985**	—
Between 2 and 5 years	**—**	938
	2,600	2,686
Loans from an intermediate holding company		
Within 1 year	**616**	—
Between 2 and 5 years	**—**	587
	616	587
Loan from a non-controlling equity holder of a subsidiary	**12**	—

Note: All bank borrowings are unsecured except for HK$291 million (2010: HK$451 million).

The interest bearing debts are denominated in the following currencies:

	2011						
	Bank borrowings HK$' million	Listed notes payable HK$' million	Unlisted notes payable HK$' million	Loans from an intermediate holding company HK$' million	Loans from the ultimate holding company HK$' million	Loan from a non-controlling equity holder of a subsidiary HK$' million	Total HK$' million
HKD & USD	**4,123**	**7,738**	**—**	**—**	**100**	**—**	**11,961**
RMB	**6,525**	**—**	**3,084**	**616**	**2,500**	**12**	**12,737**
	10,648	**7,738**	**3,084**	**616**	**2,600**	**12**	**24,698**

	2010						
	Bank borrowings HK$' million	Listed notes payable HK$' million	Unlisted notes payable HK$' million	Loans from an intermediate holding company HK$' million	Loans from the ultimate holding company HK$' million	Loan from a non-controlling equity holder of a subsidiary HK$' million	Total HK$' million
HKD & USD	4,972	7,739	—	—	—	—	12,711
RMB	6,260	—	—	587	2,686	—	9,533
	11,232	7,739	—	587	2,686	—	22,244

Assets charge

As at 31 December 2011, the Company did not have any charge over its assets. The bank loans of HK$212 million borrowed by subsidiaries are secured by their property, plant and equipment with carrying value HK$190 million and investment properties with carrying value HK$102 million.

As at 31 December 2010, the Company did not have any charge over its assets. The bank loans of HK$68 million and HK$294 million borrowed by subsidiaries were respectively secured by their property, plant and equipment with carrying value HK$71 million and land use right with carrying value HK$558 million.

Employees and remuneration

As at 31 December 2011, the Group employed 7,766 full time staff, of which 257 worked in Hong Kong, and the remaining 7,509 were in the PRC. The remuneration paid for the year amounted to HK$1,482 million, representing 22.3% 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

In 2012, the global economy and trade is expected to continue to modest growth as exhibited in 2011. As predicted by IMF in a report dated 24 January, in 2012, the growth rate of the global economy is expected to be 3.3% and that of global trade, to be 3.8%, representing a decrease of 0.5 percentage point and 3.1 percentage points respectively as compared to those in 2011. With the European debt crisis remaining the most uncertain factor hindering economic growth, and others such as geo-political tensions and apparently intensifying trade protectionism, the risk of an economic downturn still prevails. As such, the global port business may as a whole reflect a similar trend of continuing softening.

With a major part of the Group's port operations being primarily located in Mainland China, China's sustainable economic growth is expected to continue to serve as a major growth driver for the Group's port operations. In 2012, the Group will continue to adhere to its established development strategy for ports of "exploring overseas markets while optimizing domestic layout" that aims to foster new sources for business growth. It is expected that the Group's ports will see volume growth rate higher than that delivered by the global port industry.

Statistics provided by China's Customs reveal that, in 2011, ASEAN has surpassed Japan to become the third largest trade partner of China after EU and the United States. The trade volume growth in Asia will bring opportunities for the ports in the region. The Group will also work towards aligning itself with the global trend of productivity relocation by exploring investment opportunities in Asia and developing countries in other regions with a view to gradually positioning the Group in the global ports industry and gaining increasing recognition among international port operators.

QQCTU was the port of the Group with most rapid growth in the last year, which was primarily a result of the ablility to attract new sources of containers and cargos supplies and the close cooperation with QPG. In 2012, the Group will continue to pay attention to container terminals, large dedicated bulk terminals and river trade terminals in the PRC with development potentials, as to continuously optimizing its port layout in the PRC.

In 2012, the Group will continue to deepen the integration of its homebase ports in Western Shenzhen so as to enhance the utilization efficiency of resources and assets in the Shenzhen Western Port Zone through business and management integration; elevating its attractiveness to customers in the economic hinterland of the PRD by making continuous efforts to improve the connectivity of the barge network in the PRD by encouraging collaborative co-operation between its homebase ports in Western Shenzhen and river terminals along PRD; continuing to develop the sea-rail inter-modal network so as to expand hinterland coverage; and extend the customer value chain by leveraging on the interactions between the homebase ports in Western Shenzhen, the Group's bonded logistics park and its cold chain logistics service operations.

Further refining operational management remains the Group's on-going task and is expected to help improve the Group's results even amid unfavourable macroeconomic conditions. In 2012, the Group will continue to further refine its operational management in respect of operation procedural standardisation, process innovation and the management of information technology application, thereby resulting in releasing underlying potential, enhancing operational efficiency and effectiveness of its existing assets, and effectively mitigating the pressure derived from cost increases and a slowdown in external demand.

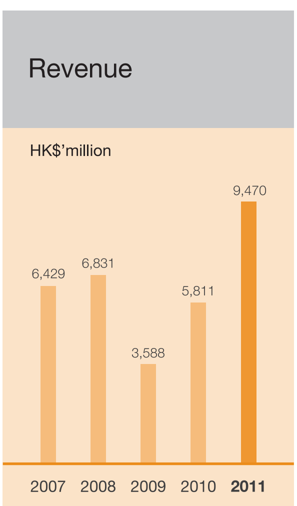
In 2012, the development objectives of the Group's bonded port zones will primarily focus on the following aspects: putting more emphasis in promoting and facilitating the expansion of bonded port zones; creating new service patterns for logistics parks and seeking state policy support; reinforcing customer management and attracting premium customers to move into its parks; optimizing business process and enhancing service efficiency; promoting port-cargo-park collaboration and creating synergistic effects; and speeding up parks construction to gain a favourable position in the market.

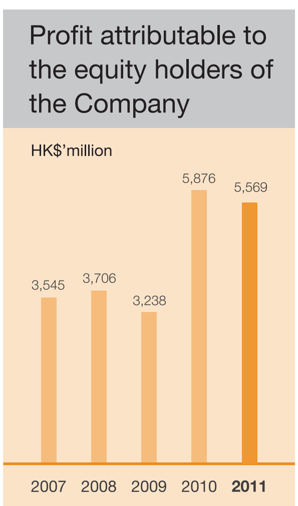
2012 will be a year for the Group to accelerate market deployment and gain market shares for its cold chain logistics service business in China. The Group intends to achieve the objective of rolling out this business by leveraging on the network already established by CMAC, enhancing strategic partnership with its major customers and customizing turnkey solutions to meet the demand of its major customers; expanding its current business scope and exploring new business drivers; closely monitoring consolidation opportunities in the industry and making use of its competitive edges to develop its cold chain logistics business; and focusing on enhancing the overall service level of the cold chain logistics business — all in all to build up the Group's expertise and brandname in managing the cold chain logistics service and gain recognition in the industry.

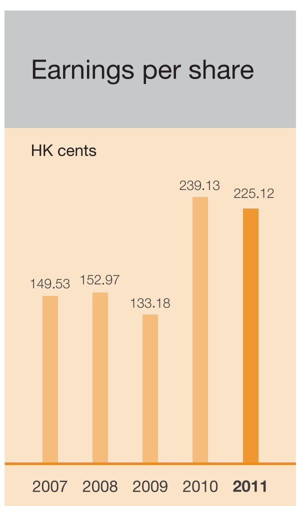
2012 is expected to be a year of complex external macroeconomic conditions. However, the Group believes that opportunities coexist with challenges and will approach the year with caution to ensure that, on the one hand, it focuses on making steady progress in line with strategies and objectives already established and, on the other, it captures opportunities in both the domestic and international markets, thereby optimising the interests of shareholders by generating increased profitability for better returns for shareholders.

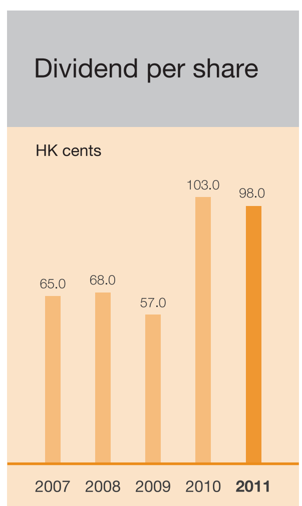
Five-year Financial Summary

	2011 HK$'million	2010 HK$'million	2009 HK$'million	2008 HK$'million	2007 HK$'million
RESULTS					
Revenue	**9,470**	5,811	3,588	6,831	6,429
Profit before taxation	**7,686**	7,238	3,735	4,315	4,037
Profit for the year	**6,671**	6,680	3,457	4,026	3,895
Non-controlling interests	**1,102**	804	219	320	350
Profit attributable to equity holders of the Company	**5,569**	5,876	3,238	3,706	3,545
ASSETS AND LIABILITIES					
Non-current assets	**71,914**	64,733	45,783	45,278	41,790
Net current assets/(liabilities)	**3,462**	2,372	(130)	(1,687)	(5,756)
Total assets less current liabilities	**75,376**	67,105	45,653	43,591	36,034
Non-current liabilities	**20,616**	17,734	10,034	10,877	7,559
Non-controlling interests	**11,355**	10,329	2,056	2,434	1,633
Capital and reserves attributable to the equity holders of the Company	**43,405**	39,042	33,563	30,280	26,842
RETURN TO SHAREHOLDERS					
Earnings per share					
– Basic (HK cents)	**225.12**	239.13	133.18	152.97	149.53
– Diluted (HK cents)	**224.56**	238.52	133.10	152.43	148.62
Dividend per share (HK cents)	**98.00**	103.00	57.00	68.00	65.00









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 2011. 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, the Company has complied with the Code Provisions set out in the CG Code contained in Appendix 14 to the Listing Rules for the time being in force throughout the year ended 31 December 2011.

Board of Directors

The Board of the Company comprises:

Executive Directors
Fu Yuning (Chairman)
Li Jianhong (Vice Chairman)
Li Yinquan
Hu Zheng
Meng Xi
Su Xingang
Yu Liming
Hu Jianhua (Managing Director)
Wang Hong
Liu Yunshu (resigned on 10 February 2012)
Zheng Shaoping (appointed on 10 February 2012)

Independent Non-executive Directors
Kut Ying Hay
Lee Yip Wah Peter
Li Kwok Heem John
Li Ka Fai David
Bong Shu Ying Francis

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 2011	Attendance rate
Fu Yuning	2/4	50%
Li Jianhong	4/4	100%
Li Yinquan	2/4	50%
Hu Zheng	4/4	100%
Meng Xi	4/4	100%
Su Xingang	4/4	100%
Yu Liming	2/4	50%
Hu Jianhua	4/4	100%
Wang Hong	4/4	100%
Liu Yunshu	2/4	50%
Kut Ying Hay	4/4	100%
Lee Yip Wah Peter	4/4	100%
Li Kwok Heem John	4/4	100%
Li Ka Fai David	4/4	100%
Bong Shu Ying Francis	4/4	100%

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

The Board formulates the 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 10 February 2012 with the presence of 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, 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 considered and nominated Mr. Zheng Shaoping to be appointed as an Executive Director of the Company. In respect of the appointment of Mr. Zheng, the Board has taken into consideration, inter alia, his qualifications, management expertise and experience in relevant industries.

Nomination Committee

On 29 March 2012, the Board has resolved to establish a nomination committee of the Company (the "Nomination Committee"), which comprises one Executive Director, namely, Mr. Hu Jianhua and five Independent Non-executive Directors, namely, 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. Mr. Kut Ying Hay was appointed as the Chairman of the Nomination Committee.

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

1. to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

2. to identity individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

3. to assess the independence of Independent Non-executive Directors;

4. to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the chief executive; and

5. to consider other topics as defined by the Board.

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 2011. The attendance of each member is set out as follows:

Name of member	Number of meetings attended in 2011	Attendance rate
Fu Yuning* (Chairman of the Remuneration Committee)	0*/1	0%
Kut Ying Hay	1/1	100%
Lee Yip Wah Peter	1/1	100%
Li Kwok Heem John	1/1	100%
Li Ka Fai David	1/1	100%
Bong Shu Ying Francis	1/1	100%

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

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

The Company has adopted a new share option scheme on 9 December 2011 in place of the previous share option scheme which was terminated on the same day, 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 45 to 47 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.

On 29 March 2012, the Board has resolved to amend the terms of reference of the Remuneraton Committee.

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

1. to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

2. either (i) to determine, with delegated responsibility, the remuneration packages of individual Executive Directors and senior management; or (ii) to make recommendations to the Board on the remuneration packages of individual Executive Directors and senior management. This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment. Factors which should be taken into consideration include but not limited to salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

3. to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;

4. to review and approve compensation payable to Executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

5. to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;

6. to make recommendations to the Board on the remuneration of 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 remuneration proposals for other Executive Directors. The Remuneration Committee should have access to independent professional advice if necessary; and

9. to consider other topics as defined 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 2011, 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 57.

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. Three 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 2011	Attendance rate
Lee Yip Wah Peter (Chairman of the Audit Committee)	3/3	100%
Kut Ying Hay	3/3	100%
Li Kwok Heem John	1/3	33%
Li Ka Fai David	3/3	100%
Bong Shu Ying Francis	2/3	67%

During the meetings held in 2011, the Audit Committee had performed the following work:

(i) reviewed the financial reports for the year ended 31 December 2010 and for the six months ended 30 June 2011;

(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 2010;

(v) reviewed and recommended for approval by the Board the 2011 audit scope and fees; and

(vi) reviewed the connected transactions entered into by the Group during the year.

On 29 March 2012, the Board has resolved to amend the terms of reference of the Audit Committee.

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

1. to be primarily responsible for making recommendations 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 its resignation or dismissal;

2. to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. 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 engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

4. to monitor integrity of the Company's financial statements and 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 reviewing these reports before submission to the Board, the Audit 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 any qualifications;

(v) compliance with accounting standards; and

(vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;

5. Regarding to (4) above:

(i) members of the Audit Committee must liaise with the Board and senior management and the Audit Committee must meet, at least twice a year, with the Company's auditors; and

(ii) the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors;

6. to review the Company's financial controls, internal controls and risk management systems;

7. to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;

8. to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

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 about 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 its effectiveness;

13. to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

14. to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;

15. to act as the key representative body for overseeing the Company's relationship with the external auditor;

16. to report to the Board on the matters of the terms of reference of the Audit Committee;

17. to review the Group's financial and accounting policies and practices;

18. to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

19. to review and monitor the training and continuous professional development of directors and senior management;

20. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

21. to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors;

22. to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report set out in Appendix 14 to the Listing Rules; and

23. to consider other topics, as defined 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	12
Non-audit services	
(Tax advisory and compliance services)	2
Total	14

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 2011 annual general meeting of the Company held on 6 June 2011, 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 2012 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, 31 May 2012 at 9:30 a.m.

Directors and Senior Management

Directors

Dr. Fu Yuning

aged 55, is the Chairman of the Company 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 a Non-executive Director and the Chairman of China Merchants Bank Co., Ltd (a company listed in both Shanghai and Hong Kong), an Independent Non-executive Director and a member of audit committee and nomination committee of Li & Fung Limited (a company listed in Hong Kong) and an Independent Non-executive Director of CapitaLand Limited (a company listed in Singapore) (Note). He was an Independent Non-executive Director of Sino Land Company Limited (a company listed in Hong Kong), an Independent Non-executive Director of Integrated Distribution Services Group Limited (a company listed in Hong Kong prior to its withdrawal of listing on 1 November 2010), the Chairman of China Merchants Energy Shipping Company Limited (a company listed in Shanghai) and the Chairman of China International Marine Containers (Group) Co., Ltd. (a company listed in Shenzhen). He has been appointed to the Board of Directors since 8 January 1999 and appointed as the Chairman of the Company since 1 February 2000. He was the Managing Director of the Company for the period from 31 May 2005 to 25 March 2010.

Note:

Dr. Fu tendered his resignation as Independent Non-executive Director of CapitaLand Limited in March 2012 and it is currently expected that such resignation will take effect from May 2012.

Mr. Li Jianhong

aged 55, 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 and 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 57, is the Vice President of China Merchants Group Limited and the Chairman of China Merchants Finance Holdings Company 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. He is currently an Executive Director and the Chairman of China Merchants China Direct Investments Limited, shares of which are listed on The Stock Exchange of Hong Kong Limited and 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 56, 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 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 56, 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 53, is the Vice President of China Merchants Group Limited. He graduated from Ship Navigation and Harbour Superintendency Administration Specialty of Navigation Department of Dalian Maritime University (formerly Dalian Marine College). 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, Vice 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 49, is the Vice President 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 49, is the Managing Director of the Company and Assistant President of China Merchants Group Limited. 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. He joined the Company in 2007. 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 49, is the Chief Economist and the General Manager of Strategic Planning Department of China Merchants Group 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, Human Resources Department and

Strategic and Research 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. Zheng Shaoping

aged 49, is the Vice Chairman of China Merchants Bonded Logistics Co., Ltd., the Chairman of She Kou Container Terminals Ltd., the Chairman of Chiwan Container Terminal Co., Ltd., the Chairman of Shenzhen Chiwan Wharf Holdings Limited, shares of which are listed on the Shenzhen Stock Exchange, and the Deputy General Manager of China Nanshan Development (Group) Incorporation. He graduated from Dalian Maritime University with Postgraduate Diploma in International Maritime Law, and obtained a Master Degree of Business Administration at University of Wales. Mr. Zheng has over 20 years' experience in the field of port management, he was the General Manager of Chiwan Container Terminal Co., Ltd., the General Manager and the Chairman of Shenzhen Chiwan Harbour Container Co., Ltd., and the Managing Director and the Vice Chairman of Shenzhen Chiwan Wharf Holdings Limited. He was appointed to the Board of Directors as Executive Director on 10 February 2012.

Mr. Kut Ying Hay

aged 57, is a practising solicitor and a notary public in Hong Kong and the sole proprietor of 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 resigned as 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, on 28 October 2011. He was appointed to the Board of Directors as Independent Non-executive Director on 6 June 1992.

Mr. Lee Yip Wah Peter

aged 70, is a retired solicitor. He is also a Non-executive Director of SHK Hong Kong Industries 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 56, 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. 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 57, 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 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, an Independent Non-executive Director and Chairman of audit committee of Shanghai Industrial Urban Development Group Limited, and an Independent Non-executive Director, member of audit committee and member of remuneration committee of AVIC International Holding (HK) Limited, shares of the above five companies are listed on The Stock Exchange of Hong Kong Limited. He retired as an Independent Director and Chairman of audit committee of China Vanke Co., Ltd, a company listed on the Shenzhen Stock Exchange, and was appointed as a consultant of that Company on 31 March 2011. He was appointed to the Board of Directors as Independent Non-executive Director on 1 June 2007.

Mr. Bong Shu Ying Francis

aged 70, 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. Liu Yunshu

aged 47, joined the Company in 2004 and is Overseas Operation Officer of the Company and Chief Executive Officer of Colombo International Container Terminals Limited. 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 Deputy General Manager of Shenzhen Shekou China Merchants Port Services Co., Ltd., Vice Chairman and General Manager of Shenzhen Shekou Anda Industry Co. Ltd., a Director and Chief Operating Officer of China Merchants Logistics Group Co., Ltd. He was an Executive Director of the Company for the period from 3 June 2009 to 10 February 2012.

Mr. Ni Lulun

aged 51, 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 Jiao Tong 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 60, joined the Company in 2004 and is a Deputy General Manager of the Company, responsible for finance. 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 a Master of Business Administration Degree from the University of East Asia in Macau. She also holds the office of Independent Non-executive Director and Non-executive Chairperson in China Gas Holdings Limited, the shares of which are listed on The Stock Exchange of Hong Kong Limited.

Mr. Zhang Rizhong

aged 43, joined the Company in 2005 and is the Deputy General Manager and 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 20 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 48, 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 44, 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.

Mr. Deng Weidong

aged 44, joined the Company in July 2009 and is the Deputy 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 2011.

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 42 to 44 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 59.

The Board had declared an interim dividend of 30 HK cents per share, totalling HK$1,918 million, which was paid on 30 November 2011.

The Directors have resolved to recommend the payment of a final scrip dividend of 68 HK cents per share, totalling HK$1,683 million for the year ended 31 December 2011 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 (2010: scrip dividend of 78 HK cents per share by way of issue of new shares equivalent with cash alternative), payable on or around 20 July 2012 to the shareholders whose names appear on the Register of Members of the Company on 6 June 2012 (the "Scrip Dividend Scheme").

Subject to the approval by shareholders at the 2012 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 13 June 2012. 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 20 July 2012.

Charitable Donations

No donation was made by the Group during the year (2010: Nil).

Reserves

Details of the movements in reserves of the Group and the Company during the year are set out in note 30 to 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 17 to the financial statements.

Share capital

Details of the movements in share capital of the Company are set out in note 29 to the financial statements.

Distributable reserves

Distributable reserves of the Company as at 31 December 2011, as defined under section 79B of the Hong Kong Companies Ordinance, amounted to HK$2,775 million (2010: HK$3,916 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 27.

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 during the year ended 31 December 2011 and up to the date of this report were:

Executive Directors:

Dr. Fu Yuning (Chairman)
Mr. Li Jianhong (Vice Chairman)
Mr. Li Yinquan
Mr. Hu Zheng
Mr. Meng Xi
Mr. Su Xingang
Mr. Yu Liming
Mr. Hu Jianhua (Managing Director)
Mr. Wang Hong
Mr. Liu Yunshu (resigned on 10 February 2012)
Mr. Zheng Shaoping (appointed on 10 February 2012)

Independent Non-executive Directors:

Mr. Kut Ying Hay
Mr. Lee Yip Wah Peter
Mr. Li Kwok Heem John
Mr. Li Ka Fai David
Mr. Bong Shu Ying Francis

In accordance with Article 91 of the Company's Articles of Association (the "Articles"), Dr. Fu Yuning, Mr. Li Yinquan, Mr. Meng Xi, Mr. Su Xingang and Mr. Yu Liming 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. Zheng Shaoping shall retire from office at the forthcoming annual general meeting and shall be eligible and offer himself for re-election.

Ten of the Executive Directors have entered into appointment letters with the Company for a term of three years commencing on 29 March 2012, 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 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 2011, 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 2011
Dr. Fu Yuning	Beneficial owner	Personal interest	565,569	400,000	**0.0390%**
Mr. Li Yinquan	Beneficial owner	Personal interest	—	400,000	**0.0162%**
Mr. Hu Zheng	Beneficial owner	Personal interest	—	700,000	**0.0283%**
Mr. Meng Xi	Beneficial owner	Personal interest	—	200,000	**0.0081%**
Mr. Su Xingang	Beneficial owner	Personal interest	—	350,000	**0.0141%**
Mr. Yu Liming	Beneficial owner	Personal interest	372,024	500,000	**0.0352%**
Mr. Wang Hong	Beneficial owner	Personal interest	513,731	150,000	**0.0268%**
Mr. Liu Yunshu	Beneficial owner	Personal interest	—	300,000	**0.0121%**
Mr. Lee Yip Wah Peter	Beneficial owner	Personal interest	154,278	—	**0.0062%**
Mr. Li Kwok Heem John	Interest of spouse	Family interest	1,526,104	—	**0.0617%**
			3,131,706	3,000,000	**0.2477%**

Save as disclosed above and based on the register maintained by the Company under section 352 of the SFO, as at 31 December 2011, 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 9 December 2011 (the "Adoption Date"), the shareholders of the Company adopted the new share option scheme (the "Share Option Scheme") and the 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, 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 (together with directors and employees of the Company, its subsidiaries and associates, the "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 and the share option scheme of the Company adopted on 20 December 2001 and terminated on 9 December 2011 ("Terminated Schemes") 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 Schemes 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 Schemes 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 Schemes (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/her under all options granted to him/her in the 12-month period up to and including the date of grant 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 Schemes 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 for option

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

(vi) Subscription price

The subscription price for the shares in respect of which options are granted shall not be less than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of grant; and (iii) 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 8 December 2021.

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

As at 29 March 2012, the total number of shares which may be issued pursuant to the exercise of options granted under the Terminated Schemes was 27,077,000 shares.

As at 29 March 2012, the total number of shares available for issue under the Terminated Schemes and the Share Option Scheme was 274,518,123 shares, which represented approximately 11.09% of the total issued share capital of the Company as at the same date.

Details of the share options outstanding at 31 December 2011 which have been granted under the Terminated Schemes are as follows:

Name	Date of grant	Exercise price HK$	Options held as at 1 January 2011	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 2011
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	300,000	—	—	—	—	300,000
			3,050,000	—	(50,000)	—	—	3,000,000
Continuous contract employees								
(I) The Group	27 October 2004	11.08	1,260,000	—	(230,000)	—	—	1,030,000
	25 May 2006	23.03	12,054,000	—	(331,000)	—	—	11,723,000
	21 June 2006	20.91	150,000	—	—	—	—	150,000
(II) The CMHK Group	27 October 2004	11.08	1,000,000	—	—	—	—	1,000,000
	25 May 2006	23.03	11,084,000	—	(830,000)	—	—	10,254,000
			25,548,000	—	(1,391,000)	—	—	24,157,000
			28,598,000	—	(1,441,000)	—	—	27,157,000

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$33.687.

3. No share options were granted under the Terminated Schemes and the Share Option Scheme during the year.

Substantial shareholders

As at 31 December 2011, 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)	54.67%
China Merchants Steam Navigation Company Limited	Interest of Controlled Corporation	1,349,647,266(2)	54.54%
China Merchants Holdings (Hong Kong) Company Limited	Interest of Controlled Corporation	1,349,647,266(2)	54.54%
China Merchants Union (BVI) Limited	Beneficial Owner	1,332,525,504(2)	53.85%
Davis Selected Advisers, L.P. (d/b/a: Davis Advisors)	Investment Manager	145,910,554	5.90%
Commonwealth Bank of Australia	Interest of Controlled Corporation	124,199,852(4)	5.02%
Colonial Holding Company Limited	Interest of Controlled Corporation	124,199,852(4)	5.02%
Commonwealth Insurance Holdings Limited	Interest of Controlled Corporation	124,199,852(4)	5.02%
Colonial First State Group Ltd	Interest of Controlled Corporation	124,199,852(4)	5.02%

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 interested by China Merchants Steam Navigation Company Limited (see Note 2 below) and 3,000,000 shares deemed to be interested 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 interested 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 interested by Top Chief Company Limited. Such shares represent the 3,000,000 shares beneficially held by Orienture Holdings Company Limited.

4. Colonial First State Group Ltd. is deemed to be interested in the shares beneficially held by its direct wholly-owned subsidiary, Colonial First State Investments Limited, and each of its indirect wholly-owned subsidiaries, First State Investments (Hong Kong) Limited, First State Investments (Singapore), First State Investment Management (UK) Limited and First State Investments International Ltd. Colonial First State Group Ltd. is wholly-owned by Commonwealth Insurance Holdings Limited, which is in turn wholly-owned by Colonial Holding Company Limited, which is in turn wholly-owned by Commonwealth Bank of Australia. Therefore, each of Commonwealth Insurance Holdings Limited, Colonial Holding Company Limited and Commonwealth Bank of Australia is deemed to be interested in the shares which Colonial First State Group Ltd. is deemed to be interested in.

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 2011, 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 28 April 2011, Chiwan Wharf Holdings (Hong Kong) Limited ("**Chiwan HK**"), an indirect subsidiary of the Company, entered into a share transfer agreement with Excel Steps Limited ("**Excel Steps**") (the "**Share Transfer Agreement**"). Pursuant to the Share Transfer Agreement, Excel Steps agreed to sell its 100% interest in Hinwin Development Limited ("**Hinwin**") to Chiwan HK and to assign an interest-free shareholder's loan owed by Hinwin to Excel Steps to Chiwan HK. Hinwin is a special purpose vehicle wholly-owned by Excel Steps for the purpose of holding the 20% equity interests in China Merchants Bonded Logistics Ltd. ("**CMBL**"), formerly known as China Merchants Maritime & Logistics (Shenzhen) Ltd. ("**CMML**"), and does not have any other assets or business operations. The total consideration for the acquisition by Chiwan HK of the 100% interest in Hinwin is the sum of RMB6,270,000 and HK$10,000 and the amount of shareholder's loan assigned to Chiwan HK and therefore payable by Chiwan HK to Excel Steps as consideration for the assignment is the sum of RMB94,000,000 and HK$16,684. CMBL is primarily engaged in the development and operation of the Shenzhen Qianhaiwan Bonded Port Area located in Shenzhen, the PRC, which has been an important strategic area for the provision of bonded logistics services and operations of the Group. In response to the growing demand for logistics services, the Directors believe that the acquisition of additional indirect interest in CMBL through its subsidiary, Chiwan HK, will integrate, unify and better align the Group's port resources and logistics services in the western area of Shenzhen and attain economies of scale, which is in line with the Group's strategy. In addition, the Directors believe that the acquisition through Chiwan HK in place of CMH International (China) Investment Co., Ltd. ("**CMCIL**") will bring strategic benefits to the Group by leveraging the competitiveness of the transportation and logistics operations of Shenzhen Chiwan Wharf Holdings Ltd. in Shenzhen. As Excel Steps is a wholly-owned subsidiary of 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, and therefore a connected person of the Company, the acquisition and the assignment of the shareholder's loan, together constitute a connected transaction of the Company under the Listing Rules.

(b) Details of the continuing connected transactions of the Group for the year ended 31 December 2011 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)	39
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)	(48)*
CMSIZ	Rental of a parcel of land in Shekou charged to the Group	(vii)	(1)*
Euroasia Dockyard Enterprise and Development Limited ("**Euroasia**")	Rental of a piece of land at Tsing Yi Terminal charged to the Group	(viii)	(13)
CMBL	Usage fees for utilising centralised cargo inspection center paid to CMBL	(ix)	—
CMSIZ	Rental of a parcel of land in Shekou charged to the Group	(x)	(1)*

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)	N/A
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)	(6)
CMHK	Rental of 21 residential units in Hong Kong charged to the Group	(xiv)	N/A

* The transactions and respective annual caps are denominated in RMB and are converted to HK$ using the exchange rates prevailing on the dates of the transactions and the dates of the announcements on which the annual caps were disclosed, respectively.

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 2011 was HK$5,000,000. 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 an indirect 80%-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 under the lease agreement is subject to adjustment every three years. On 14 December 2010, South China and CMSIZ entered into a supplemental agreement to the lease agreement, pursuant to which the rental payable was adjusted. After the adjustment, the total annual rental payable by South China is RMB1,903,883.60 for the period from 1 January 2011 to 31 December 2013, which shall constitute a de minimis continuing connected transaction 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. South China is an indirect 70%-owned subsidiary of the Company. CMSIZ is an indirect wholly-owned subsidiary of CMG and is therefore a connected person of the Company.

(iii) Universal Sheen Investment Limited ("**Universal Sheen**"), a wholly-owned subsidiary of the Company, agreed on 24 February 2011 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 2011 (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$2,058,720 and HK$231,640, respectively. The monthly rental of the property leased to Ming Wah is HK$1,033,400. Prior to entering into the tenancy renewal agreements, the monthly rentals of the two properties leased to CMHK are HK$1,646,976 and HK$185,312, respectively, and 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. Each of CMHK and Ming Wah is a wholly-owned subsidiary of CMG and is therefore a connected person of the Company.

(iv) On 14 December 2010, CMBL, formerly known as CMML, entered into a lease agreement with Shenzhen Nanyou to renew the lease of the piece of land in Shenzhen Qianhaiwan Logistics Park, Nanshan District, Shenzhen with a total area of 18,332.30 square meters for a term of three years commencing on 1 January 2011 at a rental of RMB78 per square meter per annum. The total annual rental payable by CMBL under the lease agreement is RMB1,429,918.80 for the period from 1 January 2011 to 31 December 2013, which shall constitute a de minimis continuing connected transaction 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 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 lease agreement with CMBL, formerly known as 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. In view of the expiration of this lease agreement on 31 December 2011, CMSIZ entered into a new lease agreement with CMBL on 30 November 2011 to renew the lease of the piece of land in Shenzhen Qianhaiwan Logistics Park for a further term of two years, commencing on 1 January 2012 and at the same rent. 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 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 and not exceeding RMB56,100,000 for the year ended 31 December 2011. In view of the expiration of these six lease agreements on 31 December 2011, SCMPS entered into six new lease agreements on 30 November 2011 with CMSIZ to lease 21 parcels of land in Shekou Industrial Park and certain property assets for a term of two years commencing on 1 January 2012 for a total rental of RMB39,348,320 for the year ending 31 December 2012 and not exceeding RMB51,048,491 for the year ending 31 December 2013. In relation to the remaining three original lease agreements regarding the lease of three parcels of land in the Shekou Industrial Park, SCMPS entered into three new lease agreements with CMSIZ on 14 December 2010 to 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) On 14 December 2010, SCMPS entered into a lease agreement with CMSIZ to renew the lease of the piece of land in Shekou Industrial Park, with a total area of 10,298.94 square meters, for a further term of two years commencing on 1 January 2011 at a total annual rental charge of RMB772,420.50, 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) China Merchants Container Services Limited ("**CMCS**"), an indirect wholly-owned subsidiary of the Company, entered into a 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. In view of the expiration of the cooperation agreement on 31 December 2011, CMCS entered into a new cooperation agreement with Euroasia on 30 November 2011 to renew the lease of the piece of land in Tsing Yi for a further term of two years, commencing on 1 January 2012 and at a rental of HK$13,050,312 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.

(ix) CMBL, formerly known as CMML, entered into four asset utilisation agreements with each of China Container Terminal Co. Ltd. ("**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 CMBL. Each of the asset utilisation agreements has a term of three years commencing from 1 January 2009 and the annual usage fee charged by CMBL 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 CCT, SCT, SCMPS and Haixing is a subsidiary of the Company. CCT ceased to be a connected person of the Company after the entrustment agreement regarding China Nanshan Development (Group) Incorporation took effect in 2010. Prior to the completion of the acquisition of Hinwin by Chiwan HK set out in paragraph (a) of this section above, CMBL is an indirect 20%-owned subsidiary of CMG and is therefore a connected person of the Company.

(x) SCMPS entered into a lease agreement with CMSIZ on 14 December 2010 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 two years commencing from 1 January 2011 and at an annual rental of RMB676,483.23. SCMPS and CMSIZ entered into a new lease agreement on 30 November 2011 to renew the lease of the piece of land in Shekou Industrial Park for a further term of two years commencing on 1 January 2012 at a rental payable of RMB708,037.06 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.

(xi) SCMPS entered into a new lease agreement with CMSIZ on 30 November 2011 pursuant to which SCMPS agreed to lease a piece of land in the Shekou Industrial Park, with a total area of 954.93 square meters for a term of two years commencing from 1 January 2012 and at an annual rental of RMB122,231.04, 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 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 30 November 2011, 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 2012 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$7,000,000. 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 2011. The total ship berthing fee paid under the ship berthing services agreement of 2011 was HK$6,000,000 for the year ended 31 December 2011. 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.

(xiv) On 30 November 2011, the Company entered into a new lease agreement with CMHK to lease a total of 21 residential units in Sheung Wan and the Western District in Hong Kong as staff quarters for employees of the Group who are seconded to Hong Kong for a term of one year commencing on 1 January 2012. The total annual rental payable by the Company to CMHK under the lease agreement is HK$1,764,000, 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 leasing of the various residential units in Hong Kong from CMHK at a relatively lower rental as compared to market rental is beneficial to the Group as it will result in cost savings, and which will facilitate the provision of more cost effective support and ancillary services to the Group. CMHK is a wholly-owned subsidiary of CMG and hence a connected person of the Company.

(c) The Independent Non-executive Directors have reviewed the continuing connected transactions set out in paragraph (b) 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 (b) of this section, the aggregate rental has not exceeded HK$5,000,000, the annual cap for the year ended 31 December 2011;

(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 (b) of this section, the transaction constitutes a de minimis continuing connected transaction pursuant to Rule 14A.33(3) of the Listing Rules and therefore no annual cap has been set for the year ended 31 December 2011;

(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 (b) of this section, the aggregate rental received for the year ended 31 December 2011 based on the tenancy renewal agreements has not exceeded the annual cap of HK$39,220,368;

(iv) in respect of the lease by Shenzhen Nanyou to CMBL of a piece of land in Nanshan, details of which are set out in note (iv) to paragraph (b) of this section, the transaction constitutes a de minimis continuing connected transaction pursuant to Rule 14A.33(3) of the Listing Rules and therefore no annual cap has been set for the year ended 31 December 2011;

(v) in respect of the lease by CMSIZ to CMBL of a piece of land in Nanshan, details of which are set out in note (v) to paragraph (b) of this section, the aggregate rental has not exceeded RMB5,900,000, the annual cap for the year ended 31 December 2011;

(vi) in respect of the lease by CMSIZ to SCMPS of 20 parcels of land in Shekou and certain property assets under the six lease agreements entered into on 12 November 2009, details of which are set out in note (vi) to paragraph (b) of this section, the aggregate rental has not exceeded RMB56,100,000, the annual cap for the year ended 31 December 2011; and in respect of the lease by CMSIZ to SCMPS of three parcels of land in Shekou under the three lease agreements entered into on 14 December 2010, details of which are also set out in note (vi) to paragraph (b) of this section, the transactions contemplated under the three lease agreements constitute de minimis continuing connected transactions pursuant to Rule 14A.33(3) of the Listing Rules and therefore no annual cap has been set for these three agreements for the year ended 31 December 2011;

(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 (b) of this section, the transaction constitutes a de minimis continuing connected transaction pursuant to Rule 14A.33(3) of the Listing Rules and therefore no annual cap has been set for the year ended 31 December 2011;

(viii) in respect of the lease of a piece of land by Euroasia to CMCS, details of which are set out in note (viii) to paragraph (b) of this section, the aggregate rental has not exceeded HK$13,100,000, the cap for the year ended 31 December 2011;

(ix) in respect of the utilisation by the Group of the centralised cargo inspection center in Shenzhen Western Port operated by CMBL, details of which are set out in note (ix) to paragraph (b) 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 2011;

(x) in respect of the lease by CMSIZ to SCMPS of a parcel of land in Shekou, details of which are set out in note (x) to paragraph (b) of this section, the transaction constitutes a de minimis continuing connected transaction pursuant to Rule 14A.33(3) of the Listing Rules and therefore no annual cap has been set for the year ended 31 December 2011;

(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 (b) of this section, the lease agreement will commence on 1 January 2012 and there was no rental paid by SCMPS to CMSIZ for the year ended 31 December 2011;

(xii) in respect of the lease by SCMPD to CMCIL of two floors of Shekou Industrial Park Building, details of which are set out in note (xii) to paragraph (b) of this section, the transaction constitutes a de minimis continuing connected transaction pursuant to Rule 14A.33(3) of the Listing Rules and therefore no annual cap has been set for the year ended 31 December 2011;

(xiii) in respect of the ship berthing services provided by Yiu Lian to CMCS, details of which are set out in note (xiii) to paragraph (b) of this section, the total ship berthing fee has not exceeded HK$6,000,000, the annual cap for the year ended 31 December, 2011; and

(xiv) in respect of the lease by CMHK to the Company of 21 residential units in Hong Kong, details of which are set out in note (xiv) to paragraph (b) of this section, the lease agreement will commence on 1 January 2012 and there was no rental paid by the Company to CMHK for the year ended 31 December 2011.

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 55 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 2011, 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.

Auditor

The financial statements have been audited by PricewaterhouseCoopers ("PwC").

According to the relevant regulations issued by the Ministry of Finance of the PRC and the State-owned Assets Supervision and Administration Commission of the State Council, there are restrictions in respect of the number of years of audit services that an accounting firm can continuously provide to a state-owned enterprise and its subsidiaries. The Company is a subsidiary of CMG, which is a state-owned enterprise, and the number of years that the Company has continuously engaged its existing auditor, PwC, has exceeded the prescribed time limit. Therefore, PwC will retire as the auditor of the Company with effect from the conclusion of the forthcoming annual general meeting and will not offer themselves for re-appointment.

After the recommendation from the audit committee of the Company, the Board has resolved to and proposed to appoint Deloitte Touche Tohmatsu as the auditor of the Company for the year 2012.

On behalf of the Board
Fu Yuning
Chairman

Hong Kong, 29 March 2012

Independent Auditor's Report

羅兵咸永道

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 59 to 165, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

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 2011, 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, 29 March 2012

Consolidated Income Statement

For the year ended 31 December 2011

	Note	2011 HK$'million	2010 HK$'million
Revenue	5	**9,470**	5,811
Cost of sales	8	**(5,418)**	(3,025)
Gross profit		**4,052**	2,786
Other gains, net	7	**1,949**	1,975
Other income	7	**108**	139
Distribution costs	8	**(47)**	(21)
Administrative expenses	8	**(1,177)**	(690)
Operating profit		**4,885**	4,189
Finance income	11	**187**	112
Finance costs	11	**(1,061)**	(753)
Finance costs - net	11	**(874)**	(641)
Share of profits less losses of			
– Associates	21	**3,329**	3,366
– Jointly controlled entities	22	**346**	324
Profit before taxation		**7,686**	7,238
Taxation	12	**(1,015)**	(558)
Profit for the year		**6,671**	6,680
Attributable to:			
– Equity holders of the Company		**5,569**	5,876
– Non-controlling interests		**1,102**	804
Profit for the year		**6,671**	6,680
Dividends	15	**2,424**	2,528
Earnings per share for profit attributable to equity holders of the Company	14		
– basic (HK cents)		**225.12**	239.13
– diluted (HK cents)		**224.56**	238.52

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	Note	2011 HK$'million	2010 HK$'million
Profit for the year		**6,671**	6,680
Other comprehensive income:			
Realisation of investment revaluation reserve of an available-for-sale financial asset upon step acquisition of subsidiaries	39(a)	**—**	(214)
Realisation of reserves of associates upon step acquisition of subsidiaries	39(a)	**—**	(255)
Realisation of reserves of a jointly controlled entity upon step acquisition of subsidiaries	39(a)	**—**	(3)
Share of investment revaluation reserves of associates	21(a)	**(79)**	(156)
Share of capital reserve of an associate	21(a)	**(21)**	(66)
Share of reserves of a jointly controlled entity	22(a)	**45**	3
Exchange differences from retranslation of investments in subsidiaries, associates and jointly controlled entities		**2,116**	1,348
(Decrease)/increase in fair values of available-for-sale financial assets, net of deferred taxation		**(454)**	52
Share of net actuarial losses on defined benefit plans of associates	21(a)	**(18)**	(17)
Total other comprehensive income for the year, net of tax		**1,589**	692
Total comprehensive income for the year		**8,260**	7,372
Total comprehensive income attributable to:			
– equity holders of the Company		**6,650**	6,179
– non-controlling interests		**1,610**	1,193
		8,260	7,372

Consolidated Statement of Financial Position

As at 31 December 2011

	Note	2011 HK$'million	2010 HK$'million
ASSETS			
Non-current assets			
Intangible assets	16	**4,591**	3,389
Property, plant and equipment	17	**18,269**	16,835
Investment properties	18	**4,340**	3,662
Land use rights	19	**9,883**	9,683
Interests in associates	21	**27,394**	23,701
Interests in jointly controlled entities	22	**5,038**	4,589
Other financial assets	23	**1,919**	2,418
Prepayments	24	**344**	342
Deferred tax assets	35	**136**	114
		71,914	64,733
Current assets			
Inventories	25	**240**	159
Properties under development and held for sale	26	**4,380**	2,241
Other financial assets	23	**963**	382
Debtors, deposits and prepayments	27	**2,776**	4,484
Tax recoverable		**2**	—
Cash and bank balances	28	**6,811**	6,352
		15,172	13,618
Total assets		**87,086**	78,351

Consolidated Statement of Financial Position

As at 31 December 2011

	Note	2011 HK$'million	2010 HK$'million
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	29	**247**	246
Reserves		**41,475**	36,878
Proposed dividend		**1,683**	1,918
		43,405	39,042
Non-controlling interests		**11,355**	10,329
Total equity		**54,760**	49,371
LIABILITIES			
Non-current liabilities			
Loans from the ultimate holding company	31	**985**	938
Loans from an intermediate holding company	32	**—**	587
Other financial liabilities	33	**16,231**	14,144
Other non-current liability	34	**1,049**	—
Deferred tax liabilities	35	**2,351**	2,065
		20,616	17,734
Current liabilities			
Creditors and accruals	36	**3,888**	4,382
Loans from the ultimate holding company	31	**1,615**	1,748
Loans from an intermediate holding company	32	**616**	—
Other financial liabilities	33	**5,279**	4,855
Taxation payable		**312**	261
		11,710	11,246
Total liabilities		**32,326**	28,980
Total equity and liabilities		**87,086**	78,351
Net current assets		**3,462**	2,372
Total assets less current liabilities		**75,376**	67,105

Dr. Fu Yuning
Director

Mr. Hu Jianhua
Director

Statement of Financial Position

As at 31 December 2011

	Note	2011 HK$'million	2010 HK$'million
ASSETS			
Non-current assets			
Property, plant and equipment	17	**3**	—
Interests in subsidiaries	20	**28,058**	28,651
		28,061	28,651
Current assets			
Debtors, deposits and prepayments	27	**3**	483
Advances to subsidiaries	20	**297**	77
Cash and bank balances	28	**1,123**	1,481
		1,423	2,041
Total assets		**29,484**	30,692
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	29	**247**	246
Reserves	30(b)	**19,148**	19,613
Proposed dividend	30(b)	**1,683**	1,918
Total equity		**21,078**	21,777

Statement of Financial Position

As at 31 December 2011

	Note	**2011 HK$'million**	2010 HK$'million
LIABILITIES			
Non-current liabilities			
Other financial liabilities	33	**847**	497
Advances from subsidiaries	20	**7,513**	7,488
		8,360	7,985
Current liabilities			
Creditors and accruals	36	**46**	65
Advances from subsidiaries	20	**—**	65
Other financial liabilities	33	**—**	800
		46	930
Total liabilities		**8,406**	8,915
Total equity and liabilities		**29,484**	30,692
Net current assets		**1,377**	1,111
Total assets less current liabilities		**29,438**	29,762

Dr. Fu Yuning
Director

Mr. Hu Jianhua
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Note	Attributable to equity holders of the Company				Non-controlling interests	Total
		Share capital HK$'million	Share premium HK$'million	Other reserves (note 30(a)) HK$'million	Retained earnings HK$'million	HK$'million	HK$'million
At 1 January 2011		246	15,085	6,531	17,180	10,329	49,371
Comprehensive income							
Profit for the year		—	—	—	5,569	1,102	6,671
Other comprehensive income							
Share of investment revaluation reserves of associates	21(a)	—	—	(79)	—	—	(79)
Share of capital reserves of an associate	21(a)	—	—	(21)	—	—	(21)
Share of capital reserve of a jointly controlled entity	22(a)	—	—	45	—	—	45
Exchange differences from retranslation of investments in subsidiaries, associates and jointly controlled entities		—	—	1,607	—	509	2,116
Decrease in fair value of available-for-sale financial assets, net of deferred taxation		—	—	(453)	—	(1)	(454)
Share of net actuarial losses on defined benefit plans of associates	21(a)	—	—	—	(18)	—	(18)
Total other comprehensive income for the year, net of tax		—	—	1,099	(18)	508	1,589
Total comprehensive income for the year		—	—	1,099	5,551	1,610	8,260

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Note	Attributable to equity holders of the Company				Non-controlling interests	Total
		Share capital HK$'million	Share premium HK$'million	Other reserves (note 30(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	29(a)	—	30	—	—	—	30
Issue of shares in lieu of dividends	29(b)	1	411	—	—	—	412
Transfer to reserves		—	—	183	(183)	—	—
Purchase of additional interest in subsidiaries from non-controlling equity holders	40(a)	—	—	(75)	—	(97)	(172)
Capital contribution to subsidiaries	40(b)	—	—	6	—	116	122
Repayment of loan from a non-controlling equity holder		—	—	—	—	(39)	(39)
Dividends		—	—	—	(2,660)	(564)	(3,224)
Total transactions with owners for the year		1	441	114	(2,843)	(584)	(2,871)
At 31 December 2011		247	15,526	7,744	19,888	11,355	54,760

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Note	Attributable to equity holders of the Company				Non-controlling interests	Total
		Share capital HK$'million	Share premium HK$'million	Other reserves (note 30(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	39(a)	—	—	(214)	—	—	(214)
Realisation of reserves of associates upon step acquisition of subsidiaries	39(a)	—	—	(614)	359	—	(255)
Realisation of reserves of a jointly controlled entity upon step acquisition of subsidiaries	39(a)	—	—	(6)	3	—	(3)
Share of investment revaluation reserves of associates	21(a)	—	—	(156)	—	—	(156)
Share of capital reserves of an associate	21(a)	—	—	(66)	—	—	(66)
Share of investment revaluation reserve of a jointly controlled entity	22(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	21(a)	—	—	—	(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 2011

	Note	Attributable to equity holders of the Company				Non-controlling interests	Total
		Share capital HK$'million	Share premium HK$'million	Other reserves (note 30(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	29(a)	—	33	—	—	—	33
Issue of shares in lieu of dividends	29(b)	3	653	—	—	—	656
Transfer to reserves		—	—	149	(149)	—	—
Step acquisition of subsidiaries	39(a)	—	—	—	—	6,829	6,829
Capital contribution to subsidiaries		—	—	—	—	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 Cash Flows

For the year ended 31December 2011

	Note	2011 HK$'million	2010 HK$'million
Cash flows from operating activities			
Net cash inflow from operations	37(a)	**3,186**	2,093
Hong Kong profit tax paid		**(8)**	(4)
PRC corporate income tax paid		**(546)**	(286)
Withholding tax paid on dividends received		**(190)**	(139)
Dividends received from associates and jointly controlled entities		**2,229**	1,254
Net cash generated from operating activities		**4,671**	2,918
Cash flows from investing activities			
Interest income received		**187**	112
Proceeds from disposal of property, plant and equipment and land use rights		**69**	1,175
Income received from held-to-maturity investments		**—**	2
Repayment of loan from an associate		**107**	—
Purchase of property, plant and equipment and land use rights		**(1,962)**	(1,072)
Purchase of subsidiaries, net of cash acquired	37(b)	**—**	2,395
Purchase of additional interest in associates		**(178)**	(46)
Acquisition of interest in associates and jointly controlled entities		**(92)**	(2,552)
Acquisitions of other financial assets		**(620)**	(382)
Deposits paid for investment		**—**	(39)
Increase in short-term bank deposits		**(291)**	—
Net cash used in investing activities		**(2,780)**	(407)
Net cash inflow before financing activities carried forward		**1,891**	2,511

Consolidated Statement of Cash Flows

For the year ended 31December 2011

	Note	2011 HK$'million	2010 HK$'million
Net cash inflow before financing activities brought forward		**1,891**	2,511
Cash flows from financing activities			
Net proceeds from exercise of share options		**30**	33
Proceeds from new other financial liabilities		**9,432**	7,639
Proceeds from new unlisted notes payable		**3,013**	—
Loan from a non-controlling equity holder		**12**	—
Loans from the ultimate holding company		**1,787**	2,398
Loans from an intermediate holding company		**—**	287
Capital contributions from non-controlling equity holders of subsidiaries		**122**	865
Purchase of additional interests in subsidiaries		**(151)**	—
Dividends paid		**(2,660)**	(733)
Dividends paid to non-controlling equity holders of subsidiaries		**(582)**	(544)
Interests paid		**(1,048)**	(745)
Repayment of other financial liabilities		**(9,854)**	(5,855)
Repayment of loans from the ultimate holding company		**(2,025)**	(2,364)
Repayment of loans from an intermediate holding company		**—**	(459)
Repayment of loan from a non-controlling equity holder		**(39)**	—
Net cash (used in)/generated from financing activities		**(1,963)**	522
(Decrease)/increase in cash and cash equivalents		**(72)**	3,033
Cash and cash equivalents at 1 January		**6,352**	3,206
Effect of foreign exchange rate changes		**240**	113
Cash and cash equivalents at 31 December		**6,520**	6,352

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, bonded logistics and cold chain operations, property development and investment.

The Company is a limited liability company incorporated in Hong Kong and has its listing on The Stock Exchange of Hong Kong Limited. As at 31 December 2011, China Merchants Group Limited ("CMG"), directly or indirectly, held 54.67% 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 29 March 2012.

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 ("HKFRSs"). 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, which are carried at fair value.

The preparation of financial statements in conformity with HKFRSs 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.

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(i) Revision and amendments to existing Standards and interpretation effective in 2011 but not relevant to the Group

- HKAS 24 (Revised) "Related party disclosures – Change of definition of related party". The Group has partially early adopted the exemption for disclosures of transactions among government-related entities and government since 1 January 2009. The new disclosure requirements are much simpler.
- Amendment to HKAS 32 "Classification of rights issues"
- Amendment to HK(IFRIC)-Int 14 "Prepayments of a minimum funding requirement"
- HK(IFRIC)-Int 19 "Extinguishing financial liabilities with equity instruments"
- Third improvements to HKFRSs (2010) published in May 2010 by HKICPA
    - HKAS 1 "Presentation of financial statements"
    - HKAS 27 (Revised) "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)

2.1 Basis of preparation (Continued)

(ii) New Standards, amendments to existing Standards and interpretation have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted by the Group

		Effective for annual periods beginning on or after
Amendment to HKAS 1 (Revised)	Presentation of financial statements	1 July 2012
Amendment to HKAS 12	Deferred tax: Recovery of underlying assets	1 January 2012
HKAS 19 (2011)	Employee benefits	1 January 2013
HKAS 27 (2011)	Separate financial statements	1 January 2013
HKAS 28 (2011)	Investments in associates and joint ventures	1 January 2013
Amendment to HKAS 32	Financial instruments: Presentation – Offsetting financial assets and financial liabilities	1 January 2014
Amendment to HKFRS 7	Financial instruments: Disclosures – Transfers of financial assets	1 July 2011
Amendment to HKFRS 7	Financial instruments: Disclosure – Offsetting financial assets and financial liabilities	1 January 2013
HKFRS 9	Financial instruments	1 January 2015
HKFRS 10	Consolidated financial statements	1 January 2013
HKFRS 11	Joint arrangements	1 January 2013
HKFRS 12	Disclosure of interests in other entities	1 January 2013
HKFRS 13	Fair value measurement	1 January 2013
HK(IFRIC)-Int 20	Stripping costs in the production phase of a surface mine	1 January 2013

The Group is assessing the impact of these amendments, standards and interpretation. The Group will apply these amendments and standards when respective annual periods are effective.

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 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.

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.

(a) Business combinations

The Group applies the acquisition method of account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquirer's previously held interest in the acquiree is remeasured to fair value at the acquisition date in income statement.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in income statement.

2 Summary of significant accounting policies (Continued)

2.2 Consolidation (Continued)

(i) Subsidiaries (Continued)

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of 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.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to income statement.

(ii) Separate financial statements

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

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

(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. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's interests in associates include goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to income statement, where appropriate.

2 Summary of significant accounting policies (Continued)

2.2 Consolidation (Continued)

(iii) Associates (Continued)

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in 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.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profits less losses of associates' in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associate. Unrealised losses are 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 income statement.

(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 using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's interests in jointly controlled entities include goodwill identified on acquisition.

2 Summary of significant accounting policies (Continued)

2.2 Consolidation (Continued)

(iv) Joint ventures (Continued)

If the ownership interest in a jointly controlled entity is reduced but joint control is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to income statement where appropriate.

The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in 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 a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

The Group determines at each reporting date whether there is any objective evidence that the investment in the jointly controlled entity is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the jointly controlled entity and its carrying value and recognises the amount adjacent to 'share of profits less losses of jointly controlled entities' in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its jointly controlled entity are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the jointly controlled entity. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entity 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 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.

2.4 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 Company's and the Group's presentation currency.

2 Summary of significant accounting policies (Continued)

2.4 Foreign currency translation (Continued)

(ii) Transactions and balances

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

All foreign exchange gains and losses are presented in the income statement within 'other gains, 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 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 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 (none of which has the currency of a hyper-inflationary economy) 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 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.

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. Exchange differences arising are recognised in other comprehensive income.

2 Summary of significant accounting policies (Continued)

2.4 Foreign currency translation (Continued)

(iv) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to income statement.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in income statement. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to income statement.

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 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

2 Summary of significant accounting policies (Continued)

2.5 Property, plant and equipment (Continued)

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 income statement.

2.6 Investment properties

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, 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 and where applicable borrowing 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 income statement as part of a valuation gain or loss in 'other gains, net'.

2.7 Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration transferred over the Company's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquire and the fair value of the non-controlling interest in the acquire.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

2 Summary of significant accounting policies (Continued)

2.7 Intangible assets (Continued)

(i) Goodwill (Continued)

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(ii) Trademarks

Trademarks acquired in a business combination are recognised at fair value at the acquisition date. Trademarks have indefinite useful life and are 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.

(iv) Port operating right

Port operating right primarily resulted from the entering of agreement for the right to construct, operate, manage and develop container terminal. Operating right is carried at cost less accumulated amortisation and impairment. Amortisation is calculated using an economic usage basis which based on the ratio of minimum guaranteed output volume compared to the total minimum guaranteed output volume over the periods which the Group is granted the operating right on the container terminal.

2.8 Impairment of non-financial assets, associates and jointly controlled entities

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

In separate financial statements, impairment testing of the investments in associates or jointly controlled entities is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the 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 Summary of significant accounting policies (Continued)

2.9 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 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.

(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, which are classified as non-current assets. The Group's loans and receivables comprise 'debtors and deposits' and 'cash and bank balances' in the consolidated statement of financial position.

(iii) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available for sale. 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.

2 Summary of significant accounting policies (Continued)

2.9 Financial assets (Continued)

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 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 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 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 income statement as 'other gains, net'.

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

2.10 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.

2 Summary of significant accounting policies (Continued)

2.10 Impairment of financial assets (Continued)

(i) Assets carried at amortised cost (Continued)

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 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 income statement.

(ii) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria refer to (i) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the 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 income statement, the impairment loss is reversed through income statement.

2 Summary of significant accounting policies (Continued)

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost 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.

2.12 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.

2.13 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.

2.14 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.

2.15 Share capital

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

2 Summary of significant accounting policies (Continued)

2.16 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.

2.17 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 income statement using effective interest method over the period of such other financial liabilities.

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.

2.18 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in income statement in the period in which they are incurred.

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 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.

(i) Current income tax

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.

(ii) Deferred income tax

Inside basis differences

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 are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or 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.

Outside basis differences

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.

(iii) Offsetting

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) Pension obligations

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined contribution and defined benefit plans.

A defined contribution plan is a pension plan under which the Group pays fixed 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.

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.

(ii) Other post-employment obligations

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.

(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 Share-based payments

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 requiring an employee working in the entity over a specified time period); and
- including the impact of any non-vesting conditions.

Non-market performance and services 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 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.

2.22 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 Summary of significant accounting policies (Continued)

2.23 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.

(iv) Rental income

Rental income from investment property is recognised in the income statement on a straight-line basis over the term of the lease.

2.24 Interest income

Interest income is recognised on a time-proportion basis using effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

2 Summary of significant accounting policies (Continued)

2.25 Dividend income

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

2.26 Leases

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 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.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

2.27 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.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(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.

48% of the Group's borrowings (including loans from the ultimate holding company and an intermediate holding company) as at 31 December 2011 (2010: 57%) 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 2011, if Renminbi had strengthened/weakened by 5% (2010: 3%) with all other variables held constant, profit for the year would have been approximately HK$165 million higher/lower (2010: HK$103 million higher/lower) mainly as a result of increase/decrease 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 2011, no change on profit for the year as a result of the 0.1% strengthened/weakened of United States dollar. At 31 December 2010, if United States dollar had strengthened/weakened by 0.3% with all other variables held constant, profit for the year would have been approximately HK$25 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 financial assets or financial assets at fair value through profit or loss. At 31 December 2011, 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$186 million (2010: HK$205 million) and HK$33 million (2010: HK$38 million) respectively. Post-tax profit for the year would increase/decrease as a result of gains/losses on equity securities classified as financial assets 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 financial assets. 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 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 2011, 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 2011, if interest rates on borrowings had been 100 basis points (2010: 100 basis points) higher/lower with all other variables held constant, post-tax profit for the year would have been HK$106 million (2010: HK$112 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% (2010: 94%) of cash are deposited in State-controlled banking enterprises as of 31 December 2011. 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 33(e)) and cash and bank balances (note 28) on the basis of expected cash flow. The Group aims to maintain flexibility in funding while minimising its overall costs by keeping a mix of committed and uncommitted credit lines available.

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(iii) Liquidity risk (Continued)

The table below analyses the Group's financial liabilities 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	
	2011 HK$'million	2010 HK$'million	**2011 HK$'million**	2010 HK$'million	**2011 HK$'million**	2010 HK$'million	**2011 HK$'million**	2010 HK$'million	**2011 HK$'million**	2010 HK$'million
Group										
Other financial liabilities	**6,325**	5,651	**5,227**	2,870	**11,658**	10,277	**1,825**	3,287	**25,035**	22,085
Trade creditors	**318**	418	**–**	–	**–**	–	**–**	–	**318**	418
Other payables	**3,483**	3,623	**–**	–	**–**	–	**–**	–	**3,483**	3,623
Other non-current liability	**–**	–	**–**	–	**131**	–	**3,754**	–	**3,885**	–
Loans from the ultimate holding company	**1,665**	1,815	**1,032**	49	**–**	984	**–**	–	**2,697**	2,848
Loans from an intermediate holding company	**631**	26	**–**	601	**–**	–	**–**	–	**631**	627
Amount due to an intermediate holding company	**5**	4	**–**	–	**–**	–	**–**	–	**5**	4
Amounts due to fellow subsidiaries	**82**	197	**–**	–	**–**	–	**–**	–	**82**	197
Amounts due to associates	**–**	1	**–**	–	**–**	–	**–**	–	**–**	1
Amounts due to jointly controlled entities	**–**	3	**–**	–	**–**	–	**–**	–	**–**	3
	12,509	11,738	**6,259**	3,520	**11,789**	11,261	**5,579**	3,287	**36,136**	29,806
Company										
Other financial liabilities	**10**	807	**852**	6	**–**	505	**–**	–	**862**	1,318
Other payables	**10**	18	**–**	–	**–**	–	**–**	–	**10**	18
Advances from subsidiaries	**–**	65	**90**	86	**7,123**	7,562	**2,353**	2,534	**9,566**	10,247
	20	890	**942**	92	**7,123**	8,067	**2,353**	2,534	**10,438**	11,583

The Company has provided corporate guarantees to its subsidiaries (note 33(b)).

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 the net gearing ratio. This ratio is calculated as net interest bearing debts divided by net assets attributable to the Company's equity holders.

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 2011 and 2010 were as follows:

	2011 **HK$'million**	2010 HK$'million
Interest bearing other financial liabilities (note 33)	**21,482**	18,971
Loans from the ultimate holding company (note 31)	**2,600**	2,686
Loans from an intermediate holding company (note 32)	**616**	587
Total interest bearing debts	**24,698**	22,244
Less: cash and bank balances (note 28)	**(6,811)**	(6,352)
Net interest bearing debts	**17,887**	15,892
Net assets attributable to the Company's equity holders	**43,405**	39,042
Net gearing ratio	**41.2%**	40.7%

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 2011.

	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 23)	—	—	329	329
Available-for-sale financial assets (note 23)	1,727	—	192	1,919
	1,727	—	521	2,248

The following table presents the Group's assets and liabilities that were 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 23)	—	—	382	382
Available-for-sale financial assets (note 23)	2,145	—	273	2,418
	2,145	—	655	2,800

3 Financial risk management (Continued)

3.3 Fair value estimation (Continued)

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

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

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

Specific valuation techniques used to value financial instruments include:

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

3 Financial risk management (Continued)

3.3 Fair value estimation (Continued)

The following table presents the changes in level 3 instruments for the year ended 31 December 2011:

	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 2011	**382**	**273**	**655**
Exchange adjustments	**—**	**2**	**2**
Losses recognised in other comprehensive income	**—**	**(83)**	**(83)**
Loss recognised in consolidated income statement	**(53)**	**—**	**(53)**
Closing balance as at 31 December 2011	**329**	**192**	**521**
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

Note:

One of the available-for-sale financial asset has been transferred out from level 3 to level 1 upon its listing in 2010.

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 Estimated impairment of goodwill

The Group tests, at least 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.

4.2 Estimated fair value of investment properties

The Group carries its investment properties at fair value with changes in the fair values recognised in income statement. 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.

4.3 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.

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.

	2011 HK$'million	2010 HK$'million
Ports service, transportation income, container service and container yard management income	**6,394**	5,008
Logistics services income (including rental income)	**1,414**	645
Sales of properties and goods	**1,623**	126
Gross rental income from investment properties	**39**	32
	9,470	5,811

6 Segment information

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

The CODM considers the Group's operations from both a business and geographic perspective.

From a business perspective, management assesses the performance of business operations including ports operation, bonded logistics and cold chain operations, port-related manufacturing operations and other operations. Ports operation is further evaluated on a geographic basis. Upon the extension of its ports operation in various areas, the geographic performance assessment on ports operation had been amended to be based on Pearl River Delta excluding Hong Kong ("PRD excluding HK"), Hong Kong, Yangtze River Delta and other locations.

Ports operation includes 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. Port-related manufacturing operations include 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.

Over 90% of its non-current assets are located in Mainland China and over 90% of its revenue is derived in Mainland China. There is no single customer who accounted 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 2011								
	Ports operation					Bonded logistics and cold chain operations	Port-related manufacturing operations	Other operations	Total
	PRD excluding HK HK$'million	Hong Kong HK$'million	Yangtze River Delta 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	5,647	225	—	522	6,394	1,414	407	1,255	9,470
Share of associates	168	855	5,349	429	6,801	582	20,975	609	28,967
Share of jointly controlled entities	—	21	281	1,509	1,811	—	—	725	2,536
Total	5,815	1,101	5,630	2,460	15,006	1,996	21,382	2,589	40,973

	For the year ended 31 December 2010								
	Ports operation					Bonded logistics and cold chain operations	Port-related manufacturing operations	Other operations	Total
	PRD excluding HK HK$'million	Hong Kong HK$'million	Yangtze River Delta 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

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 2011										
	Ports operation					Bonded logistics and cold chain operations	Port-related manufacturing operations	Other operations			Total
	PRD excluding HK HK$'million	Hong Kong HK$'million	Yangtze River Delta 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
Operating profit/(loss), excluding gain on deemed disposal of interest in an associate	2,678	31	26	104	2,839	495	(23)	334	(127)	207	3,518
Share of profits less losses of											
– Associates	52	339	1,421	151	1,963	75	1,195	96	–	96	3,329
– Jointly controlled entities	–	–	128	196	324	–	–	22	–	22	346
	2,730	370	1,575	451	5,126	570	1,172	452	(127)	325	7,193
Gain on deemed disposal of interest in an associate (note 7)											1,367
Finance costs – net	(85)	–	–	(80)	(165)	(144)	(17)	(86)	(462)	(548)	(874)
Taxation	(502)	(5)	(261)	(22)	(790)	(57)	(72)	(96)	–	(96)	(1,015)
Profit/(loss) for the year	2,143	365	1,314	349	4,171	369	1,083	270	(589)	(319)	6,671
Non-controlling interests	(789)	–	–	(78)	(867)	(253)	(20)	38	–	38	(1,102)
Profit/(loss) attributable to equity holders of the Company	1,354	365	1,314	271	3,304	116	1,063	308	(589)	(281)	5,569
Other information:											
Depreciation and amortisation	895	8	–	186	1,089	225	13	80	5	85	1,412
Capital expenditure	996	7	–	1,351	2,354	860	48	75	3	78	3,340

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 2010										
	Ports operation					Bonded logistics and cold chain operations	Port-related manufacturing operations	Other operations			Total
	PRD excluding HK HK$'million	Hong Kong HK$'million	Yangtze River Delta 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
Operating profit/(loss), excluding 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	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:											
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 assets and liabilities by segments is as follows:

	As at 31 December 2011										
	Ports operation					Bonded logistics and cold chain operations	Port-related manufacturing operations	Other operations			Total
	PRD excluding HK HK$'million	Hong Kong HK$'million	Yangtze River Delta 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)	22,932	199	1,719	5,275	30,125	9,646	1,029	12,173	1,543	13,716	54,516
Interests in associates	1,137	1,755	13,967	1,128	17,987	824	7,836	747	–	747	27,394
Interests in jointly controlled entities	–	4	833	4,010	4,847	–	–	191	–	191	5,038
Total segment assets	24,069	1,958	16,519	10,413	52,959	10,470	8,865	13,111	1,543	14,654	86,948
Tax recoverable											2
Deferred tax assets											136
Total assets											87,086
Segment liabilities	(4,882)	(40)	–	(3,450)	(8,372)	(4,345)	(744)	(6,825)	(9,377)	(16,202)	(29,663)
Taxation payable											(312)
Deferred tax liabilities											(2,351)
Total liabilities											(32,326)

6 Segment information (Continued)

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

	As at 31 December 2010										
	Ports operation					Bonded logistics and cold chain operations	Port-related manufacturing operations	Other operations			Total
	PRD excluding HK HK$'million	Hong Kong HK$'million	Yangtze River Delta 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)

7 Other gains, net and other income

	2011 HK$'million	2010 HK$'million
Other gains, net		
Increase in fair value of investment properties (note 18)	**445**	331
Gain on deemed disposal of interest in an associate (note 21(d))	**1,367**	—
Decrease in fair value of financial assets at fair value through profit or loss (note 23(c))	**(53)**	—
Loss on disposal of interests in associates	**(2)**	—
Gain on remeasurement of previously held interest upon step acquisition of subsidiaries (note 39(a))	**—**	1,378
Reversal of provision for terminal construction cost	**—**	57
Gain on disposal of land use rights and property, plant and equipment	**3**	130
Net exchange gains	**189**	79
	1,949	1,975
Other income		
Income from held-to-maturity investments	**—**	1
Dividend income from available-for-sale financial assets		
– Listed equity investments	**21**	102
– Unlisted equity investments	**20**	12
Dividend income from financial assets at fair value through profit or loss	**30**	—
Others	**37**	24
	108	139

8 Expenses by nature

	2011 HK$'million	2010 HK$'million
Cost of inventories (including cost of properties sold)	**1,071**	125
Staff costs (including Directors' emoluments) (note 9)	**1,482**	894
Depreciation of property, plant and equipment	**1,155**	887
Amortisation of intangible assets and land use rights	**257**	131
Auditors' remuneration	**22**	14
Fuel and utilities	**642**	373
Sub-contracting fees	**915**	544
Operating lease rentals in respect of		
– land and buildings	**128**	102
– plant and machinery	**14**	29
Transportation and delivery	**121**	107
Other expenses	**835**	530
Total cost of sales, distribution costs and administrative expenses	**6,642**	3,736

9 Staff costs (including Directors' emoluments)

	2011 HK$'million	2010 HK$'million
Wages and salaries	**1,289**	808
Retirement benefit scheme contributions (note)	**193**	86
	1,482	894

Note:

No forfeiture was utilised during 2011 (2010: nil), 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$'million	Share based payment HK$'million	Employer's contribution to pension scheme HK$'million	2011 Total HK$'million	2010 Total HK$'million
Fu Yuning	—	—	—	—	—	**—**	—
Li Jianhong	—	—	—	—	—	**—**	—
Li Yinquan	—	—	—	1.17	—	**1.17**	—
Hu Zheng	—	—	—	—	—	**—**	—
Meng Xi	—	—	—	—	—	**—**	—
Su Xingang	—	—	—	—	—	**—**	—
Yu Liming	—	—	0.36	—	—	**0.36**	—
Hu Jianhua	—	1.31	1.34	—	0.11	**2.76**	2.13
Wang Hong	—	—	0.18	—	—	**0.18**	0.02
Liu Yunshu (note (a))	—	1.00	1.07	—	0.07	**2.14**	1.51
Tsang Kam Lam (note (b))	—	—	—	—	—	**—**	0.16
Kut Ying Hay	0.21	—	—	—	—	**0.21**	0.16
Lee Yip Wah Peter	0.21	—	—	—	—	**0.21**	0.16
Li Kwok Heem John	0.21	—	—	—	—	**0.21**	0.16
Li Ka Fai David	0.21	—	—	—	—	**0.21**	0.16
Bong Shu Ying Francis	0.21	—	—	—	—	**0.21**	0.16
Total for the year 2011	1.05	2.31	2.95	1.17	0.18	**7.66**	
Total for the year 2010	0.96	1.48	2.07	—	0.11		4.62

No Director waived emoluments in respect of the years ended 31 December 2011 and 2010.

Notes:

(a) Resigned on 10 February 2012

(b) Passed away on 26 June 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, two (2010: one) are Directors of the Company whose emoluments are included in note 10(a) to the financial statements above. The total emoluments of the remaining three (2010: four) individuals are as follows:

	2011 HK$'million	2010 HK$'million
Salaries, other allowances and benefit-in-kinds	**4**	4
Performance related incentive payments	**3**	4
	7	8

The emoluments fell within the following bands:

	Number of individuals	
	2011	2010
HK$1,500,001 - HK$2,000,000	**—**	2
HK$2,000,001 - HK$2,500,000	**2**	2
HK$2,500,001 - HK$3,000,000	**1**	—
	3	4

11 Finance income and costs

	2011 HK$'million	2010 HK$'million
Interest income on:		
Bank deposits	**183**	112
Advance to a non-controlling equity holder of a subsidiary	**4**	—
Finance income	**187**	112
Interest expense on:		
Bank borrowings		
– wholly repayable within five years	**(463)**	(185)
– not wholly repayable within five years	**(19)**	(38)
Listed notes payable		
– wholly repayable within five years	**(359)**	(358)
– not wholly repayable within five years	**(113)**	(113)
Unlisted notes payable		
– wholly repayable within five years	**(53)**	—
Loan from a non-controlling equity holder of a subsidiary	**(1)**	—
Loans from the ultimate holding company	**(114)**	(100)
Loans from an intermediate holding company	**(26)**	(31)
Total borrowing costs incurred	**(1,148)**	(825)
Less: amount capitalised on qualifying assets (note)	**87**	72
Finance costs	**(1,061)**	(753)
Finance costs – net	**(874)**	(641)

Note:

Capitalisation rate of 5.64% per annum (2010: 4.765% per annum) was used, representing the weighted average rate of the costs of borrowings used to finance the qualifying assets.

12 Taxation

Hong Kong profits tax has been provided for at the rate of 16.5% (2010: 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 22% and 24% in 2010 and 2011 respectively whereas 25% standard rate will be applied from year 2012 onwards. Certain of the Group's subsidiaries are 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. Further, 10% withholding income tax is generally imposed on dividends relating to any profits earned commencing from 2008 to foreign investors, while for some investments held by companies incorporated in certain places, including Hong Kong and Singapore, preferential rate of 5% will be applied.

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

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

	2011 HK$'million	2010 HK$'million
Hong Kong profits tax	**7**	5
PRC corporate income tax	**569**	323
PRC withholding income tax	**209**	128
Deferred taxation	**86**	102
Deferred taxation on PRC withholding income tax arising from change in tax rate (note)	**144**	—
	1,015	558

Note:

Upon deemed disposal of interest in an associate as disclosed in note 21(d), the Group is no longer entitled to 5% preferential rate on its dividend receivable from the associate and accordingly an additional amount of HK$144 million deferred taxation is provided for the unremitted earnings of this investment.

12 Taxation (Continued)

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

	2011 **HK$'million**	2010 HK$'million
Profit before taxation (excluding share of profits of associates and jointly controlled entities)	**4,011**	3,548
Expected tax calculated at the weighted average applicable tax rate	**867**	775
Income not subject to taxation	**(367)**	(524)
Expenses not deductible for taxation purposes	**110**	100
Tax losses for which no deferred income tax asset was recognised	**19**	4
Utilisation of previously unrecognised tax losses	**(14)**	(15)
Withholding tax on unremitted earnings of subsidiaries, associates and jointly controlled entities in Mainland China	**400**	218
Taxation charge	**1,015**	558

The weighted average applicable tax rate was 21.6% (2010: 21.8%).

13 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$1,519 million (2010: HK$2,903 million).

14 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.

	2011	2010
Basic		
Profit attributable to equity holders of the Company (HK$'million)	**5,569**	5,876
Weighted average number of ordinary shares in issue	**2,474,154,494**	2,457,060,786
Basic earnings per share (HK cents)	**225.12**	239.13

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.

	2011	2010
Diluted		
Profit attributable to equity holders of the Company (HK$'million)	**5,569**	5,876
Weighted average number of ordinary shares in issue	**2,474,154,494**	2,457,060,786
Adjustment for share options	**6,098,348**	6,265,867
Weighted average number of ordinary shares for diluted earnings per share	**2,480,252,842**	2,463,326,653
Diluted earnings per share (HK cents)	**224.56**	238.52

15 Dividends

	2011 HK$'million	2010 HK$'million
Interim, paid, of 30 HK cents (2010: 25 HK cents) per share	**741**	610
Final, proposed, of 68 HK cents (2010: 78 HK cents) per share	**1,683**	1,918
	2,424	2,528

At a meeting held on 29 March 2012, the Board of Directors proposed a final dividend of 68 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 2011 was based on 2,474,491,236 (2010: 2,458,698,459) shares in issue as at 29 March 2012.

16 Intangible assets

	Goodwill HK$'million	Trademarks HK$'million	Contractual customer relationships HK$'million	Port operating rights HK$'million	Total HK$'million
As at 1 January 2011	**3,298**	**6**	**85**	**—**	**3,389**
Exchange difference	**40**	**—**	**4**	**27**	**71**
Addition (note 34)	**—**	**—**	**—**	**1,138**	**1,138**
Amortisation (note (a))	**—**	**—**	**(7)**	**—**	**(7)**
As at 31 December 2011	**3,338**	**6**	**82**	**1,165**	**4,591**
As at 31 December 2011					
Cost	**3,338**	**6**	**90**	**1,165**	**4,599**
Accumulated amortisation	**—**	**—**	**(8)**	**—**	**(8)**
Net book value	**3,338**	**6**	**82**	**1,165**	**4,591**
As at 1 January 2010	2,513	—	—	—	2,513
Exchange difference	19	—	—	—	19
Step acquisition of subsidiaries (note 39(a))	485	—	—	—	485
Acquisition of subsidiaries (note (39(b))	281	6	86	—	373
Amortisation	—	—	(1)	—	(1)
As at 31 December 2010	3,298	6	85	—	3,389
As at 31 December 2010					
Cost	3,298	6	86	—	3,390
Accumulated amortisation	—	—	(1)	—	(1)
Net book value	3,298	6	85	—	3,389

16 Intangible assets (Continued)

Notes:

(a) Amortisation of HK$7 million (2010: HK$1 million) is included in 'administrative expenses' 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:

	2011 HK$'million	2010 HK$'million
Ports operation		
– PRD excluding HK	**2,927**	2,904
– Hong Kong	**52**	52
– Other locations	**10**	10
Bonded logistics and cold chain operations	**349**	332
	3,338	3,298

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)**	
	2011	2010	**2011**	2010
Ports operation				
– PRD excluding HK	**5%**	5%	**9.35% to 11.34%**	10.20% to 11.00%
– Hong Kong	**5%**	5%	**9.35%**	10.20%
– Other locations	**5%**	5%	**9.35%**	10.20%
Bonded logistics and cold chain operations	**5%**	5%	**9.35%**	10.20%

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 2011, there is no impairment of any of its CGUs or group of CGUs containing goodwill with indefinite useful lives (2010: nil).

17 Property, plant and equipment

	Group						Company
	Land and buildings HK$'million	Harbour works, buildings and dockyard HK$'million	Plant, machinery, furniture and equipment HK$'million	Others HK$'million	Assets under construction HK$'million	Total HK$'million	Furniture and equipment and motor vehicles HK$'million
As at 1 January 2011	502	8,880	5,621	1,034	798	16,835	—
Exchange adjustments	12	323	191	52	71	649	—
Additions	4	10	55	118	1,817	2,004	3
Disposals	—	(46)	(8)	(2)	—	(56)	—
Transfer	13	139	240	125	(517)	—	—
Transfer to investment properties	—	(6)	—	—	—	(6)	—
Depreciation	(25)	(405)	(583)	(142)	—	(1,155)	—
Impairment	—	—	(2)	—	—	(2)	—
As at 31 December 2011	506	8,895	5,514	1,185	2,169	18,269	3
As at 31 December 2011							
Cost	698	11,746	9,609	2,039	2,169	26,261	10
Accumulated depreciation and impairment	(192)	(2,851)	(4,095)	(854)	—	(7,992)	(7)
Net book value	506	8,895	5,514	1,185	2,169	18,269	3

17 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
As at 1 January 2010	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)	—
As at 31 December 2010	502	8,880	5,621	1,034	798	16,835	—
As 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	—

17 Property, plant and equipment (Continued)

Notes:

(a) Included in assets under construction is capitalised interest of approximately HK$22 million (2010: HK$5 million).

(b) At 31 December 2011, plant, machinery, furniture and equipment with net book value of HK$190 million (2010: HK$71 million) were pledged as security for the Group's bank borrowings (note 33(a)).

(c) Others comprise vessels and ships, motor vehicles and leasehold improvements with net book values of HK$423 million (2010: HK$391 million), HK$239 million (2010: HK$201 million) and HK$184 million (2010: HK$189 million) respectively as at 31 December 2011.

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

	2011 HK$'million	2010 HK$'million
Cost of sales	**1,102**	851
Administrative expenses	**53**	36
	1,155	887

(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**	
	2011 HK$'million	2010 HK$'million	**2011 HK$'million**	2010 HK$'million
Land and buildings in Hong Kong, held on leases of between 10 to 50 years	**192**	197	**—**	—
Buildings outside Hong Kong, held on leases of between 10 to 50 years	**314**	305	**8,895**	8,880
	506	502	**8,895**	8,880

18 Investment properties

	2011 HK$'million	2010 HK$'million
As at 1 January	**3,662**	919
Exchange adjustments	**134**	71
Addition	**93**	—
Step acquisition of subsidiaries (note 39(a))	**—**	2,423
Transfer from/(to) property, plant and equipment (note 17)	**6**	(82)
Increase in fair value (note 7)	**445**	331
As at 31 December	**4,340**	3,662

Notes:

(a) The investment properties were revalued at 31 December 2011 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 Shenzhen Yongxin Ruihe Asset Evaluation Co., Ltd.

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

	2011 HK$'million	2010 HK$'million
Hong Kong	**1,373**	1,054
Mainland China	**2,967**	2,608
	4,340	3,662

(c) At 31 December 2011, investment properties with net book value of HK$102 million (2010: nil) were pledged as security for the Group's bank borrowings (note 33(a)).

19 Land use rights

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

	2011 HK$'million	2010 HK$'million
As at 1 January	**9,683**	6,893
Exchange adjustments	**374**	237
Additions	**—**	33
Step acquisition of subsidiaries (note 39(a))	**—**	2,750
Acquisition of subsidiaries (note 39(b))	**—**	21
Disposals	**—**	(121)
Transfer from prepayment	**76**	—
Amortisation	**(250)**	(130)
As at 31 December	**9,883**	9,683

Notes:

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

(b) At 31 December 2010, land use right with net book value of HK$558 million was pledged as security for the Group's bank borrowings.

20 Interests in subsidiaries

	Company	
	2011 HK$'million	2010 HK$'million
Unlisted shares, at cost	**8,615**	8,679
Advances to subsidiaries – non-current portion (note (a))		
– interest free	**19,032**	19,529
– interest bearing	**411**	443
	28,058	28,651
Advances to subsidiaries – current portion (note (b))	**297**	77
Advances from subsidiaries – non-current portion (note (c))		
– interest free	**566**	567
– interest bearing	**6,947**	6,921
	7,513	7,488
Advances from subsidiaries – current portion (note (d))	**—**	65

Notes:

(a) The non-current advances to subsidiaries of HK$19,032 million (2010: HK$19,529 million) are unsecured, interest free, without fixed repayment terms. The amount of HK$411 million (2010: HK$443 million) is unsecured, interest bearing at an effective interest rate of 1.46% to 1.66% per annum (2010: 1.53% to 1.81% per annum) and without fixed repayment terms.

(b) As at 31 December 2011, the current advances to subsidiaries are unsecured, interest bearing at an effective interest rate of 1.88% per annum (2010: 1.21% per annum) and repayable on demand.

(c) The non-current advances from subsidiaries of HK$6,947 million (2010: HK$6,921 million) is unsecured, interest bearing at 7.25% (2010: 7.25%) and without fixed repayment terms. The amount of HK$566 million (2010: HK$567 million) is unsecured, interest free and without fixed repayment terms.

(d) The current advances from subsidiaries are unsecured, interest free and repayable on demand.

(e) Particulars of the Group's principal subsidiaries at 31 December 2011 are set out in note 42 to the financial statements.

21 Interests in associates

	2011 HK$'million	2010 HK$'million
Share of net assets of (note (a)):		
Listed associates	**20,922**	17,098
Unlisted associates	**5,115**	5,257
	26,037	22,355
Goodwill (note (b)):		
Listed associates	**881**	802
Unlisted associates	**161**	140
	1,042	942
Advance to an associate (note (c))	**315**	404
Total	**27,394**	23,701
Market value of listed associates	**25,591**	39,766

Notes:

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

	2011 HK$'million	2010 HK$'million
As at 1 January	**22,355**	18,208
Exchange adjustments	**1,031**	764
Acquisition upon step acquisition of subsidiaries (note 39(a))	**—**	1,744
Acquisitions of additional interests in associates	**130**	30
Acquisitions of associates	**112**	2,075
Disposals upon step acquisition of subsidiaries	**—**	(2,379)
Disposals of associates	**(92)**	—
Gain on deemed disposal of an associate	**1,374**	—
Share of profits less losses	**3,329**	3,366
Share of investment revaluation reserves	**(79)**	(156)
Share of capital reserve	**(21)**	(66)
Share of net actuarial losses on defined benefit plans of associates	**(18)**	(17)
Dividends received and receivable	**(2,084)**	(1,214)
As at 31 December	**26,037**	22,355

21 Interests in associates (Continued)

Notes: (Continued)

(b) Movement of goodwill during the year:

	2011 HK$'million	2010 HK$'million
As at 1 January	**942**	579
Exchange adjustments	**40**	22
Step acquisition of subsidiaries (note 39(a))	**—**	325
Acquisition of an associate (note (f))	**19**	—
Acquisition of additional interest in associates	**48**	16
Deemed disposal of an associate	**(7)**	—
As at 31 December	**1,042**	942

(c) Movement of advance to an associate during the year:

	2011 HK$'million	2010 HK$'million
As at 1 January	**404**	—
Exchange adjustments	**18**	—
Step acquisition of subsidiaries (note 39(a))	**—**	404
Repayment from an associate	**(107)**	—
As at 31 December	**315**	404

The balance is unsecured, interest bearing at 5.81% and without fixed repayment terms.

(d) Deemed disposal of interest in Shanghai International Port (Group) Co., Ltd.

On 27 October 2010, Shanghai International Port (Group) Co., Ltd. ("SIPG"), an associate of the Group, entered into certain agreements to acquire the entire equity interests of 上海同盛洋東港資產管理有限公司 (Shanghai Tongsheng Yangdong Asset Management Co., Ltd., being an unofficial English name) and 上海同盛洋西港資產管理有限公司 (Shanghai Tongsheng Yangxi Asset Management Co., Ltd., being an unofficial English name), which held the ports assets in Yangshan Ports Phase II and Phase III respectively, from 上海同盛投資(集團)有限公司 (Shanghai Tongsheng Investment (Group) Co., Ltd., being an unofficial English name) at a consideration of approximately HK$9,310 million. This consideration was satisfied by the issuance of 1,764,379,518 ordinary shares of SIPG on 8 April 2011. Consequentially, the Group's interest in SIPG has been diluted from 26.539% to 24.48%, resulting in a gain on deemed disposal of HK$1,367 million (note 7).

(e) 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.

21 Interests in associates (Continued)

Notes: (Continued)

(f) Acquisition of 20% equity interest in Chu Kong River Trade Terminal Co., Ltd.

On 1 February 2011, the Group acquired 20% equity interest in Chu Kong River Trade Terminal Co., Ltd. ("CKRTT") for a cash consideration of HK$131 million. The principal activity of CKRTT is shuttle-barge ports operations in the Pearl River Delta region. The fair value of the underlying assets less assumed liabilities as at 1 February 2011 is HK$112 million and a goodwill of HK$19 million has been recognised. The Group accounted for its investment in CKRTT as an interest in an associate as the Directors consider the Group has significant influence over CKRTT.

(g) 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:

	2011				2010			
	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	**19,307**	**5,349**	**4,311**	**28,967**	14,828	4,500	3,682	23,010
Net interest expenses	**(135)**	**(194)**	**(73)**	**(402)**	(112)	(119)	(64)	(295)
Depreciation and amortisation	**(324)**	**(620)**	**(337)**	**(1,281)**	(392)	(440)	(337)	(1,169)
Profit for the year	**1,121**	**1,421**	**787**	**3,329**	864	1,590	912	3,366
Non-current assets	**7,443**	**19,530**	**9,925**	**36,898**	5,975	13,084	9,203	28,262
Current assets	**12,829**	**4,332**	**4,035**	**21,196**	9,928	6,048	3,084	19,060
Current liabilities	**(9,840)**	**(4,166)**	**(3,036)**	**(17,042)**	(8,806)	(5,569)	(2,394)	(16,769)
Non-current liabilities and non-controlling interests	**(4,565)**	**(5,815)**	**(4,642)**	**(15,022)**	(2,332)	(2,323)	(3,543)	(8,198)
Net assets attributable to the Group	**5,867**	**13,881**	**6,282**	**26,030**	4,765	11,240	6,350	22,355

(h) Particulars of the Group's principal associates at 31 December 2011 are set out in note 43 to the financial statements.

22 Interests in jointly controlled entities

	2011 HK$'million	2010 HK$'million
Share of net assets of jointly controlled entities (note (a))	**4,983**	4,537
Goodwill (note (b))	**55**	52
	5,038	4,589

Notes:

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

	2011 HK$'million	2010 HK$'million
As at 1 January	**4,537**	2,692
Exchange adjustments	**228**	135
Capital contribution (note (d))	**—**	1,347
Acquisitions upon step acquisition of subsidiaries (note 39(a))	**—**	165
Disposal upon step acquisition of subsidiaries (note 39(a))	**—**	(25)
Share of profits less losses	**346**	324
Share of investment revaluation reserve	**—**	3
Share of capital reserve	**45**	—
Dividends received and receivable	**(173)**	(104)
As at 31 December	**4,983**	4,537

(b) Movement of goodwill during the year:

	2011 HK$'million	2010 HK$'million
As at 1 January	**52**	50
Exchange adjustments	**3**	2
As at 31 December	**55**	52

22 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:

	2011 HK$'million	2010 HK$'million
Revenue	**2,536**	1,776
Net interest expenses	**(93)**	(69)
Depreciation and amortisation	**(296)**	(232)
Profit for the year	**346**	324
Non-current assets	**8,517**	8,084
Current assets	**2,498**	1,697
Current liabilities	**(3,664)**	(3,023)
Non-current liabilities and non-controlling interests	**(2,368)**	(2,221)
Net assets attributable to the Group	**4,983**	4,537

(d) Establishment of jointly controlled entities in Qingdao

On 18 December 2009, the Group entered into a joint venture agreement with Qingdao New Qianwan Container Terminal Co., Ltd. ("QQCTN") to establish a joint venture, Qingdao Qianwan United Container Terminal Co., Ltd. ("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.

The Group has accounted for its investments in QQCTU and QQTU as interests in jointly controlled entities. During 2010, the Group has injected a total of HK$1,347 million into QQCTU and QQTU by means of cash contribution and asset injection.

(e) Particulars of the Group's jointly controlled entities at 31 December 2011 are set out in note 44 to the financial statements.

23 Other financial assets

	2011 HK$'million	2010 HK$'million
Non-current assets		
Available-for-sale financial assets (note (a))	**1,919**	2,418
Current assets		
Held-to-maturity investments (note (b))	**634**	—
Financial asset at fair value through profit or loss (note (c))	**329**	382
	963	382

Notes:

(a) Available-for-sale financial assets

	2011 HK$'million	2010 HK$'million
Listed equity investments in Mainland China	**1,727**	2,145
Unlisted equity investments in Mainland China	**192**	273
	1,919	2,418

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

	2011 HK$'million	2010 HK$'million
As at 1 January	**2,418**	2,835
Exchange adjustments	**4**	2
Acquisition upon step acquisition of subsidiaries (note 39(a))	**—**	22
Net change in fair value transferred to equity	**(503)**	182
Disposal upon step acquisition of subsidiaries	**—**	(623)
As at 31 December	**1,919**	2,418

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

23 Other financial assets (Continued)

Notes: (Continued)

(b) Held-to-maturity investments

It represents unlisted short-term notes receivable issued by financial institutions in Mainland China. The notes receivable bear interest rate of 5.97% per annum to 6.5% per annum, with maturity dates range from 75 days to 122 days.

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

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

	2011 **HK$'million**	2010 HK$'million
Unlisted convertible preference shares in United States	**329**	382

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

	2011 **HK$'million**	2010 HK$'million
As at 1 January	**382**	—
Addition (note 41(b))	**—**	382
Revaluation loss (note 7)	**(53)**	—
As at 31 December	**329**	382

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

24 Prepayments

	2011 **HK$'million**	2010 HK$'million
Prepayments for the purchase of land use rights	**319**	303
Others	**25**	39
	344	342

25 Inventories

	2011 HK$'million	2010 HK$'million
Raw materials	**116**	79
Spare parts and consumables	**124**	80
	240	159

26 Properties under development and held for sale

	2011 HK$'million	2010 HK$'million
As at 1 January	**2,241**	—
Exchange adjustments	**157**	29
Step acquisition of subsidiaries (note 39(a))	**—**	1,148
Additions	**1,766**	1,339
Transfer from prepayment	**899**	—
Properties sold	**(683)**	(275)
As at 31 December	**4,380**	2,241

	2011 HK$'million	2010 HK$'million
Land use rights in Mainland China	**3,601**	1,514
Interest capitalised	**244**	165
Construction costs	**472**	510
Properties under development for sale	**4,317**	2,189
Completed properties held for sale	**63**	52
	4,380	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$4,317 million (2010: HK$2,189 million) is expected to be recovered after more than one year. The completed properties held for sale of HK$63 million (2010: HK$52 million) is expected to be recovered within one year.

27 Debtors, deposits and prepayments

	Group		Company	
	2011 HK$'million	2010 HK$'million	**2011 HK$'million**	2010 HK$'million
Trade debtors	**1,242**	1,003	**—**	—
Less: provision for impairment of receivables (note (a))	**(38)**	(33)	**—**	—
Trade debtors, net (note (c))	**1,204**	970	**—**	—
Amounts due from fellow subsidiaries (note (f))	**5**	3	**—**	—
Amounts due from associates (note (f))	**206**	70	**—**	—
Amounts due from jointly controlled entities (note (f))	**649**	611	**—**	—
Amount due from a non-controlling equity holder (note (g))	**—**	479	**—**	479
Dividend receivable from associates and a jointly controlled entity	**102**	148	**—**	—
	2,166	2,281	**—**	479
Prepayment for land use rights for property development	**—**	876	**—**	—
Other debtors, deposits and prepayments	**610**	1,327	**3**	4
	2,776	4,484	**3**	483

27 Debtors, deposits and prepayments (Continued)

Notes:

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

	2011 HK$'million	2010 HK$'million
As at 1 January	**33**	25
Provision for impairment of receivables	**5**	15
Reversal of provision	**(1)**	(4)
Receivables written off for the year	**—**	(3)
Exchange adjustment	**1**	—
As at 31 December	**38**	33

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) Bills receivable of HK$35 million (2010: HK$101 million) are included in trade debtors as at 31 December 2011.

(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:

	2011 HK$'million	2010 HK$'million
Not yet due	**266**	558
Days overdue		
– 1 - 90 days	**733**	330
– 91 - 180 days	**44**	45
– 181 - 365 days	**140**	21
– Over 365 days	**21**	16
	1,204	970

27 Debtors, deposits and prepayments (Continued)

Notes: (Continued)

(d) As at 31 December 2011, trade debtors of HK$465 million (2010: HK$628 million) and balances with group companies of HK$962 million (2010: HK$1,311 million) were neither past due nor impaired and were fully performing.

(e) As at 31 December 2011, trade debtors of HK$777 million (2010: HK$375 million) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, and overdue amounts can be recovered. The ageing analysis of these trade debtors is as follows:

	2011 HK$'million	2010 HK$'million
1 to 90 days	**733**	330
91 to 180 days	**44**	45
	777	375

Trade debtors of HK$199 million (2010: HK$70 million) have indication of impairment, in which provision of HK$38 million (2010: HK$33 million) has been made as at 31 December 2011. 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.

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

	Group		**Company**	
	2011 HK$'million	2010 HK$'million	**2011 HK$'million**	2010 HK$'million
Hong Kong dollar	**146**	83	**—**	—
Renminbi	**1,918**	1,692	**—**	—
United States dollar	**102**	506	**—**	479
	2,166	2,281	**—**	479

(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.

28 Cash and bank balances

	Group		Company	
	2011	2010	**2011**	2010
	HK$'million	HK$'million	**HK$'million**	HK$'million
Cash at bank and in hand	**4,582**	3,804	**198**	125
Short-term bank deposits with maturity less than three months	**1,938**	2,548	**925**	1,356
Short-term bank deposits with maturity more than three months	**291**	—	**—**	—
	6,811	6,352	**1,123**	1,481

The weighted average effective interest rate on time deposits as at year end was approximately 2.33% (2010: 1.64%) per annum. These deposits had an average maturity period of 63 days (2010: 86 days).

Cash and bank balances are denominated in the following currencies:

	Group		Company	
	2011	2010	**2011**	2010
	HK$'million	HK$'million	**HK$'million**	HK$'million
Hong Kong dollar	**1,488**	1,966	**844**	1,316
Renminbi	**5,054**	4,132	**200**	31
United States dollar	**246**	230	**56**	111
Other currencies	**23**	24	**23**	23
	6,811	6,352	**1,123**	1,481

28 Cash and bank balances (Continued)

Cash and cash equivalents include the following for the purposes of the consolidated statement of cash flows:

	Group		Company	
	2011 HK$'million	2010 HK$'million	**2011 HK$'million**	2010 HK$'million
Cash and bank balances	**6,811**	6,352	**1,123**	1,481
Less: Bank deposits with maturity more than three months	**(291)**	—	**—**	—
	6,520	6,352	**1,123**	1,481

29 Share capital

	Company			
	Number of shares		Share capital	
	2011	2010	**2011 HK$'million**	2010 HK$'million
Ordinary shares of HK$0.1 each				
Authorised:				
As 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:				
As at 1 January	**2,458,027,459**	2,432,749,023	**246**	243
Issue of shares on exercise of share options (note (a))	**1,441,000**	1,659,000	**—**	—
Issue of scrip dividend shares (note (b))	**14,942,777**	23,619,436	**1**	3
As at 31 December	**2,474,411,236**	2,458,027,459	**247**	246

29 Share capital (Continued)

Notes:

(a) During the year, 1,441,000 shares (2010: 1,659,000 shares) were issued upon exercise of share options. Total proceeds were HK$30 million (2010: HK$33 million).

The weighted average share price at the time of exercise was HK$34.06 (2010: HK$29.46) 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
2010 final dividend	16 June 2011	11,983,224	1	340	341
2011 interim dividend	**21 October 2011**	**2,959,553**	**—**	**71**	**71**
2011 Total		**14,942,777**	**1**	**411**	**412**
2010 Total		23,619,436	3	653	656

29 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:

	2011		2010	
	Weighted average exercise price HK$	**Number of share options**	Weighted average exercise price HK$	Number of share options
As at 1 January	**21.93**	**28,598,000**	21.84	30,393,000
Exercised	**20.71**	**(1,441,000)**	20.30	(1,659,000)
Lapsed	**—**	**—**	23.03	(136,000)
As at 31 December	**21.99**	**27,157,000**	21.93	28,598,000

All share options were exercisable as at 31 December 2011. Share options outstanding at 31 December 2011 have the following expiry dates and exercise prices:

		Share options	
		2011	2010
Year of expiry	Exercise price HK$	**Number of share options**	Number of share options
2014	11.08	**2,330,000**	2,610,000
2016	23.03	**24,677,000**	25,838,000
2016	20.91	**150,000**	150,000
		27,157,000	28,598,000

30 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
As at 1 January 2011	190	(478)	1,746	3,888	1,185	6,531
Purchase of additional interest in subsidiaries from non-controlling equity holders	—	(75)	—	—	—	(75)
Capital contribution to a subsidiary	—	6	—	—	—	6
Share of reserves of associates (note 21(a))	—	(21)	(79)	—	—	(100)
Share of reserves of a jointly controlled entity (note 22(a))	—	45	—	—	—	45
Exchange adjustments	—	—	—	1,607	—	1,607
Decrease in fair value of available-for-sale financial assets, net of deferred taxation	—	—	(453)	—	—	(453)
Transfer from retained earnings	—	—	—	—	183	183
As at 31 December 2011	190	(523)	1,214	5,495	1,368	7,744

30 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
As 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 21(a))	—	(66)	(156)	—	—	(222)
Share of reserves of a jointly controlled entity (note 22(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
As at 31 December 2010	190	(478)	1,746	3,888	1,185	6,531

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.

30 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**
As at 1 January 2011	**15,085**	**190**	**2,340**	**3,916**	**21,531**
Issue of shares on exercise of share options, net of share issue expenses of HK$0.1 million	**30**	**—**	**—**	**—**	**30**
Profit for the year	**—**	**—**	**—**	**1,519**	**1,519**
Dividends paid (note 29(b))	**411**	**—**	**—**	**(2,660)**	**(2,249)**
As at 31 December 2011	**15,526**	**190**	**2,340**	**2,775**	**20,831**
Representing:					
Reserves				**1,092**	
Proposed dividend				**1,683**	
				2,775	
As 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 29(b))	653	—	—	(1,389)	(736)
As at 31 December 2010	15,085	190	2,340	3,916	21,531
Representing:					
Reserves				1,998	
Proposed dividend				1,918	
				3,916	

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.

31 Loans from the ultimate holding company

The loans from the ultimate holding company are unsecured, interest bearing at annual rates of 2.72% to 5.2% (2010: 2.92% to 5.2%) and are denominated in the following currencies:

	2011 HK$'million	2010 HK$'million
Hong Kong dollar	**100**	—
Renminbi	**2,500**	2,686
	2,600	2,686

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

	2011 HK$'million	2010 HK$'million
Within 1 year	**1,615**	1,748
Between 1 and 2 years	**985**	—
Between 2 and 5 years	**—**	938
	2,600	2,686

32 Loans from an intermediate holding company

The loans from an intermediate holding company are unsecured, interest bearing at annual rate of 4.35% (2010: 4.35%) and are denominated in Renminbi.

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

	2011 HK$'million	2010 HK$'million
Within 1 year	**616**	—
Between 2 and 5 years	**—**	587
	616	587

33 Other financial liabilities

	Group		Company	
	2011 HK$'million	2010 HK$'million	**2011 HK$'million**	2010 HK$'million
Short-term bank loans				
- unsecured	**3,200**	3,812	**—**	800
- secured (note (a))	**79**	136	**—**	—
Long-term bank loans, wholly repayable within five years				
- unsecured	**7,157**	5,559	**847**	497
- secured (note (a))	**106**	315	**—**	—
Unsecured long-term bank loans, not wholly repayable within five years	**—**	1,410	**—**	—
Secured long-term bank loans, not wholly repayable within five years (note (a))	**106**	—	**—**	—
	10,648	11,232	**847**	1,297
Loan from non-controlling equity holders of subsidiaries (note (c))	**40**	28	**—**	—
Notes payable (note (d))				
- US$300 million, 6.125% guaranteed listed notes maturing in 2013	**2,325**	2,324	**—**	—
- US$500 million, 5.375% guaranteed listed notes maturing in 2015	**3,877**	3,879	**—**	—
- US$200 million, 7.125% guaranteed listed notes maturing in 2018	**1,536**	1,536	**—**	—
- RMB1,800 million, 6.65% unlisted notes maturing in 2016	**2,220**	—	**—**	—
- RMB700 million, 6.13% unlisted notes maturing in 2016	**864**	—	**—**	—
Total	**21,510**	18,999	**847**	1,297
Less: amounts due within one year included under current liabilities	**(5,279)**	(4,855)	**—**	(800)
Non-current portion	**16,231**	14,144	**847**	497

33 Other financial liabilities (Continued)

Notes:

(a) At 31 December 2011, the following assets are pledged against the Group's secured bank loans:

	2011 HK$'million	2010 HK$'million
Property, plant and equipment	**190**	71
Land use right	**—**	558
Investment properties	**102**	—

(b) Bank borrowings drawn and listed notes issued by subsidiaries of the Group of HK$8,387 million (2010: HK$8,389 million) are secured by corporate guarantees provided by the Company.

(c) Loan from non-controlling equity holders of subsidiaries are unsecured, interest free and are repayable on demand except for a loan amount of HK$ 12 million (2010: nil) which bears an interest at annual rate of 7.54%.

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

	2011	2010
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%
RMB1,800 million, 6.65% unlisted notes maturing in 2016	**6.76%**	—
RMB700 million, 6.13% unlisted notes maturing in 2016	**6.19%**	—

(e) As at 31 December 2011, the Group has undrawn bank loan facilities amounting to HK$26,285 million (2010: HK$27,045 million), out of which HK$25,333 million (2010: HK$25,995 million) and HK$952 million (2010: HK$1,050 million) are committed and uncommitted credit facilities respectively.

33 Other financial liabilities (Continued)

Notes: (Continued)

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

	Group									
	Bank borrowings		Listed notes payable		Unlisted notes payable		Loan from non-controlling interests of subsidiaries		Total	
	2011 HK$'million	2010 HK$'million	**2011 HK$'million**	2010 HK$'million	**2011 HK$'million**	2010 HK$'million	**2011 HK$'million**	2010 HK$'million	**2011 HK$'million**	2010 HK$'million
Within 1 year	**5,239**	4,827	**—**	—	**—**	—	**40**	28	**5,279**	4,855
Between 1 and 2 years	**2,099**	2,182	**2,325**	—	**—**	—	**—**	—	**4,424**	2,182
Between 2 and 5 years	**3,204**	2,813	**3,877**	6,203	**3,084**	—	**—**	—	**10,165**	9,016
Wholly repayable within 5 years	**10,542**	9,822	**6,202**	6,203	**3,084**	—	**40**	28	**19,868**	16,053
Not wholly repayable within 5 years	**106**	1,410	**1,536**	1,536	**—**	—	**—**	—	**1,642**	2,946
	10,648	11,232	**7,738**	7,739	**3,084**	—	**40**	28	**21,510**	18,999

	Company	
	2011 HK$'million	2010 HK$'million
Within 1 year	**—**	800
Between 2 and 5 years	**847**	497
Wholly repayable within 5 years	**847**	1,297

33 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	
	2011	2010	**2011**	2010
Hong Kong dollar	**0.73% to 7.20%**	0.74% to 5.60%	**1.08% to 1.18%**	1.15% to 1.40%
Renminbi	**4.86% to 7.76%**	4.59% to 5.81%	**—**	—

(h) The fair values of long-term bank loans, the listed notes payable and the unlisted notes payable were HK$7,313 million (2010: HK$7,253 million), HK$8,246 million (2010: HK$8,396 million) and HK$3,031 million (2010: nil) respectively. The fair value of long-term bank loans and the unlisted notes payable were determined by discounting the future cash flows at the current market interest rate available to the Group (the "Market Rate") 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 and unlisted notes payable, the carrying amounts of the other financial liabilities approximate their fair values as at 31 December 2011.

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

	Group		Company	
	2011 HK$'million	2010 HK$'million	**2011 HK$'million**	2010 HK$'million
Hong Kong dollar	**4,151**	5,000	**847**	1,297
Renminbi	**9,621**	6,260	**—**	—
United States dollar	**7,738**	7,739	**—**	—
	21,510	18,999	**847**	1,297

34 Other non-current liability

On 12 August 2011, the Group entered into a BOT Agreement with Sri Lanka Ports Authority ("SLPA") through its directly held partially-owned subsidiary, Colombo International Container Terminals Limited ("CICT"), for the right to construct, operate, manage and develop Colombo South Container Terminal for 35 years. Other non-current liability represents the minimum guaranteed royalty and premium payable under the BOT Agreement determined by discounting the future cash flows at the Market Rate.

35 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:

	2011 HK$'million	2010 HK$'million
As at 1 January	**(1,951)**	(702)
Exchange adjustments	**(83)**	(16)
Step acquisition of subsidiaries	**—**	(974)
Acquisition of subsidiaries	**—**	(28)
Charged to consolidated income statement (note 12)	**(230)**	(102)
Charged to other comprehensive income	**49**	(129)
As at 31 December	**(2,215)**	(1,951)

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$454 million (2010: HK$515 million) to be carried forward against future taxable income. The unrecognised tax losses of HK$20 million (2010: HK$22 million) can be carried forward indefinitely. The remaining HK$434 million (2010: HK$493 million) expires in the following years:

	2011 HK$'million	2010 HK$'million
2011	**—**	14
2012	**15**	81
2013	**96**	145
2014	**190**	253
2015	**25**	—
2016	**108**	—
	434	493

35 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	
	2011 HK$'million	2010 HK$'million	**2011 HK$'million**	2010 HK$'million	**2011 HK$'million**	2010 HK$'million	**2011 HK$'million**	2010 HK$'million
As at 1 January	**(491)**	(248)	**(1,445)**	(488)	**(129)**	—	**(2,065)**	(736)
Exchange adjustment	**(25)**	—	**(65)**	(18)	**—**	—	**(90)**	(18)
Step acquisition of subsidiaries (note 39(a))	**—**	(153)	**—**	(866)	**—**	—	**—**	(1,019)
Acquisition of subsidiaries (note 39(b))	**—**	—	**—**	(28)	**—**	—	**—**	(28)
Change in tax rate	**(144)**	—	**—**	—	**—**	—	**(144)**	—
Charged to consolidated income statement	**(69)**	(90)	**(32)**	(45)	**—**	—	**(101)**	(135)
Charged to other comprehensive income	**—**	—	**—**	—	**49**	(129)	**49**	(129)
As at 31 December	**(729)**	(491)	**(1,542)**	(1,445)	**(80)**	(129)	**(2,351)**	(2,065)

Deferred tax assets

	Provision		Others		Total	
	2011 HK$'million	2010 HK$'million	**2011 HK$'million**	2010 HK$'million	**2011 HK$'million**	2010 HK$'million
At 1 January	**66**	1	**48**	33	**114**	34
Exchange adjustment	**4**	2	**3**	—	**7**	2
Step acquisition of subsidiaries (note 39(a))	**—**	32	**—**	13	**—**	45
Credited to consolidated income statement	**13**	31	**2**	2	**15**	33
At 31 December	**83**	66	**53**	48	**136**	114

36 Creditors and accruals

	Group		Company	
	2011 **HK$'million**	2010 HK$'million	**2011** **HK$'million**	2010 HK$'million
Trade creditors (note (a))	**318**	418	**—**	—
Amount due to an intermediate holding company (note (b))	**5**	4	**—**	—
Amounts due to fellow subsidiaries (note (b))	**82**	197	**—**	—
Amounts due to associates (note (b))	**—**	1	**—**	—
Amounts due to jointly controlled entities (note (b))	**—**	3	**—**	—
	405	623	**—**	—
Receipt in advance from sales of properties	**823**	880	**—**	—
Other payables and accruals	**2,660**	2,879	**46**	65
	3,888	4,382	**46**	65

Notes:

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

	2011 **HK$'million**	2010 HK$'million
Not yet due	**63**	12
Days overdue		
– 1 - 90 days	**219**	287
– 91 - 180 days	**5**	41
– 181 - 365 days	**14**	38
– Over 365 days	**17**	40
	318	418

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

36 Creditors and accruals (Continued)

Notes: (Continued)

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

	2011 HK$'million	2010 HK$'million
Hong Kong dollar	**42**	34
Renminbi	**361**	589
United States dollar	**2**	—
	405	623

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

37 Consolidated statement of cash flows

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

	2011 HK$'million	2010 HK$'million
Operating profit	**4,885**	4,189
Adjustments for:		
Depreciation and amortisation	**1,412**	1,018
Gain on disposal of land use rights and property, plant and equipment	**(3)**	(130)
Income from held-to-maturity investments	**—**	(1)
Increase in fair value of investment properties	**(445)**	(331)
Gain on remeasurement of previously held interest upon step acquisition of subsidiaries	**—**	(1,378)
Gain on deemed disposal of interest in an associate (note 21(d))	**(1,367)**	—
Decrease in fair value of financial assets at fair value through profit or loss	**53**	—
Loss on disposal of interests in associates	**2**	—
Operating profit before working capital changes	**4,537**	3,367
Increase in inventories, properties under development and held for sale	**(1,093)**	(1,089)
Decrease/(increase) in debtors, deposits and prepayments	**567**	(1,224)
(Decrease)/increase in creditors and accruals	**(825)**	1,039
Net cash inflow from operations	**3,186**	2,093

37 Consolidated statement of cash flows (Continued)

(b) Purchase of subsidiaries

	2010 HK$'million
The fair value of assets acquired and liabilities assumed:	
Intangible assets	92
Property, plant and equipment	4,817
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
Properties under development and held for sale	1,148
Debtors, deposits and prepayments	1,979
Cash and bank balances	2,911
Creditors and accruals	(1,412)
Other financial liabilities	(5,790)
Taxation payable	(143)
Deferred tax liabilities	(1,047)
Non-controlling interests	(6,829)
	3,837
Goodwill arose from acquisition	766
	4,603
Representing:	
Cash consideration	516
Fair value of equity interest held before the business combination (note 39(a))	4,087
	4,603
Analysis of cash flows on purchase of subsidiaries:	
Cash consideration paid	(516)
Bank balances and cash in hand acquired	2,911
Net cash inflow on purchase of subsidiaries	2,395

38 Commitments

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

	Group	
	2011 HK$'million	2010 HK$'million
Company and subsidiaries		
Authorised but not contracted		
– Property, plant and equipment	**1,698**	285
– Land use rights	**4**	2
	1,702	287
Contracted but not provided for		
– Property, plant and equipment	**4,251**	1,305
– Land use rights	**206**	412
	4,457	1,717
Jointly controlled entities		
Authorised but not contracted		
– Property, plant and equipment	**199**	119
Contracted but not provided for		
– Property, plant and equipment	**1,277**	879
	1,476	998
	7,635	3,002

(b) Capital commitments for investments

	Group	
	2011 HK$'million	2010 HK$'million
Contracted but not provided for		
– Investments	**—**	92
– Port projects	**594**	608
	594	700

	Company	
	2011 HK$'million	2010 HK$'million
Contracted but not provided for		
– Investments	**—**	92

38 Commitments (Continued)

(c) *Commitments under operating leases*

At 31 December 2011, the Group had future aggregate minimum lease payments under non-cancellable operating leases for land use rights and property, plant and equipment as follows:

	2011 HK$'million	2010 HK$'million
Within one year	**127**	107
In the second to fifth year inclusive	**179**	111
After the fifth year	**60**	51
	366	269

(d) *Future operating lease receivables*

At 31 December 2011, the Group had future aggregate lease receivables under non-cancellable operating leases for land and buildings as follows:

	2011 HK$'million	2010 HK$'million
Within one year	**190**	123
In the second to fifth year inclusive	**101**	68
After the fifth year	**4**	—
	295	191

39 Business combination

(a) *China Nanshan Development (Group) Incorporation - Step acquisition from associates to subsidiaries in 2010*

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.

39 Business combination (Continued)

(a) China Nanshan Development (Group) Incorporation - Step acquisition from associates to subsidiaries in 2010 (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 18)	2,423
Land use rights (note 19)	2,750
Interests in associates (included goodwill and advance to an associate from step acquisition) (note 21)	2,473
Interests in jointly controlled entities (note 22)	165
Prepayments	118
Deferred tax assets (note 35)	45
Inventories	92
Properties under development and held for sale (note 26)	1,148
Debtors, deposits and prepayments	1,926
Other financial assets (note 23)	22
Cash and bank balances	2,896
Other financial liabilities	(5,659)
Deferred tax liabilities (note 35)	(1,019)
Creditors and accruals	(1,387)
Taxation payable	(143)
Total identifiable net assets	10,431
Non-controlling interests	(6,829)
Goodwill (note 16)	485
Acquisition-related costs (included in administrative expenses in the consolidated income statement for the year ended 31 December 2010)	10

39 Business combination (Continued)

(a) *China Nanshan Development (Group) Incorporation - Step acquisition from associates to subsidiaries in 2010 (Continued)*

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

In 2010, 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 interest 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 in 2010.

Had Nanshan Group been consolidated from 1 January 2010, the Group's consolidated income statement for the year ended 31 December 2010 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.

39 Business combination (Continued)

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

In 2010, 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 16)	6
Contractual customer relationships (included in intangible assets) (note 16)	86
Property, plant and equipment	236
Land use rights (note 19)	21
Inventories	2
Debtors, deposits and prepayments	53
Cash and bank balances	15
Deferred tax liabilities (note 35)	(28)
Other financial liabilities	(131)
Creditors and accruals	(25)
Total identifiable net assets	235
Goodwill (note 16)	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 in 2010.

Had KXL (Tianjin) and KXL (Harbin) been consolidated from 1 January 2010, the Group's consolidated income statement for the year ended 31 December 2010 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.

40 Changes in ownership interests in subsidiaries without change of control

(a) *Acquisitions of additional interests in subsidiaries*

During the year, the Group acquired additional interests in subsidiaries from their non-controlling equity holders. The effect of changes in the ownership interest of the Group on the equity attributable to equity holders of the Company during the year is summarised as follows:

	31 December 2011 HK$'million
Carrying amounts of non-controlling interests acquired	**97**
Consideration paid and payable to non-controlling equity holders	**(172)**
Excess of consideration paid recognised within equity	**(75)**

(b) *Capital contributions to subsidiaries by non-controlling equity holders*

During the year, certain non-controlling equity holders contribute capital to the subsidiaries. The aggregate effect of changes in the ownership interest of the Group on the equity attributable to equity holders of the Company during the year is summarised as follows:

	31 December 2011 HK$'million
Capital injection received from non-controlling equity holders	**122**
Carrying amount of equity interests in subsidiaries disposed of	**(93)**
Gain on disposal within equity	**29**
Gains on disposal within equity attributable to:	
– equity holders of the Company	**6**
– non-controlling interests	**23**
	29

41 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 2011 are as follows:

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

	Note	**2011 HK$'million**	2010 HK$'million
Rental income from	(i)		
– an associate		**3**	2
– an intermediate holding company		**27**	22
– a fellow subsidiary		**12**	10
Service income from	(ii)		
– an associate		**—**	2
– fellow subsidiaries		**17**	9
– jointly controlled entities		**139**	90
Rental expenses paid to fellow subsidiaries	(i)	**92**	88
Service fees paid to			
– fellow subsidiaries	(iii)	**11**	11
– a jointly controlled entity	(iv)	**—**	3
Interest expenses and upfront fee paid to			
– the ultimate holding company	(v)	**114**	96
– an intermediate holding company	(v)	**26**	33

41 Related party transactions (Continued)

(a) Balances and transactions with associates, jointly controlled entities, CMG and its subsidiaries (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 was 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 31 and note 32 to the financial statements on the outstanding loans from the ultimate holding company and an intermediate holding company.

(vi) In 2010, 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 2011, the Group placed deposits of HK$2,087 million (2010: HK$1,816 million) with and drew bank loans of HK$2,475 million (2010: HK$1,703 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$29 million (2010: HK$16 million) and HK$109 million (2010: HK$46 million) respectively.

The balances with entities within the CMG Group as at 31 December 2011 are disclosed in notes 27, 31, 32 and 35 to the financial statements.

(b) Balance and transaction with non-controlling interests of subsidiaries

	Note	**2011 HK$'million**	2010 HK$'million
Service expense	(i)	**—**	9
Interest expense and upfront fee paid	(ii)	**1**	—

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) Interest expense was charged at interest rate as specified in note 33 to the financial statements on the outstanding loan from a non-controlling equity holder of a subsidiary.

(iii) In 2010, 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 balances with non-controlling interests as at 31 December 2011 are disclosed in note 33 to the financial statements.

41 Related party transactions (Continued)

(c) Transactions with other state-controlled entities

The Group has transactions with other state-controlled entities including but not limited to the purchases of assets, construction of ports and related facilities, bank deposits and borrowings.

These transactions are conducted in the ordinary course of the Group's business.

(d) Key management compensation

	2011 HK$'million	2010 HK$'million
Salaries and other short-term employee benefits	**20**	13

42 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	—	35.70%	Operation of reefer warehouse in Shenzhen, PRC
China Merchants International Terminals (Ningbo) Limited	British Virgin Islands	US$1	100.00%	—	Investment holding

42 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 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. [^]	PRC	RMB27,000,000	—	100.00%	Operation of tugboats
China Merchants Bonded Logistics Co., Limited (formerly known as China Merchants Maritime & Logistics (Shenzhen) Limited) [#]	PRC	RMB700,000,000	—	71.74%	Provision of container related logistics services
China Merchants Port Services (Shenzhen) Company Limited [#]	PRC	RMB550,000,000	—	100.00%	Provision of terminal services and ports transportation
China Nanshan Development (Group) Incorporation [^ 1 *]	PRC	RMB900,000,000	—	37.01%	Investment holding
Kangxin Logistics (Harbin) Co., Ltd [#]	PRC	US$5,000,000	—	51.00%	Provision of cold storage
Kangxin Logistics (Tianjin) Co., Ltd [#]	PRC	US$5,619,300	—	51.00%	Provision of cold storage services and logistic 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

42 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
Shekou Container Terminals (Phase III) Company Limited #	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	—	29.35%	Port operations
Shenzhen Chiwan Petroleum Supply Base Co., Ltd (B Shares listed in the Mainland China) *1	PRC	RMB230,600,000	—	19.44%	Port transportation and petroleum services
Shenzhen Haiqin Engineering Supervision & Management Co., Ltd. ^1	PRC	RMB3,000,000	—	71.66%	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	—	78.81%	Operation of berth No. 5 in Mawan, Shenzhen, PRC
Shenzhen Mawan Terminals Co., Ltd. ^	PRC	RMB335,000,000	—	78.81%	Operation of berths No. 6 & No. 7 in Mawan, Shenzhen, PRC
Shenzhen Mawan Wharf Co., Ltd. ^	PRC	RMB200,000,000	—	78.81%	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

42 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^1	PRC	RMB50,000,000	76.84%	6.80%	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
Colombo International Container Terminals Limited	Sri Lanka	US$100	55%	—	Ports and container terminal business

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

Foreign investment enterprises

^ Sino-foreign joint ventures

* Although the Group held less than half of the equity interests, it has the power to control over half of the Board by its voting rights granted by virtue of agreements with other investors.

43 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	25.54%	Design, manufacture and sales of dry freight containers and refrigerated containers
Chu Kong River Trade Terminal Co., Ltd. [1]	British Virgin Islands	20.00%	Provides shuttle-barge ports services
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	24.49%	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	11.74%	Port operations
Shenzhen Chiwan Sembawang Engineering Co., Ltd [*1]	PRC	6.22%	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

44 Particulars of principal jointly controlled entities

Name of jointly controlled entity	Issued capital/ registered capital	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*	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)*
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 (resigned on 10 February 2012)
Mr. Zheng Shaoping (appointed on 10 February 2012)
Mr. Kut Ying Hay*
Mr. Lee Yip Wah Peter*
Mr. Li Kwok Heem John*
Mr. Li Ka Fai David*
Mr. Bong Shu Ying Francis*

* 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
Shops 1712-1716, 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 China Merchants Holdings (International) Company Limited (the "Company") will be held at the Ball Room, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Thursday, 31 May 2012 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 2011 together with the Report of the Directors and the Independent Auditor's Report.

2. To declare a final dividend of 68 HK cents per share for the year ended 31 December 2011 in scrip form with cash option.

3. (1) To re-elect Dr. Fu Yuning as a Director;
   (2) To re-elect Mr. Li Yinquan as a Director;
   (3) To re-elect Mr. Meng Xi as a Director;
   (4) To re-elect Mr. Su Xingang as a Director;
   (5) To re-elect Mr. Yu Liming as a Director;
   (6) To re-elect Mr. Zheng Shaoping as a Director; and
   (7) To authorise the Board to fix the remuneration of the Directors.

4. To appoint Auditor and to authorise the Board to fix their remuneration. Special notice has been given by a shareholder, pursuant to Sections 116C and 132(1) of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), of the intention to propose the following resolution as an ordinary resolution: -

   "**THAT** Deloitte Touche Tohmatsu be appointed as the auditor of the Company in place of the retiring auditor, PricewaterhouseCoopers, to hold office until the conclusion of the next annual general meeting of the Company at a remuneration to be agreed with the directors of the Company."

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
China Merchants Holdings (International) Company Limited
Fu Yuning
Chairman

Hong Kong, 26 April 2012

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

Notes:

1. A member entitled to attend and vote at the meeting convened pursuant to the above notice is entitled to appoint one or more proxies to attend and vote in his place. A proxy need not be a member of the Company.

2. In order to be valid, the instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power of attorney or authority, must be deposited at the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for the meeting or at any adjournment thereof.

3. To ascertain the shareholders' entitlement to attend and vote at the meeting, the register of members of the Company will be closed from 25 May 2012 to 31 May 2012, both days inclusive, during which period no transfer of shares will be effected. In order to qualify to attend and vote 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 Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 24 May 2012.

   Subject to the approval of the shareholders at the meeting, the proposed final dividend will be despatched to shareholders whose names appear on the register of members of the Company after the close of business at 4:30 p.m. on Wednesday, 6 June 2012. In order to qualify for the proposed final dividend, all transfers and the relevant share certificates must be lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at the above address not later than 4:30 p.m. on Wednesday, 6 June 2012.

4. Concerning resolution numbered 4 above, the existing auditor, PricewaterhouseCoopers, will retire as the auditor of the Company with effect from the conclusion of the meeting and will not be re-appointed. A special notice has been given by a member of the Company, pursuant to Sections 116C and 132(1) of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), of the intention to propose the resolution to appoint Deloitte Touche Tohmatsu as the auditor of the Company.

5. 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.

6. 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.

7. Pursuant to Rule 13.39(4) of the Listing Rules, all votes at the Annual General Meeting will be taken by poll except where the Chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. 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.

8. As at the date of this notice, the Board 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. Zheng Shaoping 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.

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