WE CONNECT THE WORLD

招商局國際有限公司
CHINA MERCHANTS HOLDINGS (INTERNATIONAL) CO., LTD.

Stock Code: 00144

ANNUAL REPORT 2012

2012
Contents

Financial Highlights

	2012 HK$'million	2011 HK$'million (as restated)	Changes
Consolidated income statement highlights			
Revenue[1]	**42,225**	40,973	3.1%
Profit attributable to equity holders of the Company	**3,818**	5,589	(31.7%)
Non-recurrent gains, net of tax[2]	**(445)**	(1,521)	(70.7%)
Recurrent profit	**3,373**	4,068	(17.1%)
Earnings per share (HK cents)			
Basic	**153.26**	225.89	(32.2%)
Diluted	**153.09**	225.33	(32.1%)
Dividend per share (HK cents)			
Interim dividend	**22.00**	30.00	(26.7%)
Final dividend	**48.00**	68.00	(29.4%)
	70.00	98.00	(28.6%)
Consolidated statement of financial position highlights			
Total assets	**77,466**	87,086	(11.0%)
Capital and reserves attributable to the equity holders of the Company	**45,542**	43,452	4.8%
Net interest bearing debts[3]	**14,630**	17,887	(18.2%)
Consolidated statement of cash flows highlights			
Net cash generated from operating activities	**6,333**	4,671	35.6%

	2012 HK$'million	2011 HK$'million (as restated)	Changes
Revenue[1]			
Ports operation	**17,580**	15,006	17.2%
Bonded logistics and cold chain operations	**2,414**	1,996	20.9%
Port-related manufacturing operations	**18,977**	21,382	(11.2%)
Other operations	**3,254**	2,589	25.7%
Total	**42,225**	40,973	3.1%
EBITDA[4]			
Ports operation	**8,373**	8,316	0.7%
Bonded logistics and cold chain operations	**1,407**	844	66.7%
Port-related manufacturing operations	**1,434**	2,123	(32.5%)
Other operations	**504**	574	(12.2%)
EBITDA	**11,718**	11,857	(1.2%)
Unallocated net income[6]	**828**	1,240	(33.2%)
Net interest expenses[5]	**(1,759)**	(1,369)	28.5%
Taxation[5]	**(2,061)**	(2,052)	0.4%
Depreciation and amortisation[5]	**(3,018)**	(2,985)	1.1%
Profit for the year	**5,708**	6,691	(14.7%)
Non-controlling interests	**(1,890)**	(1,102)	71.5%
Profit attributable to equity holders of the Company	**3,818**	5,589	(31.7%)

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

2 Include increase in fair value of investment properties, net of tax, of HK$153 million; increase in fair value of financial asset at fair value through profit or loss of HK$40 million; gain on disposal of interests in associates, net of tax, of HK$385 million and net loss associated with ceasing to control certain subsidiaries, net of tax, of HK$133 million in 2012.
Include increase in fair value of investment properties, net of tax, of HK$351 million; decrease in fair value of financial asset at fair value through profit or loss of HK$53 million; gain on deemed disposal of interest in an associate of HK$1,367 million and additional provision of HK$144 million deferred taxation upon deemed disposal in 2011.

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 disposal of interests in associates and net loss associated with ceasing to control certain subsidiaries in 2012 and gain on deemed disposal of interest in an associate in 2011.

Principal Business of China Merchants Holdings (International) Company Limited

▲ Assets of Terminal Link to be acquired

● Existing Assets

Asia

Mainland China, Hong Kong & Taiwan
Pearl River Delta
Xiamen Bay Economic Zone
South-West Area
Yangtze River Delta
Bohai Coastal Area
Kaohsiung

Greater Ho Chi Minh District, Vietnam
Vung Tau International Container Port

Colombo, Sri Lanka
Colombo International Container Terminals

Africa

Lagos, Nigeria
Tin-Can Island Container Terminal

Lomé, Togo
Lomé Container Terminal

Djibouti City, Djibouti
Port de Djibouti S.A.

Mainland China, Hong Kong and Taiwan

Pearl River Delta

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

Logistics:
- China Merchants Bonded Logistics
- China Merchants International Cold Chain
- KXL Guangzhou
- KXL Hong Kong

Yangtze River Delta

Ports:
- Shanghai International Port (Group)
- Ningbo Daxie China Merchants International Terminals
- Ningbo Port

Logistics:
- KXL Suzhou
- KXL Shanghai

Bohai Coastal Area

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

Logistics:
- China Merchants International Terminal (Qingdao)
- Tianjin Haitian Bonded Logistics
- KXL Qingdao
- KXL Tianjin
- KXL Beijing
- KXL Harbin

Xiamen Bay Economic Zone

Ports:
- Zhangzhou China Merchants Port

Kaohsiung

Ports:
- Kao Ming Container Terminal

South-West Area

Ports:
- Zhanjiang Port

Logistics:
- KXL Chengdu

Ports
Logistics

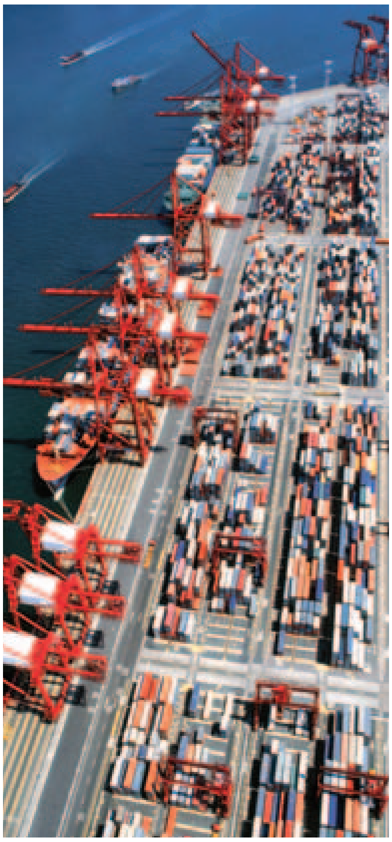
Corporate Profile

China Merchants Holdings (International) Company Limited ("CMHI") is the leading port investor and operator in China with international presence.

At present, CMHI's investments and operations span across China Coastal, including Hong Kong, Shenzhen, Shanghai, Ningbo, Qingdao, Tianjin, Zhanjiang, Xiamen Bay, and Taiwan, Sri Lanka, Nigeria, Djibouti, Togo and Vietnam.

Unit: million TEUs

Port	CMHI Presence	2012	12 vs 11 Change
1. Shanghai	●	32.53	+2.5%
2. Hong Kong	●	23.12	-5.2%
3. Shenzhen	●	22.89	+1.5%
4. Ningbo	●	16.33	+11.2%
5. Guangzhou		14.74	+2.2%
6. Qingdao	●	14.50	+11.4%
7. Tianjin	●	12.30	+7.0%
8. Dalian		8.06	+25.9%
9. Xiamen	●	7.20	+11.4%
10. Lianyungang		5.02	+3.5%



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, with its expanding global ports portfolio, 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 also invests in bonded logistics and cold chain operations and port-related manufacturing operations in China.

Major Milestones in 2012

Jan 12

CMHI agreed to acquire an additional 30% stake in Colombo International Container Terminals Limited ("CICT"), thereby raising CMHI's stake in CICT to 85%

Jul 12

A strategic cooperation agreement involving China Merchants Group Limited ("CMG"), the ultimate holding company of CMHI, and Qingdao Ports (Group) Co., Ltd. was signed for co-investment in the bulk terminal at Dongjiakou of Shandong Province

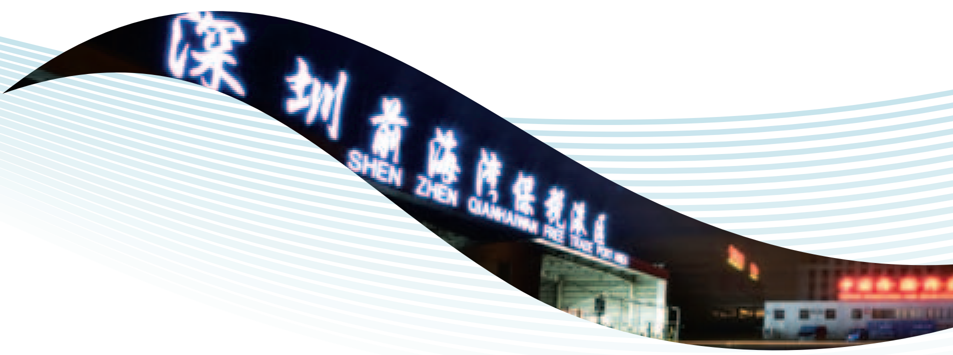
Aug 12

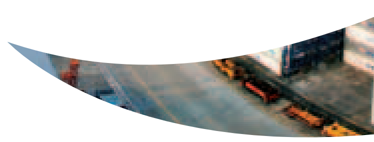
CMHI acquired from Terminal Investment Limited SA Group, one of the world's top ten container terminal operators, a 50% stake in Lomé Container Terminal in Lomé, Togo

Sep 12

CMHI acquired the Immigration Building in the Bonded Port Zone in Qianhai of West Shenzhen

CMHI entered into an agreement with China Nanshan Development (Group) Incorporation ("China Nanshan") in respect of the entrustment by China Nanshan of the management and voting rights over its interests in Shenzhen Chiwan Wharf Holdings Limited ("Shenzhen Chiwan") to CMHI, which came into effect subsequently in Nov 12





Dec 12 to date

A tripartite joint venture was formed, in which CMHI has 33.33% interests, to acquire from Yang Ming Marine Transport Corporation a 30% stake in Kao Ming Container Terminal Corporation in Kaohsiung, Taiwan

CMHI agreed to acquire from China Nanshan its 25% equity stake in Shenzhen Chiwan, enabling CMHI to become the single largest shareholder of Shenzhen Chiwan upon completion

CMHI and China Merchants Holdings (Hong Kong) Company Limited ("CMHK"), an intermediate holding company of CMHI, terminated the entrustment agreement in respect of the management and voting rights in 23.49% stake in China Nanshan previously assigned to CMHI by CMHK, thereby resulting in CMHI ceasing to consolidate China Nanshan with effect from 28 December 2012, having obtained unanimous consent from CMHI's independent shareholders

CMHI agreed to acquire from the Government of Djibouti a 23.5% stake in Port de Djibouti S.A. in City of Djibouti, Djibouti in East Africa, which was completed in February 2013

CMHI agreed to acquire from CMA CGM SA a 49% stake in Terminal Link SAS, which operates, develops, and invests in a port network comprising 15 container and bulk cargo terminals in 8 countries around the world

Chairman's Statement

I am pleased to present the Group's 2012 annual report and audited financial statements for the year ended 31 December 2012.

During the year under review, the deep-rooted impact induced by the global financial crisis continued to surface, thereby causing the global economic growth to continue to decelerate. Under such deteriorating macro-economic environment, the Group's ports operation was inevitably affected, although its overall performance was better than expected and the industry's average. In 2012, by closely adhering to its established development strategy, the Group has progressed along with its stable course while consecutively succeeding in achieving breakthroughs in panning out its international port network. In addition, remarkable progress in the integration and optimization of the Group's ports in China was seen while new businesses achieved enhancement in both scale and profitability, all in all reflecting another step of advancement in the Group's management ability towards refining its operations.

In order to attain the strategic goal of becoming a world-leading port operator and investor, in 2012, the Group continued to broaden its overseas port network while strengthening its strategic collaboration and cooperation in international businesses with leading global container shipping liners. These efforts not only elevated the competitive position of respectively the liners and the Group in the international arena, but also helped the Group to secure and ensure its existing port business whilst maintaining momentum in fostering sustainable growth. In respect of ports operation, the Group continued to emphasize on integrating resources and improving efficiency in overall asset utilization. Through the continual implementation of a streamlined management processes, the Group has made outstanding achievements in optimization of the Group's businesses, efficiency improvement, innovative development and construction of "green port", thereby further strengthening the Group's core competitiveness.

Operating results

The profit attributable to the equity holders of the Company in 2012 amounted to HK$3,818 million, representing a decrease of 31.7% from 2011. Of this amount, recurrent profit totaled HK$3,373 million, a decrease of 17.1% from 2011. The proportion of EBITDA derived from the Group's core ports operation to the Group's total increased from 70.1% in 2011 to 71.5%.

In 2012, the Group recorded revenue of HK$11,022 million, representing an increase of 16.4% year-on-year.

Dividends

The Board of Directors has resolved to propose at the forthcoming Annual General Meeting the payment of a final dividend of 48 HK cents per share which, together with the interim dividend already paid, will give a total dividend of 70 HK cents per share for the whole year (giving a payout ratio of 45.7%). Subject to the approval by shareholders at the forthcoming general meeting, the final dividend will be payable on or around 30 July 2013 to shareholders whose names appear on the register of members of the Company as at 24 June 2013.

Review for the year

The continued deceleration in global economic growth during the year under review has led to the developed economies' less-than-satisfactory growth and the emerging and developing economies' notable decline in economic growth, resulting in a contraction in global demand and a declining growth in international trade activities. According to statistics published by the International Monetary Fund ("IMF"), global economic growth dropped to 3.2% and the growth in total world trade volume fell by 4.1 percentage points to 2.8% in 2012.

China's economic growth in 2012, though at a considerably lower rate when compared to those of previous years, still topped the world's league. China's GDP for the whole year grew 7.8%, 1.5 percentage points lower than that for 2011. In terms of foreign trade, China recorded a net export of US$231.1 billion in 2012, dragging down the GDP growth by 0.4 percentage point and making a negative contribution to GDP. China's total import and export volume for the year rose by 6.2%, down by approximately 16 percentage points year-on-year. Nevertheless, container throughput handled by ports in China totaled 177 million TEUs in 2012, or a growth rate of 8.2% year-on-year which, although weakened by 3.2 percentage points, still exceeded the respective growth rates for GDP and trade volume.

In 2012, the Group's ports handled a total container throughput volume of more than 60 million TEUs, representing an increase of 5.1% from that in 2011, and 327 million tonnes of bulk cargos, showing a slight increase of 0.8% from that in 2011. Geographically, container throughput handled by the Group's ports in Mainland China grew by 7.0% in 2012, exceeding the growth rate of foreign trade-derived container throughput handled by Mainland China's ports by approximately 2.5 percentage points. Owing to weakening demand, throughput handled by our ports in Hong Kong decreased by approximately 10%. Among the Group's other ports, the Qingdao project continued to maintain its solid growth momentum notwithstanding a challenging economic environment, with a year-on-year growth of 107.5% and a total throughput of 4.30 million TEUs. Shanghai International Port (Group) Co., Ltd. handled a total throughput of 32.53 million TEUs and kept its position as the world's top terminal in terms of throughput handled. Ports in West Shenzhen grew modestly in 2012 with a handled throughput of 11.58 million TEUs.

Based on the three strategic objectives of "internationalization, integrating and upgrading homebase port capabilities, and service chain extension", the Group has been actively pursuing development on various fronts in 2012, achieving significant breakthroughs in expansion of its international port network, integration of Shenzhen homebase port, achieving streamlined management, and development of bonded port zone.

Internationalization has been one of the key strategic directions of the Group in recent years. With the implementation of this strategy, the Group has gradually established its market position in the international port business, thereby achieving its strategic goal of becoming one of the world's leading port operators, with which to support the continuous and sustainable development of the Group's core businesses. During the year under review, the Group has significantly accelerated its port internationalization by successively acquiring stakes in terminals in Lomé of Togo (West Africa), Kaohsiung of Taiwan, Djibouti (East Africa), and Colombo of Sri Lanka. In addition, the Group concluded in January 2013 an agreement with CMA CGM SA from whom to acquire 49% equity interests in Terminal Link SAS, the twelfth largest port operator in the world. All these port assets the Group acquired or agreed to acquire are strategically located at either prime locations in their respective regions or along major international shipping routes and are, therefore, fully capable to capture growth potential, in terms of ocean-bound cargo flow demand or transshipment businesses, derived from the economic and international trade expansion trends expected of the respective hinterlands. Businesses at these ports synergise with those of the Group's existing ports in Mainland China and overseas, which helped to scale up the Group's network while further anchoring the Group's position in the international container terminal industry. In addition, the Group expected most of these assets acquired, or agreed to be acquired, to be immediately earnings-contributing even after taking account of the relevant financing costs.

Meanwhile, the Group continues to explore potential investments in other overseas port projects. Along with its international footprint gradually extended and its port network along coastal China's three major economic regions enhanced and augmented, these would lead to the Group being ranked among the world's top global port operators. The port assets thus far acquired have helped to expand the Group's presence at locations along major international shipping routes, thus enabling the Group to not only effectively capture the growth momentum of global trade, but also strengthen its long-term strategic relationship with major shipping liners, thereby laying a solid foundation for the Group from which to stem itself as a ports-focused logistics-service provider for the international maritime industry.

Simultaneously as the Group was expanding its international exposure, it continued to devote its resources in China, focusing on strengthening its homebase ports in West Shenzhen so as to maintain its leading position in China's port industry. The Group agreed in December 2012 to acquire an additional 25% equity interest in Shenzhen Chiwan Wharf Holdings Limited ("Shenzhen Chiwan"), and

has brought Shenzhen Chiwan and West Shenzhen Port Zone under its full and direct management and control through the entrustment over shares in Shenzhen Chiwan held by China Nanshan Development (Group) Incorporation, resulting in significant progress in the integration of the West Shenzhen Port Zone.

In respect of port information system, the Group's self-developed container operation management system named "CM Port" was successfully launched in West Shenzhen Port Zone in May 2012. The system's advanced design and reliability will enable the Group to elevate its operational efficiency, promote its best practices and develop its core competitiveness. In respect of other areas, various aspects of operation including an upgrade of berths, establishment of sea-rail inter-modal transportation, dry ports and customs-inspection environment are all in the process of substantive development. The Group has been and will continue to be committed to developing a homebase port with state-of-the-art technologies and core competitiveness, thus driving the transformation of the port industry.

In 2012, the Group mainly focused its efforts, in terms of streamlining management, on the development of a management platform, innovative development, the construction of green ports and information technology application. The development of a refined management platform, which has made quantitative analysis and evaluation of the Group's operations possible, is expected to play an important role in enhancing the level of supervision on operations, performance management and control and benchmarking management, as well as implementing a closed cycle management system comprising decision making, implementation monitoring, assessment feedback and decision adjustment. Innovative development, including transformation in operations, processes, technologies and management, is not only the essence of elevating the standard of refined management, but also a corporate culture the Group has been advocating. The construction of energy-conserving and emission-reducing green ports is a requirement for development of modern ports, and is also one of the social responsibilities the Group as an enterprise has to assume. Acknowledging this, the Group has been staying ahead in the China port industry in this respect. As for information technology application, with the approval granted by the Ministry of Transport, the Group was entitled special funding dedicated for the development of the "National Container Sea-rail Inter-modal Transportation Network Application (Shenzhen Port) Demonstration Project" in 2012, and the container and bulk cargo operation system developed by the Group is becoming more widely applied in both domestic and foreign markets.

In 2012, the Group's bonded logistics operations has experienced growth amidst a challenging environment, which was reflected in the improvement of utilization rate of its storage facilities, the enlargement of business scale and the exploration of new businesses for China Merchants Bonded Logistics Co., Ltd. ("CMBL"), China Merchants International Container Terminal (Qingdao) Co., Ltd., which operates its bonded logistics business in the Qingdao Logistics Park (the "Qingdao Logistics Project"), and Tianjin Haitian Bonded Logistics Company Limited. The robust growth in cargo volume handled and expansion of the customs declaration business of CMBL has led to doubling of its operating results and a 15% increase in container volume generated from the collaboration of the logistics parks and West Shenzhen Port Zone. The introduction of key customers has conveniently promoted the rapid development of the logistics parks and closer collaboration between the logistics parks and their corresponding port zones. Driven by an ever-increasing utilization rate, the Qingdao Logistics Project has recorded steady growth in its operation, while Tianjin Haitian Bonded Logistics Company Limited has experienced rapid growth thanks to the addition of new business. As a growth driver fostered by the Group with priority, bonded logistics parks are gradually showing their potential, and with an increasing policy support and the innovative development of logistics parks' services, bonded logistics operations will bring in greater development space in the future.

The Group's cold chain logistics operation still remained at its nurturing stage. In order to achieve the strategic goal of becoming a "leading public cold chain service-provider in China", the Group has been, on the one hand, focusing on the establishment of a public platform for cold chain services and, on the other, actively promoting the innovative development of cold chain services. In 2012, supported by the backbone of a cold chain network currently comprising presences in 10 cities in China, China Merchants Americold Holdings Company Limited and China Merchants Americold Logistics Company Limited, being the Group's cold chain logistics operation platform, have increased their efforts in developing the cold chain market, lifting the efficiency in resource deployment, further optimizing the business structure, as well as taking leaps in the expansion of new market. Going forward, the Group will continue to leverage on its superiority in ports network, support from our parent company, operational management and public relations to vitalize and nourish the development of its cold chain logistics operations.

Prospects

In its World Economic Outlook report released on 23 January 2013, the IMF lowered its earlier forecast made in October 2012 by projecting the global economy to grow 3.5% and 4.1% respectively in 2013 and 2014. It is stated in the report that factors suppressing economic activities will subside in 2013 and global economic growth will gradually increase, yet in a slow pace. It is also stressed in the report that policies shall be implemented to stimulate economic growth and to address possible downside risks, which include, amongst others, a prolonged stagnation of the Euro-zone economy and potentially excessive fiscal consolidation by the United States in the near term. According to forecasts of the IMF, developing economies in the Asian region will remain as one of the highest-growth economies, with China's economic growth rate estimated to be 8.2% and 8.5% in 2013 and 2014 respectively. With the recovery of the global economy, resumption of growth will be seen in international services and trade, with a projected growth rate of 3.8% and 5.5% in 2013 and 2014 respectively.

Driven by the stabilization and recovery of the global economy and trade velocity, ports business globally is expected to rebound modestly in 2013. The Group's existing ports are mainly located in China, and are therefore conveniently positioned to benefit from the momentum derived from the relatively faster growth expected of China's domestic economy and of the Asian region's thriving trade activities. Meanwhile, the commencement of operation of the Group's overseas green-field projects and the addition of the newly-acquired operating projects are expected to add new growth drivers to the Group.

In 2013, the Group will continue to adhere to its three key strategies of "internationalization, integrating and upgrading homebase port capabilities, and service chain extension" in propelling the Group to pursue the goal of becoming a leading global port operator and investor.

As regards its process of internationalization, the Group will continue to build its global ports network with an emphasis on international and regional hub ports. The Group will closely monitor potential overseas investment opportunities for both operating and green-field projects, recognising the Group's need to balance between instant earnings accretion and longer-term potential. In addition, the Group will continue to actively groom its team of internationalized port operation professionals through more frequent personnel exchanges, training, learning and cooperation on the international front. Meanwhile, the Group will work towards building an integrated port operation model that can be adopted globally, particularly in the emerging markets.

As for the integration and upgrading of its homebase ports in Shenzhen, along with the attainment of management control in Shenzhen Chiwan, the Group is committed to ensure that ports' operational management is fully integrated so as to facilitate the transformation and upgrade of its homebase ports, through which to enhance these assets' overall operational efficiency and profitability. Through appropriately positioning along the Pearl River, enhancing the barge network at the Pearl River Delta, and smoothening of sea-rail inter-modal connectivity in conjunction with establishment of dry ports, the Group seeks to further improve its distribution reach-out along with an expansion of its cargo-flow catchment area. Besides, the Group will continue to elevate these ports' ability to attract cargo flows by persuading the government to enlarge the bonded port zone alongside transforming these ports into free-trade, and streamlining the customs clearance process with improved port service quality. On the operational management front, the Group will continue to refine its streamlined management so as to promote the innovative development of ports, including the application of state-of-the-art information technology and advanced ports-related knowledge to establish modern homebase ports.

For new operations such as bonded logistics and cold chain, the Group will continue its efforts to identify new growth drivers and explore possibilities to appropriately expand the logistic flows' supply chain or value chain. In anticipation of market potential derived from an improved economic environment in China after decades of development and, in turn, a gradually growing domestic consumption demand, the Group is determined to strengthen its efforts to explore China's cold chain market whilst pursuing structural improvement with a view to establishing a cold chain service platform and forcefully developing new operations. The Group also intends to fully tap into the policy incentives offered at the bonded port zone and to adopt innovative business models to rapidly achieve growth along with scale expansion in the cold chain service sector.

Looking into the Year 2013, amid a mild recovery in global economy and trade, the Group's ports operation is expected to encounter development opportunities which the Group will, through keeping a clear vision of its current positioning, capture while navigating cautiously forward, all in all for the purpose of ensuring the sustainable and stable growth of the Group's operating results and generating better investment returns for its shareholders.

Investor relations

The Group will continue to manage our relationship with investors through enhanced communication and exchanges with all investors and efforts to help raise their understanding and confidence towards the Group. More than 500 visits by investors and analysts were received by the Group in 2012, including on-site visits and meetings with our management. The Group also maintains close contact with shareholders through regular roadshow activities conducted in the United States, Europe and Asia from time to time, with an aim of enhancing the Group's transparency and governance level and establishing a positive corporate image as a listed company.

Credit rating

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

Appreciation

The Year 2012 was a special year during which the Group succeeded in effectively achieving the goals and objectives set with noticeable performance. These achievements could not have been accomplished without the dedicated efforts from all our staff or the support from all our shareholders, business partners and those who have taken 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, 27 March 2013

Management Discussion and Analysis

Business review

The global economy continued to slacken in 2012, with major developed economies experiencing lackluster growth and emerging economies seeing a considerable decrease in growth rate. According to data published by the International Monetary Fund ("IMF") in January 2013, the global economic growth rate for 2012 was 3.2%, representing a decrease of 0.7 percentage point as compared to that of 2011. Developed economies showed an economic growth of 1.3%, down 0.3 percentage point from 2011; while developing economies recorded an economic growth of 5.1%, representing a decrease by 1.2 percentage points. Total international trade volume (including goods and services) grew by 2.8%, representing a year-on-year decline of 4.1 percentage points in growth rate.

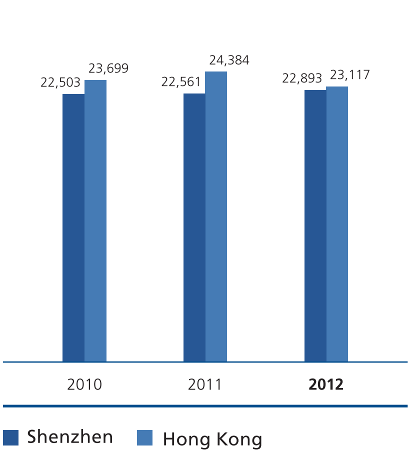
In 2012, China's GDP growth declined to a level below 8%, with foreign trade growth continuing to linger. During the year, China has recorded a total imports and exports value of US$3,866.8 billion, representing an increase of 6.2% year-on-year, 16.3 percentage points below the growth rate in the previous year. Among the total value of foreign trade, total export value was US$2,048.9 billion, representing a 7.9% year-on-year increase, and a decrease by 12.4 percentage points in growth rate; while total import value was US$1,817.8 billion, representing an increase of 4.3% year-on-year, and a 20.6 percentage points drop in growth rate, meaning that imports and exports trade has had a negative GDP contribution.

Impacted by the deceleration in global economic growth and softening demand, global ports business has generally experienced a slowdown in growth. Data published by the Ministry of Transport reveals that container throughput handled by China ports in 2012 totaled 177 million TEUs, up 8.2% year-on-year, 3.2 percentage points down as compared to that of 2011.

In 2012, the Group's ports handled a total container throughput of 60.21 million TEUs, an increase of 5.1% year-on-year, of which total container throughput handled in China grew by 7.0%. Bulk cargo throughput handled by the Group's ports amounted to 327 million tonnes, a mere 0.8% increase as compared to that of 2011. The business operation of China International Marine Containers (Group) Co., Ltd. ("CIMC"), of which the Group is its single largest shareholder, has seen its business affected by the severe slump of the shipping industry, resulting in a drastic fall in container sales in 2012, recording total sales of dry cargo and

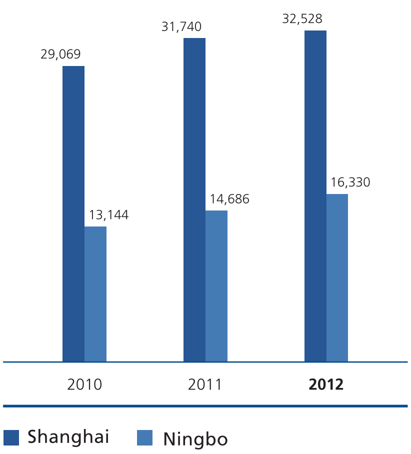
Container throughput in Shenzhen and Hong Kong 2010-2012

'000 TEU



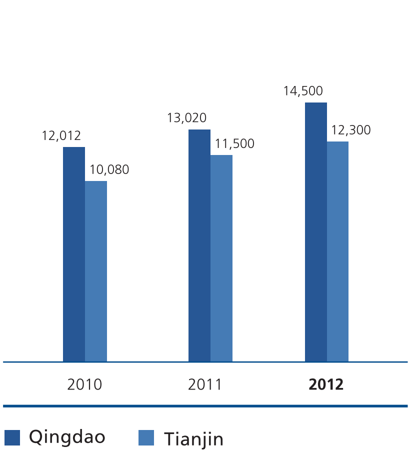
Container throughput in Shanghai and Ningbo 2010-2012

'000 TEU



Container throughput in Qingdao and Tianjin 2010-2012

'000 TEU



reefer units of 1.20 million TEUs, decreased by 24.3%; and sales of special-purpose units of 73,000 TEUs, decreased by 5.2%.

For the year ended 31 December 2012, profit attributable to equity holders of the Company was HK$3,818 million, representing a decrease of 31.7% as compared to 2011. Of this amount, recurrent profit was HK$3,373 million, down 17.1% as compared to 2011. The Group generated revenue of HK$11,022 million in 2012, up 16.4% as compared to 2011, of which HK$6,653 million was derived from the core ports operation, representing an increase of 4.1% year-on-year. EBITDA derived from the Group's core ports operation amounted to HK$8,373 million, representing an increase by 0.7% as compared to 2011, and accounting for 71.5% of the Group's total EBITDA.

In September 2012, the Company and China Nanshan Development (Group) Incorporation ("China Nanshan") entered into an entrustment agreement pursuant to which China Nanshan granted to the Company the management rights and the power to direct the voting rights over its entire interest in Shenzhen Chiwan Wharf Holdings Limited ("Shenzhen Chiwan"), which became effective in November 2012. In December 2012, the Company and China Merchants Holdings (Hong Kong) Company Limited ("CMHK") agreed to terminate a previous entrustment agreement in respect of the management and voting rights in 23.49% stake in China Nanshan previously assigned to the Company by CMHK.

As a result of these transactions, with effect from 28 December 2012, the Group ceased to control and consolidate the assets and liabilities and other financial results of China Nanshan and its subsidiaries (together the "Nanshan Group") excluding Shenzhen Chiwan and its subsidiaries (together the "Shenzhen Chiwan Group") (Nanshan Group excluding Shenzhen Chiwan Group hereinafter be referred to as the "Nanshan Outgoing Group"), which is accounted for as an associate using the equity accounting method thereafter, while maintaining Shenzhen Chiwan as its subsidiary. De-consolidating Nanshan Outgoing Group consequently led to a significant reduction of the Group's assets and liabilities, including, but not limited to, cash and bank balances and borrowings.

For the year under review, the Group's net operating cash inflow amounted to HK$6,333 million, of which HK$1,033 million was derived from Nanshan Outgoing Group.

Ports operation

In 2012, EBIT of the Group derived from its ports operation amounted to HK$6,049 million, which remained stable as compared to last year, and accounting for 69.5% of the Group's total EBIT, an increase from last year's 68.2%.

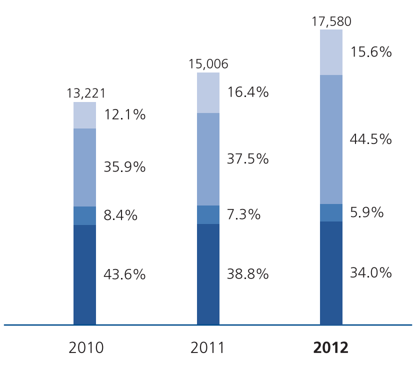
During the year under review, the Group's China ports handled a total container throughput of 54.37 million TEUs, up 7.0% year-on-year, or approximately 2.5 percentage points higher than the overall growth rate of container throughput for foreign trade handled by all ports in China, sustaining the Group's leading position among China port operators. The Group's Hong Kong ports handled a total container throughput of 5.44 million TEUs, down 10.6% year-on-year, while the Group's other ports handled a total container throughput of close to 400,000 TEUs, up 4.3% from last year.

The performance of container port operations varied across regions. In the Pearl River Delta region, the Group's terminals in West Shenzhen reversed the decline in throughout volume seen in the last fiscal year with a mild 0.8% year-on-year increase in container throughput handled in 2012, which totaled 11.58 million TEUs. In 2012, Chu Kong River Trade Terminal Co., Ltd. handled a total container throughput of 1.12 million TEUs, representing an increase of 22.9% year-on-year. In Hong Kong, Modern Terminals Limited and China Merchants Container Services Limited combined handled a container throughput of 5.44 million TEUs, down 10.6% year-on-year. In the Yangtze River Delta region, Shanghai International Port (Group) Co., Ltd. ("SIPG") recorded a container throughput of 32.53 million TEUs, up 2.5% year-on-year, while Ningbo Daxie China Merchants International Terminals Co., Ltd. handled a total container throughput of 1.92 million TEUs, representing a year-on-year increase of 9.9%. In the Bohai Rim region, by continuing to deepen the working relationship with Qingdao Port (Group) Co. Ltd., Qingdao Qianwan United Container Terminal Co., Ltd. had its container throughput volume jumped 107.5% to 4.30 million TEUs.

As regards the Group's bulk cargo handling business, throughput handled by our ports in 2012 rose slightly by 0.8% year-on-year to 327 million tonnes, with bulk cargo ports delivering mixed performances. West Shenzhen ports handled a total of 32.66 million tonnes, a level similar to that in 2011. SIPG handled 185 million tonnes, up 3.5% year-on-year. Zhangzhou China Merchants Port Co., Ltd. handled 8.74

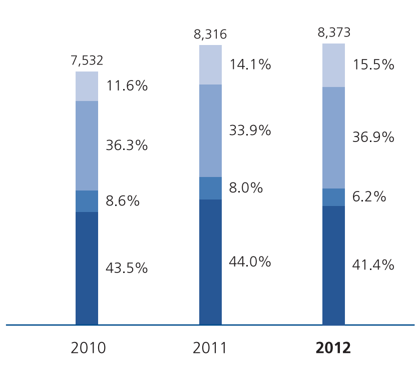
Ports Revenue[1]

HK$'million



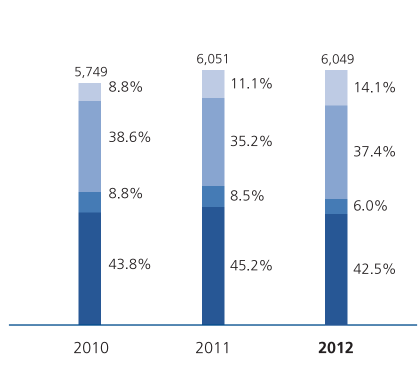
Ports EBITDA[2]

HK$'million



Ports EBIT[3]

HK$'million



Shenzhen   Hong Kong   Shanghai and Ningbo   Others

Note 1 Includes 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.

million tonnes, up 2.9% year-on-year. Driven by its enhanced handling capacity, Dongguan Machong Terminal recorded a total throughput of 4.17 million tonnes of cargoes in 2012, an increase by 53.2% year-on-year. Qingdao Qianwan West Port United Terminal Co., Ltd. and Zhanjiang Port (Group) Co., Ltd. handled 27.96 million tonnes and 68.27 million tonnes respectively, down 1.5% and 6.9% year-on-year, respectively.

In light of the challenging external operating environment, the Group adhered to the directive of "strengthening internal operation to maintain stability at challenging times while seeking to innovate and develop amid available opportunities" by, on the one hand, further management system refinement and innovation, achieving cost savings and efficiency gains so as to enhance return on assets, and on the other, injecting new momentum so as to support its sustainability by continuing to expand its international footprint whilst reinforcing its positioning within China, and by actively exploring ways to extend its value chain and implement innovative business model of its port operation.

During the year under review, the Group made noteworthy achievements in overseas expansion. The Group acquired 50% equity interest in the Lomé Container Terminal of Togo in West Africa from Terminal Investment Limited SA Group, one of the world's top-ten container terminal operators. It also completed the acquisitions of 10% equity interest in Kao Ming Container Terminal Corporation of Taiwan and 23.5% equity interest in Port de Djibouti S.A. in East Africa in December 2012 and in early 2013 respectively. In addition, the Group also acquired an additional 30% equity interest in Colombo International Container Terminals Limited which operates the Colombo Port South Container Terminal in Sri Lanka, thus increasing its shareholding therein to 85%. In January 2013, the Group entered into an agreement with CMA CGM SA in relation to the acquisition of 49% of the issued shares in Terminal Link SAS, which operates, develops and invests in a port network comprising 15 container and bulk cargo terminals in 8 countries around the world, hence further expanding its presence in the international ports industry. These port assets the Group acquired, or agreed to

acquire, during the year are all strategically located at prime locations in the respective regions along major international shipping routes, some of which offering enormous potential to capture ocean-bound cargo flow demand from the respective hinterlands, enabling the Group to conveniently follow global trade flow, and to complement the Group's existing overseas and domestic port projects, thereby creating synergies and anchoring the Group's market position in the international container terminal industry. In addition, most of the assets acquired, or agreed to be acquired, contribute instantly to the Group's earnings after taking into account the relevant costs of financing.

While it sought to expand its ports operation internationally, the Group has not moved away from its development strategy of upholding the China ports as its homebase, and continued to make strategic investments in China ports. Aimed towards better alignment of port assets, the Group proactively strengthened and interacted with major port groups along coastal China with a view to identifying new investment and co-operation opportunities. A typical case was the agreement to acquire an additional 25% equity interest in Shenzhen Chiwan which, upon completion, would raise the Group's direct shareholding in Shenzhen Chiwan to 34% thus resulting in the Group becoming its single largest shareholder. Together with the management rights in Shenzhen Chiwan entrusted to the Group by China Nanshan, these have enabled the Group to exercise direct and effective control over not only Shenzhen Chiwan but also the entire West Shenzhen Port Zone. Combined with improvements in the service quality and operational efficiency in custom clearance brought about by the Group's agreement to acquire the Immigration Building at West Shenzhen during the year, these would support, for the long-term, the Group's efforts to unify the managing and operation of ports in the West Shenzhen Port Zone, accelerate the unification process and, in turn, enhance the competitiveness of the entire West Shenzhen Port Zone. In addition, the Group entered into the "Strategic Cooperation Framework Agreement on Liaogeshan Terminal" with Shunde State-owned Assets Supervision and Administration Office in July, which was followed by the execution of a formal agreement in November, pursuant to which the Group would own 51% in and was to develop Shunde Liaogeshan Terminal. This helps to further strengthen the linkage of the Group's homebase ports with its feeder ports, with which to enhance the hub-and-feeder transportation network commanded by the West Shenzhen Port Zone and, in turn, enhance further alignment of ports in the region as well as the competitiveness of its West Shenzhen homebase.

Apart from the breakthroughs achieved in asset expansion and business integration, the Group has also progressed significantly in the on-going construction of its information technology systems, enhancement of inter-modal connectivity alongside the further refinement of the barge network in the Pearl River Delta region. The Group's self-developed container terminal operational management system, CM Port, a pioneer in terms of design, performance and expandability among comparable systems, went live successfully in the West Shenzhen Port Zone, thus laying an IT platform based on which the Group seeks to elevate the operational efficiency of its terminals. With a view to further encouraging inter-modal connectivity, the Group initiated to establish over time an "inland port" network which, "gravitating upon the Group's homebase ports' hinterland coverage in the pan-Pearl River Delta region and linked via sea-rail connections, engages inland ports in the proximity so as to track inland cargo flow sources". Moreover, the Group continued to leverage on the advantages of its Shenzhen homebase ports in capability, service level and geographical position in order to encourage the strategic collaborations between the homebase ports and the river terminals in the Pearl River Delta. Modeled upon the South China barge alliance in the West Shenzhen Port Zone, the Group successfully caused to commence the operation of pilot feeder liners in Zhongshan and Huangpu, which not only is cost-efficient but also strengthens the ties between the homebase ports in Shenzhen and these feeder terminals, thus being mutually beneficial.

In respect of port management, working with a well-known international consultancy firm, the Group completed the first phase construction of its port container business standardization system. Brought by the creation of quantifiable management assessment tools, the Group established a normalized management reporting system with ever-improving closed-loop management processes, thus enhancing the management quality of the Group's terminals and the ability to supervise and control port operations from the head office. Meanwhile, in response to changes in the operating environment, the Group has been actively promoting innovative management, through the innovation on technology and technical process as well as management and business model, so as to enhance more efficient utilization of resources and achieve the goals of cost savings and efficiency improvement.

Bonded logistics and cold chain operations

In 2012, the Group's bonded logistics and cold chain operations generated revenue of HK$1,830 million, representing an increase of 29.4% as compared to 2011, and recorded EBIT of HK$1,152 million, representing an increase of 98.3% as compared to 2011.

The Group's bonded logistics operations continued the high growth momentum carried from last year. China Merchants Bonded Logistics Co., Ltd. ("CMBL"), a subsidiary of the Group, fully leveraging on the preferential policies offered at the Shenzhen Qianhaiwan Bonded Port Zone, strived to establish its core competence in marketing, operation and innovation. In 2012, CMBL successively captured a number of strategic partners, which, as a result, led to impressive year-on-year growth improvements in its key performance indicators such as revenue, gross profit per unit of area, value-added services, labour efficiency and port-collaborated cargo volume handled, alongside huge increase in operating profitability. The Group's Tianjin Haitian Bonded Logistics Company Limited, capturing the incentive policies offered by Dongjiang Bonded Port Zone in developing automobile import business while at the same time raising warehouse rental progressively, recorded significant increase in both its revenue and net profit. China Merchants International Container Terminal (Qingdao) Co., Ltd., which operates its bonded logistics business in the Qingdao Logistics Park, towards establishing itself into a unique, port-integrated and innovative logistics service provider, succeeded in adjusting its business mix and functions. Notwithstanding the backdrop of a slow-growth macro-economic environment, the growth in service demand for, and economic benefits generated by, the Group's bonded logistics parks grew uprising, as a result of the Group's adherence to the strategies of "extending the port's value chain, developing bonded logistics, and promoting port-logistics park collaboration".

China Merchants Americold Holdings Company Limited and China Merchants Americold Logistics Company Limited (collectively known as "CMAC"), being the Group's cold chain logistics operation platform, have been widely recognized in the industry after three years of development. CMAC was awarded one of the "Top Ten Logistics Service Providers" in the "Golden Chain Award" for the cold chain industry in 2011-2012 at the Sixth Cold Chain Industry Conference, all in all reflecting the recognition of its reputation and brand appreciation in the Chinese market over the years. As of now, CMAC owns and/or manages 12 cold storages in the major cities in Mainland China and Hong Kong, with its storage capacity growing at a compound rate of more than 20% since its start-up, shaping a cold chain network that radiate from the four major economic circles as its cores. Meanwhile, CMAC has been actively exploring new operations, including the purchasing and distribution services which have shown rapid and promising growth, which not only supplements and completes CMAC's existing business model, but also facilitates the penetration of cold chain logistics operations further up and down-stream along the value chain, thereby further enhancing the capability of CMAC in becoming an integrated supply chain solutions provider in the future.

In 2012, the total volume of cargos handled at the two major air cargo terminals in Hong Kong was 3.50 million tonnes, representing an increase of 2.3% year-on-year, whereas Asia Airfreight Terminal Company Limited, in which the Group is interested, handled a total of 720,000 tonnes of cargos, representing an increase of 2.7% year-on-year while maintaining its market share at a similar level.

Port-related manufacturing operations

In 2012, EBIT generated by the Group's port-related manufacturing operations amounted to HK$1,054 million, representing a decrease of 40.1% year-on-year.

On the back of a sluggish economy and fragile shipping market, CIMC recorded a drop in both its price and volume of container sales in 2012. During the year, CIMC sold 1.20 million TEUs of dry cargo and reefer containers in total, representing a decrease of 24.3% year-on-year, and 73,000 TEUs of special-purpose units, representing a decrease of 5.2% year-on-year, which results in a decrease in revenue from its container business by 28.9% year-on-year.

In 2012, CIMC generated profit attributable to its equity holders of RMB1,939 million, representing a decrease of 47.5% year-on-year.

Corporate social responsibility

While striving to continuously improve its operating results and generate returns for shareholders, the Group also places emphasis on its social responsibilities towards its employees, the community and the environment, by contributing to the evolution of our community in a healthier and sustainable direction.

In 2012, the Group continued to promote the construction of green ports through a combination of energy saving and emission reduction and operational improvement, with breakthroughs in management system, energy consumption structure and technological innovation, thus enhancing the comprehensive competitiveness of its ports while creating a win-win situation between the enterprise and the social community.

In 2012, Shekou Container Terminals Limited ("SCT") was recognized by the Ministry of Transport as the first national green and low-carbon demonstration port in China. Its gateway photovoltaic power generation project was included in the "Golden Sun" demonstration project catalogue jointly issued by the Ministry of Finance, the Ministry of Science and Technology and the National Energy Administration of China, which aims at facilitating the technological advancement and upscaling of the photovoltaic power generation industry. SCT also participated in the compilation of the "Appraisal Management Measures and Appraisal Standards of Green Ports" with the Ministry of Transport, and became a leader in setting industry standards.

The Group is committed in integrating its corporate core values into the community by taking active part in various community and charitable events with focuses on, amongst others, subsidizing education, poverty alleviation, charitable donations and community services, and fulfilling its social responsibility as a corporate citizen in facilitating a harmonious environment and sustainable development of our society.

Liquidity and treasury policies

As at 31 December 2012, the Group had approximately HK$4,192 million in cash, 7.6% of which was denominated in Hong Kong dollars, 33.3% in United States dollars, 51.6% in Renminbi and 7.5% 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$6,333 million in total.

During the year, the Group's capital expenditure amounted to HK$4,097 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 2012, the Company had 2,491,423,388 shares in issue. During the year, the Company issued 980,000 new shares upon the exercise of share options and received net proceeds of approximately HK$19 million as a result. Other than the above-mentioned newly issued shares, the Company issued 16,032,152 shares under the Company's scrip dividend scheme.

As at 31 December 2012, the Group's net gearing ratio (net interest-bearing debts divided by net assets attributable to the Company's equity holders) was approximately 32.1%.

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.

During the year, a wholly-owned subsidiary of the Company issued a fixed-rate listed note maturing in 2022 for the amount of US$500 million to finance the Group's working capital. Two other non-wholly-owned subsidiaries also issued fixed-rate unlisted notes with various maturities for the aggregate amount of RMB1,470 million. As at 31 December 2012, the Group had aggregate bank borrowings and listed notes payable of HK$8,171 million with maturities of 1 to 10 years that require China Merchants Group Limited to remain as the controlling shareholder of the Company. The Group also had aggregate bank borrowings and listed notes payable of HK$12,671 million as at 31 December 2012 that contain customary cross default provisions.

As at 31 December 2012, the Group's outstanding interest-bearing debts are analyzed as below:

	2012 **HK$'million**	2011 HK$'million
Floating-rate bank borrowings which are repayable (Note):		
Within 1 year	**3,712**	5,239
Between 1 and 2 years	**135**	2,099
Between 2 and 5 years	**702**	3,204
Not wholly repayable within 5 years	**335**	106
	4,884	10,648
Fixed-rate listed notes payable are repayable:		
In 2013	**2,323**	2,325
In 2015	**3,869**	3,877
In 2018	**1,534**	1,536
In 2022	**3,814**	—
	11,540	7,738
Fixed-rate unlisted notes payable are repayable:		
In 2016	—	3,084
In 2017	**612**	—
	612	3,084
Loans from the ultimate holding company		
Within 1 year	**986**	1,615
Between 1 and 2 years	—	985
	986	2,600
Loans from an intermediate holding company		
Within 1 year	—	616
Between 2 and 5 years	**617**	—
	617	616
Loan from a non-controlling equity holder of a subsidiary	**183**	12

Note: All bank borrowings are unsecured except for HK$540 million (2011: HK$291 million).

The interest bearing debts are denominated in the following currencies:

	As at 31 December 2012						
	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	**3,038**	**11,540**	—	—	—	—	**14,578**
RMB	**1,344**	—	**612**	**617**	**986**	—	**3,559**
EURO	**502**	—	—	—	—	**183**	**685**
	4,884	**11,540**	**612**	**617**	**986**	**183**	**18,822**

	As at 31 December 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

Assets charge

As at 31 December 2012, the Company did not have any charge over its assets. Bank loans of HK$540 million borrowed by subsidiaries are secured by their property, plant and equipment with carrying value of HK$240 million and land use rights with carrying value of HK$7 million. In addition, the entire shareholding in a subsidiary owned by the Group is also pledged to various banks for bank facilities granted to that subsidiary.

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

Employees and remuneration

As at 31 December 2012, the Group employed 6,226 full time staff, of which 181 worked in Hong Kong, 5,995 worked in Mainland China, and the remaining 50 were overseas. The remuneration paid for the year amounted to HK$1,537 million, representing 19.2% 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 2013, as negative factors which suppressed global economic activities gradually subside and global economic growth is hopeful of reviving again, uncertain factors such as another potential setback in the euro zone and excessive fiscal consolidation in US still exist and should not be overlooked. Timely and effective policies and measures by the relevant countries to address these risks are key assurance to ensure global economic growth in 2013. According to the latest forecast by IMF, the global economic growth rate in 2013 is expected to be 3.5%, representing an increase of 0.3 percentage point as compared to that in 2012. The total international trade volume is expected to grow by 3.8%, representing a 1.0 percentage point increase year-on-year.

While the global economy is anticipated to steadily improve, the Chinese economy is expected to tread a modest upward trend in 2013 along with a modest growth in foreign trade, after an evident rebound in the fourth quarter of 2012. However, faced with growth-hurdle factors such as potential appreciation of Renminbi, rising labour costs and other yet-to-resolve structural issues, tasks to "adjust economic structure and expand domestic demand so as to keep growth steady" will remain arduous for China's domestic economy in the foreseeable future.

Furthermore, despite signs of improvement in the macro-economic environment, operating environment for shipping liners in the foreseeable future is expected to remain difficult, caused by excessive capacity supply, intensified competition within the industry, and pressure on tariffs. Recovery in the global economy and international trade velocity, which is expected to result in global port operations outperforming that in 2012 is countered by operational pressure continued to be faced by shipping liners, thus leading to possible pricing pressure on ports business. Besides, uneven distribution of port resources within individual regions may also intensify competition in these regions, while the industry trend for use of mega-sized vessels also necessitates the upgrading and restructuring of the port infrastructure and facilities. Therefore, there are still considerable challenges faced by the port industry.

Based on these analysis and judgment, the Group will manage its business in 2013 along the new visions in "optimizing scale, refining operation, stressing on efficiency, and rebalancing resources and strategies". By adhering to the ports operation as its core business, the Group intends to, through continued operational refinement, enhancing innovative developments, deepening the integrating and alignment process in the homebase ports in Shenzhen, and lifting management abilities, optimize the benefits to be derived from existing resources so to ensure a stable return to shareholders. On the other hand, guided by the strategy set, the Group intends to capture suitable opportunities available during this crisis period to improve its strategic positioning and explore the extension of supply chain and creating business value, with a view to strengthen the Group's capability for sustainable development.

As for its operations, based upon the consolidation of equity interests in its homebase ports in West Shenzhen, the Group will actively pursue the unification and integration of the West Shenzhen ports, and encourage resources sharing, in order to enhance the efficiency of resources and utilization of assets at the homebase ports. Meanwhile, the Group will continue to smoothen the cargo distribution capabilities at ports, encourage inter-modal connectivity in conjunction with the expansion of the barge network in the Pearl River Delta, currently pivoted at inland ports at Hunan ("Hunan inland port project") and "feeder-liner" operation, with a view to further exploring unconventional operational models aimed towards bringing greater value to the Group's customers whilst cementing this unique competitive advantage for the homebase ports. The Group will also facilitate the implementation of key initiatives including positioning and collaboration of river terminals, berth upgrading and improvements in channel capabilities, while attempting to fully utilize the advantages of interactions between ports and the corresponding bonded port zones in order to actively pursue the opportunities of integrating ports-related industries.

As regards managing its operations, the Group aims to support needs due to its strategic development plans and to improve its overall management quality through further refining its operational management, building a sophisticated management information platform for ports and establishing a standardized operating system with a view to exploring and identifying the best channel through which to expand the Group's ports business over time.

With respect to overseas expansion, the Group will continue to pursue its internationalization strategy in the coming years amid the relocation trend in global supply chains. The Group will closely monitor investment opportunities in ports in developing countries with economic and trade growth, while seeking to improve the positioning of our global ports network to scale up the operations of the Group's portfolio and to elevate its influence in the international maritime industry.

In 2013, the Group's cold chain operations will speed up its network coverage in the Mainland's four core economic regions so as to continue to expand its market share in the domestic cold chain logistics business. In addition, the Group intends to capture opportunities induced by the rapid development in domestic China's food and beverage industry while streamlining its existing resources allocation and accelerating the development of distribution business in city urban areas so as to enhance operational profitability from existing assets. Based on its present procurement and distribution activities, the Group intends to continue to explore and identify unconventional commercial models and expand distribution channels in order to enhance its business integration ability and, in turn, drive the development of the cold chain business.

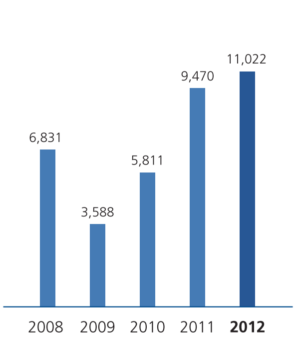
Notwithstanding the complicated external macro-economic environment prevailing in 2013, the Group is confident of encountering more opportunities than challenges in the coming year. By adapting itself timely to the ever-changing market conditions and seeking to expand while ensuring business stability and steady progress in line with established strategies and objectives, the Group endeavors to achieve its annual targets, as always optimize benefits for shareholders with enhanced profitability, thereby delivering better returns for its shareholders.

Five-year Financial Summary

	2012 HK$'million	2011 HK$'million (as restated)	2010 HK$'million (as restated)	2009 HK$'million (as restated)	2008 HK$'million (as restated)
RESULTS					
Revenue	**11,022**	9,470	5,811	3,588	6,831
Profit before taxation	**6,871**	7,686	7,238	3,735	4,315
Profit for the year	**5,708**	6,691	6,689	3,475	4,026
Non-controlling interests	**1,890**	1,102	804	219	320
Profit attributable to equity holders of the Company	**3,818**	5,589	5,885	3,256	3,706
ASSETS AND LIABILITIES					
Non-current assets	**71,414**	71,914	64,733	45,783	45,278
Net current (liabilities)/assets	**(2,749)**	3,462	2,372	(130)	(1,687)
Total assets less current liabilities	**68,665**	75,376	67,105	45,653	43,591
Non-current liabilities	**14,983**	20,569	17,707	10,016	10,877
Non-controlling interests	**8,140**	11,355	10,329	2,056	2,434
Capital and reserves attributable to equity holders of the Company	**45,542**	43,452	39,069	33,581	30,280
RETURN TO SHAREHOLDERS					
Earnings per share					
– Basic (HK cents)	**153.26**	225.89	239.51	133.86	152.97
– Diluted (HK cents)	**153.09**	225.33	238.90	133.78	152.43
Dividend per share (HK cents)	**70.00**	98.00	103.00	57.00	68.00

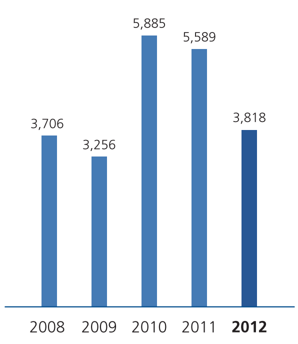
Revenue

HK$'million



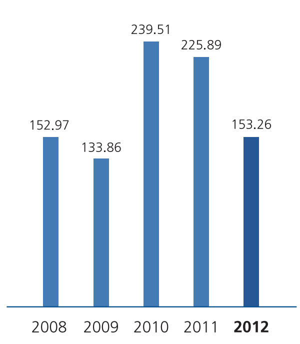
Profit attributable to the equity holders of the Company

HK$'million



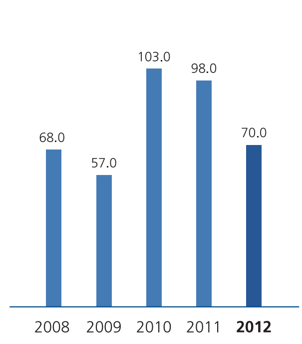
Earnings per share

HK cents



Dividend per share

HK cents



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 2012. In November 2004, The Stock Exchange of Hong Kong Limited ("Stock Exchange") promulgated the Code on Corporate Governance Practices (the "Old 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 Old Code was subsequently revised and renamed as the Corporate Governance Code (the "New Code") with effect from 1 April 2012.

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 Old Code during the period from 1 January 2012 to 31 March 2012 and the Code Provisions set out in the New Code during the period from 1 April 2012 to 31 December 2012 except the following:

In respect of Code Provision A.6.7 under the New Code, Mr. Kut Ying Hay, Mr. Li Kwok Heem John, Mr. Li Ka Fai David and Mr. Bong Shu Ying Francis, the independent non-executive directors, were unable to attend the annual general meeting of the Company held on 31 May 2012 due to other business engagement.

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, five 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 2012	Attendance rate
Fu Yuning	5/5	100%
Li Jianhong	5/5	100%
Li Yinquan	4/5	80%
Hu Zheng	5/5	100%
Meng Xi	5/5	100%
Su Xingang	5/5	100%
Yu Liming	4/5	80%
Hu Jianhua	5/5	100%
Wang Hong	5/5	100%
Liu Yunshu	1/1	100%
Zheng Shaoping	4/4	100%
Kut Ying Hay	5/5	100%
Lee Yip Wah Peter	5/5	100%
Li Kwok Heem John	4/5	80%
Li Ka Fai David	5/5	100%
Bong Shu Ying Francis	5/5	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.

During the year under review, the Board considered the following corporate governance matters:

- adoption of the New Code as the corporate governance codes of the Company;
- establishment of the Nomination Committee;
- amendments to the terms of reference of the Audit Committee and Remuneration Committee;
- appointment of Mr. Li Ka Fai David as the Chairman of the Remuneration Committee; and
- division of responsibilities between Chairman and Managing Director of the Company.

The Board had subsequently delegated the corporate governance duties to the Audit Committee.

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 three 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.

Training and support for Directors

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. Furthermore, all Directors participated in continuous professional development to develop and refresh their knowledge and skills and to ensure that their contribution to the Board remains informed and relevant.

During the period from 1 April 2012 to 31 December 2012, the Directors also participated in the following trainings:

Name of Director	Type of training
Fu Yuning	A,B,C
Li Jianhong	A,B,C
Li Yinquan	A,B,C
Hu Zheng	A,B,C
Meng Xi	A,B,C
Su Xingang	A,B,C
Yu Liming	A,B,C
Hu Jianhua	A,B,C
Wang Hong	A,B,C
Zheng Shaoping	A,B,C
Kut Ying Hay	A,C
Lee Yip Wah Peter	A,C
Li Kwok Heem John	A,B,C
Li Ka Fai David	A,C
Bong Shu Ying Francis	A,C

A: attending seminars and/or conferences and/or forums
B: giving talks at seminars and/or conferences and/or forums
C: reading journals and updates relating to the economy, general business or director's duties and responsibilities etc.

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. One meeting was held in 2012. The attendance of each member is set out as follows:

Name of member	Number of meetings attended in 2012	Attendance rate
Kut Ying Hay (Chairman of the Nomination Committee)	1/1	100%
Hu Jianhua	0/1	0%
Lee Yip Wah Peter	1/1	100%
Li Kwok Heem John	0/1	0%
Li Ka Fai David	1/1	100%
Bong Shu Ying Francis	1/1	100%

During the year, the Nomination Committee has reviewed the structure, size and composition of the Board, assessed the independence of the Independent Non-executive Directors according to the independence requirements set out in Rule 3.13 of the Listing Rules and made recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors after considering their qualifications, management expertise and experience in relevant industries.

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 2012. The attendance of each member is set out as follows:

Name of member	Number of meetings attended in 2012	Attendance rate
Li Ka Fai David (Chairman of the Remuneration Committee)	1/1	100%
Hu Jianhua	0/1	0%
Kut Ying Hay	1/1	100%
Lee Yip Wah Peter	1/1	100%
Li Kwok Heem John	0/1	0%
Bong Shu Ying Francis	1/1	100%

During the year, the Remuneration Committee has reviewed and recommended for approval by the Board 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 46 to 49 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 Remuneration 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 2012, 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 59.

Audit Committee

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

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

Name of member	Number of meetings attended in 2012	Attendance rate
Lee Yip Wah Peter (Chairman of the Audit Committee)	2/2	100%
Kut Ying Hay	2/2	100%
Li Kwok Heem John	1/2	50%
Li Ka Fai David	2/2	100%
Bong Shu Ying Francis	2/2	100%

During the meetings held in 2012, the Audit Committee had performed the following work:

(i) reviewed the financial reports for the year ended 31 December 2011 and for the six months ended 30 June 2012;

(ii) reviewed the effectiveness of internal control system;

(iii) reviewed the appointment of the new external auditor and engagement letter for the new external auditor;

(iv) reviewed the management letter from the external auditor in relation to the audit of the Group for the year ended 31 December 2011;

(v) reviewed and recommended for approval by the Board the 2012 audit scope and fees;

(vi) reviewed the connected transactions entered into by the Group during 2011; and

(vii) reviewed the Company's internal control manual applicable to employees and directors.

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 New 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. Deloitte Touche Tohmatsu, is set out as follows:

Services rendered	Fees paid/payable HK$'million
Audit services	10.0
Non-audit services	3.5
(Tax advisory, compliance services and financial advisory services)	
Total	13.5

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 Business Department are responsible for the Group's investment exposure analysis at home and abroad, 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, Information Technology Department, Production Safety Management Department and the operating units. Exposure to risks of the Group's project construction, equipment and bulk materials procurement is monitored by the Group's officer in charge of project management together with the Engineering Management Department. In addition, procedures are designed to ensure compliance with applicable laws, rules and regulations;

- Basic risk management and control system is set up while internal control system and self-assessment system are established according to the Group's actual circumstances;

- 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, with the scope of work covering all important controls regarding finance, operation and compliance.

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.

Company Secretary

The Company Secretary, Mr. LEUNG Chong Shun, is a practicing solicitor in Hong Kong. Although he is not a full time employee of the Company, he reports to the Board and is responsible for advising the Board on governance matters. The primary contact person of the Company with the Company Secretary is Ms. Yvonne Luk Man Kuen, General Manager of Board of Directors and Legal Department of the Company. The Company Secretary has confirmed that he has taken no less than 15 hours of relevant professional training during the 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 2012 annual general meeting of the Company held on 31 May 2012, 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. The attendance of each Director at the meeting is set out as follows:

Name of Director	Number of general meetings attended during the Director's term of office in 2012
Fu Yuning	1/1
Li Jianhong	0/1
Li Yinquan	1/1
Hu Zheng	0/1
Meng Xi	0/1
Su Xingang	0/1
Yu Liming	0/1
Hu Jianhua	1/1
Wang Hong	1/1
Liu Yunshu	0/0
Zheng Shaoping	0/1
Kut Ying Hay	0/1
Lee Yip Wah Peter	1/1
Li Kwok Heem John	0/1
Li Ka Fai David	0/1
Bong Shu Ying Francis	0/1

Shareholder(s) holding not less than one-twentieth of the paid up capital of the Company can make a requisition to convene an extraordinary general meeting pursuant to Section 113 of the Companies Ordinance of Hong Kong (the "Ordinance"). The requisition must state the objects of the meeting, and must be signed by the relevant shareholder(s) and deposited at the registered office of the Company. Besides, Section 115A of the Ordinance provides that (i) shareholder(s) representing not less than one-fortieth of the total voting rights of all shareholders of the Company or (ii) not less than 50 shareholders holding the shares in the Company on which there has been paid up an average sum of not less than HK$2,000 per shareholder can put forward proposals for consideration at a general meeting of the Company by depositing a requisition in writing signed by the relevant shareholder(s) at the registered office of the Company. Procedures for shareholders to propose a person for election as a director hare been uploaded to the Company's website.

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.

Shareholders may at any time send their enquiries and concerns to the Board by addressing them to the Investor Relations Representative of the Company. The contact details are as follows:

Investor Relations Representative of
China Merchants Holdings (International) Company Limited
38th Floor, China Merchants Tower
Shun Tak Centre, 168-200 Connaught Road Central
Hong Kong
Email: relation@cmhk.com
Tel No.: 2102 8888
Fax No.: 2587 8811

The 2013 annual general meeting of the Company will be held at 9:30 a.m. on Tuesday, 18 June 2013 at Salon I-IV, Mezzanine Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Hong Kong.

Directors and Senior Management

Directors

Dr. Fu Yuning

aged 56, 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). 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), the Chairman of China International Marine Containers (Group) Co., Ltd. (a company listed in Shenzhen) and an Independent Non-executive Director of CapitaLand Limited (a company listed in Singapore). 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.

Mr. Li Jianhong

aged 56, 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 58, 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 is a Hong Kong Deputy to the 12th National People's Congress of the People's Republic of China. He was appointed to the Board of Directors as Executive Director on 20 June 2001.

Mr. Hu Zheng

aged 57, 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, Chairman of China Merchants Zhangzhou Development Zone Co., Ltd. and Chairman of Board of Trustees of China Merchants Charitable Foundation. Moreover, he is Vice Chairman of The Hong Kong Chinese Enterprises Association, China Association of Purchasing and Logistics and China Association of Communications Enterprises Management. He obtained a Master Degree in Business Administration from Murdoch University, Australia and holds a professional title of "Senior Economist". Mr. Hu successively served as the Secretary of the General Office of the Ministry of Communications, Secretary of the board of directors, General Manager of the Executive Department, Assistant President and General Legal Counsel of China Merchants Group Limited, and No. 1 Deputy General Manager of China Merchants Shekou Industrial Zone Company Limited. He was appointed to the Board of Directors as Executive Director on 29 June 2004.

Mr. Meng Xi

aged 57, 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 54, 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, a Director and Vice Chairman of Shanghai International Port (Group) Company Limited, shares of which are listed on the Shanghai Stock Exchange and a Director of Ningbo Port 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 50, is the Vice President 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 50, 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 50, 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, a Director of China Merchants Energy Shipping Company Limited, shares of which are listed on the Shanghai Stock Exchange and a Director of China Merchants Property Development Company Limited, shares of which are listed on the 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 50, is the Deputy General Manager of the Company. Mr. Zheng is also 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. and the Chairman of Shenzhen Chiwan Wharf Holdings Limited, shares of which are listed on the Shenzhen Stock Exchange. 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 58, 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 71, 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 57, 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 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 58, 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 an advisor of that Company on 31 March 2011 and retired on 30 March 2013. He was appointed to the Board of Directors as Independent Non-executive Director on 1 June 2007.

Mr. Bong Shu Ying Francis

aged 71, 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 48, 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 52, 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 61, 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, until February 2009, 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 44, joined the Company in 2005 and is the Deputy General Manager and the Financial Controller of the Company, responsible for accounting, 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 22 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 49, 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. Deng Weidong

aged 45, joined the Company in July 2009 and is the Deputy General Manager of the Company. 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.

Mr. Wang Zhixian

aged 48, joined the Company in July 1992 and is the Deputy General Manager of the Company. He graduated from Tianjin University, Shanghai Jiaotong University with a Master of Science. He obtained a master degree of Business Administration from Peking University. Mr. Wang has extensive management experience in port and shipping industry. Prior to joining the Company, he worked in Hempel-Hai Hong Paint Company as sales manager. After joining the Company, he was the Deputy General Manager of Industrial Management Department, General Manager of Business Planning Department, and he was the Deputy General Manager of Shenzhen Mawan Port Services Co., Ltd, the Chairman and CEO of Ningbo Daxie China Merchants International Terminal Co., Ltd and the Managing Director of China Merchants Port Services (Shenzhen) Co., Ltd. and Shenzhen Haixing Harbour Development 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 2012.

Principal activities and geographical analysis of operations

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

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

Results and appropriations

The results of the Group for the year are set out in the consolidated income statement on page 61.

The Board had declared an interim dividend of 22 HK cents per share, totalling HK$548 million, which was paid on 28 November 2012.

The Directors have resolved to recommend the payment of a final scrip dividend of 48 HK cents per share, totalling HK$1,196 million for the year ended 31 December 2012 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 (2011: scrip dividend of 68 HK cents per share by way of issue of new shares equivalent with cash alternative), payable on or around 30 July 2013 to the shareholders whose names appear on the Register of Members of the Company on 24 June 2013 (the "Scrip Dividend Scheme").

Subject to the approval by shareholders at the 2013 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 27 June 2013. 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 30 July 2013.

Charitable Donations

HK$0.20 million donation was made by the Group during the year (2011: 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 2012, as defined under section 79B of the Hong Kong Companies Ordinance, amounted to HK$3,237 million (2011: HK$2,775 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 26.

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 2012 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"), Mr. Li Jianhong, Mr. Hu Zheng, Mr. Hu Jianhua, Mr. Wang Hong and Mr. Bong Shu Ying Francis will retire from the Board at the forthcoming annual general meeting but, being eligible, will offer themselves 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 2012, 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 2012
Dr. Fu Yuning	Beneficial owner	Personal interest	587,699	400,000	**0.0396%**
Mr. Li Yinquan	Beneficial owner	Personal interest	—	400,000	**0.0161%**
Mr. Hu Zheng	Beneficial owner	Personal interest	—	700,000	**0.0281%**
Mr. Meng Xi	Beneficial owner	Personal interest	—	200,000	**0.0080%**
Mr. Su Xingang	Beneficial owner	Personal interest	—	350,000	**0.0140%**
Mr. Yu Liming	Beneficial owner	Personal interest	386,580	500,000	**0.0356%**
Mr. Wang Hong	Beneficial owner	Personal interest	529,277	150,000	**0.0273%**
Mr. Zheng Shaoping	Beneficial owner	Personal interest	—	300,000	**0.0120%**
Mr. Lee Yip Wah Peter	Beneficial owner	Personal interest	160,314	—	**0.0064%**
Mr. Li Kwok Heem John	Interest of spouse	Family interest	1,572,287	—	**0.0631%**
			3,236,157	3,000,000	**0.2503%**

Save as disclosed above and based on the register maintained by the Company under section 352 of the SFO, as at 31 December 2012, 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 Issuers 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 27 March 2013, the total number of shares which may be issued pursuant to the exercise of options granted under the Terminated Schemes was 25,567,000 shares.

As at 27 March 2013, the total number of shares available for issue under the Terminated Schemes and the Share Option Scheme was 273,008,123 shares, which represented approximately 10.96% of the total issued share capital of the Company as at the same date.

Details of the share options outstanding at 31 December 2012 which have been granted under the Terminated Schemes are as follows:

Name		Date of grant	Exercise price HK$	Options held as at 1 January 2012	Options granted during the year	Options exercised during the year	Options lapsed during the year	Options cancelled during the year	Other Changes during the year	Options held as at 31 December 2012
Directors										
Dr. Fu Yuning		25 May 2006	23.03	400,000	—	—	—	—	—	400,000
Mr. Li Yinquan		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)	—
Mr. Zheng Shaoping		25 May 2006	23.03	—	—	—	—	—	300,000	300,000
				3,000,000	—	—	—	—	—	3,000,000
Continuous contract employees										
(I)	The Group	27 October 2004	11.08	1,030,000	—	(280,000)	—	—	—	750,000
		25 May 2006	23.03	11,723,000	—	—	—	—	—	11,723,000
		21 June 2006	20.91	150,000	—	—	—	—	—	150,000
(II)	The CMHK	27 October 2004	11.08	1,000,000	—	—	—	—	—	1,000,000
	Group	25 May 2006	23.03	10,254,000	—	(700,000)	(180,000)	—	—	9,374,000
				24,157,000	—	(980,000)	(180,000)	—	—	22,997,000
				27,157,000	—	(980,000)	(180,000)	—	—	25,997,000

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$24.112.
3. No share options were granted under the Terminated Schemes and the Share Option Scheme during the year.

Substantial shareholders

As at 31 December 2012, 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	1,364,294,203(1,2,3)	54.76%
China Merchants Steam Navigation Company Limited	Interest of Controlled Corporation	1,361,294,203(2)	54.64%
China Merchants Holdings (Hong Kong) Company Limited	Interest of Controlled Corporation	1,361,294,203(2)	54.64%
China Merchants Union (BVI) Limited	Beneficial Owner	1,344,024,687(2)	53.95%
Davis Selected Advisers, L.P. (d/b/a: Davis Advisors)	Investment Manager	145,910,554	5.86%
Commonwealth Bank of Australia	Interest of Controlled Corporation	126,087,842(4)	5.06%
Colonial Holding Company Limited	Interest of Controlled Corporation	126,087,842(4)	5.06%
Commonwealth Insurance Holdings Limited	Interest of Controlled Corporation	126,087,842(4)	5.06%
Colonial First State Group Ltd	Interest of Controlled Corporation	126,087,842(4)	5.06%

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 1,364,294,203 shares, which represents the aggregate of 1,361,294,203 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 1,361,294,203 shares which are deemed to be interested by China Merchants Holdings (Hong Kong) Company Limited. Such shares represent the aggregate of 1,344,024,687 shares beneficially held by China Merchants Union (BVI) Limited and 17,269,516 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 17,269,516 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 2012, 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 September 2012, Shenzhen China Merchants Venture Co., Ltd ("**CMV**"), Shenzhen Malai Storage Company Limited ("**SZW**") (an indirect wholly-owned subsidiary of the Company) and Shenzhen China Merchants Real Estates Co., Ltd. ("**CMRE**") entered into a property interest transfer agreement (the "**Property Interest Transfer Agreement**"). Pursuant to the Property Interest Transfer Agreement, SZW agreed to acquire the entire property interest in the Immigration Building and the related parking spaces of China Merchants Ocean Centre ("**Ocean Centre**") from CMV, which represents 46.7% property interest in the Ocean Centre (the "**Ocean Centre Acquisition**") and CMRE, as the owner of the remaining 53.3% property interest in Ocean Centre, agreed to take all actions required to facilitate and give effect to the Ocean Centre Acquisition. The total consideration for the Ocean Centre Acquisition is RMB465,320,000. The Ocean Centre Acquisition allows the Company to improve and enhance the service level and the operational efficiency of its customs clearance services in the Shenzhen Western Ports Zone. Furthermore, as a result of the "Qianhai, Shenzhen and Hong Kong Modern Service Industry Cooperation-Zone Master Development Plan", which was approved by the State Council of the PRC in 2010, the region where the Ocean Centre is located is expected to become a concentration area for the Shenzhen-Hong Kong high-end logistics industry, and is also expected to develop into an important supply chain management centre and a service base for ancillary services for the shipping industry in the Asia-Pacific region. As CMV is wholly-owned by China Merchants Shekou Industrial Zone Company Limited ("**CMSIZ**"), which in turn is a wholly-owned subsidiary of China Merchants Group Limited ("**CMG**"), the ultimate holding company of the Company, CMV is a connected person of the Company and the Ocean Centre Acquisition constitutes a connected transaction of the Company.

(b) On 18 June 2010, the Company entered into an entrustment agreement with China Merchants Holdings (Hong Kong) Company Limited ("**CMHK**") (the "**Entrustment Agreement**"). Pursuant to the Entrustment Agreement, CMHK agreed to grant to the Company the management rights and the power to direct the voting right over 23.493% of China Nanshan Development (Group) Incorporation ("**China Nanshan**") held by Guangdong Guangye Investment Holdings Limited (the "**Entrusted Nanshan Shares**"). The Entrustment Agreement took effect on 12 August 2010 upon being approved by the independent shareholders of the Company. On 28 December 2012, the Company and CMHK entered into a termination agreement to terminate the Entrustment Agreement (the "**Termination Agreement**") for a one-off nominal consideration of RMB1.00. The Termination Agreement was approved by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 21 February 2013 and the parties agreed that the Termination Agreement would be considered to take effect as from the date of the Termination Agreement. Upon the Termination Agreement becoming effective, the Company is no longer able to exercise the management rights and does not have the power to direct the voting right over the Entrusted Nanshan Shares. In accordance with the Hong Kong Financial Reporting Standards, this results in the Company no longer being able to consolidate the assets, liabilities and other financial results of China Nanshan and its subsidiaries (excluding Shenzhen Chiwan Wharf Holdings Limited ("**Chiwan Wharf**") and its subsidiaries) (the "**Outgoing Group**") into the consolidated financial statements of the Group. The Group has over the past decade been endeavouring to integrate and/or re-align its interests, equity or operation-wise, in the assets located in the West Shenzhen Ports Zone whenever it is practicably possible to so do with a view to harmoniously improving their efficiency and, in turn, further strengthening the Group's foothold in the proximity. The Entrustment Agreement has enabled the Company to gradually achieve such objectives. Furthermore, China Nanshan agreed, pursuant to the entrustment agreement entered into between the Company and China Nanshan dated 17 September 2012, to entrust the Company with the right to manage Chiwan Wharf, thereby allowing the Company to have not only management control over Chiwan Wharf but also comprehensive control over all the port operations located within the West Shenzhen Ports Zone. Consequently, the Entrustment Agreement is considered no longer necessary for the Company. Apart from Chiwan Wharf, China Nanshan together with its subsidiaries (the "**Nanshan Group**") have a diversified portfolio of business operations, including those relating to aluminium, textiles and apparel, financial services, real estate, education, tourism and other industries. In view of the future development direction and plan of the Nanshan Group, its strategic development and resource allocation will be directed towards the consumer, resources and real estate sectors, with industrial and commercial real estate being the primary development focus. In another word, the future strategy of the Nanshan Group does not align with those of the Company, which will remain focused on ports and port related operations. If the Company continues its current relationship with the Nanshan Group, investors' understanding of the future development direction and the financial structure of the Company may be adversely affected. In summary, terminating the Entrustment Agreement at this current stage is expected to enable the Group to focus its management resources on its core operation while bringing clarity to understanding the Group's on-going business strategies and objectives. As CMHK is a substantial shareholder of the Company, CMHK is a connected person of the Company and the Termination Agreement constitutes a connected transaction of the Company.

(c) Details of the continuing connected transactions of the Group for the year ended 31 December 2012 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)	(6.1)*
CMSIZ	Rental of a piece of land in Shekou charged to the Group	(ii)	(2.3)*
CMHK Hong Kong Ming Wah Shipping Company Limited ("**Ming Wah**")	Rental of certain properties in Hong Kong charged by the Group	(iii)	39.9
Shenzhen Nanyou (Group) Company Limited ("**Shenzhen Nanyou**")	Rental of a piece of land in Nanshan charged to the Group	(iv)	(1.8)*
CMSIZ	Rental of a piece of land in Nanshan charged to the Group	(v)	(7.2)*
CMSIZ	Rental of 21 parcels of land in Shekou and certain property assets charged to the Group	(vi)	(48.4)*
CMSIZ	Rental of three parcels of land in Shekou charged to the Group	(vii)	(2.3)*
CMSIZ	Rental of a piece of land in Shekou charged to the Group	(viii)	(1.0)*
Euroasia Dockyard Enterprise and Development Limited ("**Euroasia**")	Rental of a piece of land at Tsing Yi Terminal charged to the Group	(ix)	(13.1)
CMSIZ	Rental of a parcel of land in Shekou charged to the Group	(x)	(1)*
CMSIZ	Rental of a piece of land in Shekou charged to the Group	(xi)	(0.2)*
China Merchants Property Development Company Limited ("**SCMPD**")	Rental of two floors of Shekou Industrial Park Building charged to the Group	(xii)	(2.4)*

Name of party	Nature of transaction	Note	Income/ (expenses) HK$' million
Yiu Lian Dockyards Limited ("**Yiu Lian**")	Ship berthing service fee charged to the Group	(xiii)	(7.7)
CMHK	Rental of 21 residential units in Hong Kong charged to the Group	(xiv)	(2)
China Merchants Logistics Holding Fujian Co. Ltd. ("**CMLHF**")	Rental of a parcel of land in the Zhangzhou Economic Development Zone charged to the Group	(xv)	(1.1)*
CMLHF	Rental of a parcel of land in the Zhangzhou Economic Development Zone charged to the Group	(xvi)	(0.5)*

* 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 2012 was HK$6,100,000. 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. The transaction contemplated under the lease agreement constitutes 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. 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. The aggregate amount of rental receivable under the three tenancy renewal agreements for the year ended 31 December 2012 is HK$39,885,120. 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 entered into a lease agreement with Shenzhen Nanyou to renew the lease of a 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. The transaction contemplated under the lease agreement constitutes 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 30 November 2011, CMSIZ entered into a lease agreement with CMBL to renew the lease 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 2012 at a rental of RMB48 per square meter per annum with an aggregate rental of RMB5,823,873.60 per annum. The Directors are of the view that the transaction contemplated under the lease agreement is beneficial to the Group and assists in maintaining the Group's sustainable growth. CMSIZ is an indirect wholly-owned subsidiary of CMG. Accordingly, CMSIZ is a connected person of the Company.

(vi) China Merchants Port Services (Shenzhen) Company Limited ("**SCMPS**") entered into six lease agreements with CMSIZ on 30 November 2011, pursuant to which SCMPS agreed to lease 21 parcels of land in the Shekou Industrial Park and certain property assets from CMSIZ for a term of two years commencing on 1 January 2012 for a total rental of RMB39,348,320 for the year ended 31 December 2012 and not exceeding RMB51,048,491 for the year ending 31 December 2013. The transactions contemplated under the lease agreements 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 three lease agreements with CMSIZ to lease three parcels of land in the Shekou Industrial Park with a total area of 24,953.52 square meters for a term of two years commencing on 1 January 2011 for a total rental of RMB1,871,514 per annum. In view of the expiration of these three lease agreements on 31 December 2012, SCMPS entered into three new lease agreements on 30 October 2012 with CMSIZ to continue to lease a portion of three parcels of land in the Shekou Industrial Park with a total area of 24,589.58 square meters for a term of one year commencing on 1 January 2013 for a total rental of RMB1,844,218.5 for the year ending 31 December 2013. The transactions contemplated under the lease agreements 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.

(viii) On 14 December 2010, SCMPS entered into a lease agreement with CMSIZ to lease a piece of land in Shekou Industrial Park, with a total area of 10,298.94 square meters, for a term of two years commencing on 1 January 2011 at a total annual rental charge of RMB772,420.50. In view of the expiration of the lease agreement on 31 December 2012, SCMPS entered into the new lease agreement on 30 October 2012 with CMSIZ to renew the lease of such piece of land in Shekou Industrial Park for a further term of one year commencing on 1 January 2013 for a total rental of RMB772,420.50 for the year ending 31 December 2013. The transaction contemplated under the lease agreement constitutes 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. CMSIZ is an indirect wholly-owned subsidiary of CMG. Accordingly, CMSIZ is a connected person of the Company.

(ix) China Merchants Container Services Limited ("**CMCS**"), an indirect wholly-owned subsidiary of the Company, entered into a cooperation agreement with Euroasia on 30 November 2011 to renew 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 on 1 January 2012 and at a rental of HK$13,050,312 per annum. The Directors are of the view that the transaction contemplated under the cooperation agreement is in line with the Group's strategy to expand in port and port-related business. As Euroasia is an indirect wholly-owned subsidiary of CMG, it is a connected person of the Company.

(x) SCMPS entered into a lease agreement with CMSIZ on 30 November 2011 pursuant to which SCMPS renewed the lease of 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 on 1 January 2012 at a rental payable of RMB708,037.06 per annum. The transaction contemplated under the lease agreement constitutes 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. CMSIZ is an indirect wholly-owned subsidiary of CMG. Accordingly, CMSIZ is a connected person of the Company. The lease agreement was terminated on 1 October 2012.

(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. The transaction contemplated under the lease agreement constitutes 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. 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 at a total rental payable during the entire lease period of RMB4,253,886. In view of the expiration of the lease agreement on 31 December 2012, China Merchants Property Investment Company ("**SCMPI**"), a wholly-owned subsidiary of SCMPD, entered into a new lease agreement with CMCIL on 30 October 2012 to renew such lease for a further term of two years commencing on 1 January 2013 and at an annual rental of RMB2,163,672. The transaction contemplated under the lease agreement constitutes 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. SCMPD and SCMPI are subsidiaries of CMG and hence connected persons of the Company.

(xiii) On 30 November 2011, 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 the annual cap for the ship berthing fee payable under the ship berthing services agreement for the year ended 31 December 2012 was set at HK$7,000,000. Due to the opening of CMCS's third vessel wharf in Tsing Yi Terminal, there was an increase of 14% in the number of vessels using the barges provided by Yiu Lian for bringing ships into and from the Tsing Yi Terminal for the eight months ended 31 August 2012 as compared with the same period in 2011. In view of the anticipated increase in the demand for ship berthing services to be provided by Yiu Lian, on 30 October 2012, the Directors resolved to revise the annual cap for the ship berthing fee payable for the year ended 31 December 2012 from HK$7,000,000 to HK$9,100,000. The total ship berthing fee paid under the ship berthing services agreement of 2012 was HK$7,700,000 for the year ended 31 December 2012. 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 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 and at a total annual rental of HK$1,764,000. In view of the expiration of the lease agreement on 31 December 2012, the Company entered into a new lease agreement with CMHK on 30 October 2012 to extend the lease of a total of 15 residential units in the Western District at a total annual rental of HK$1,260,000. The transaction contemplated under the lease agreement constitutes a de minimis continuing connected transaction 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.

(xv) On 30 October 2012, Zhangzhou China Merchants Port Co., Ltd. ("**ZCMP**") entered into a new lease agreement with CMLHF to lease a parcel of land in the Zhangzhou Economic Development Zone with a total area of 90,226.769 square meters to be used as a depot for a term of three years commencing on 1 November 2012. The total annual rental payable by ZCMP to CMLHF under the lease agreement is RMB900,000 for the two months ended 31 December 2012, RMB6,800,000 for the year ended 31 December 2013, RMB7,130,000 for the year ending 31 December 2014 and RMB6,300,000 for the ten months ending 31 October 2015. The transaction contemplated under the lease agreement constitutes a de minimis continuing connected transaction pursuant to Rule 14A.33(3) of the Listing Rules. The Directors are of the view that the leasing of the depot under the lease agreement will facilitate a smooth business operation of the Group's port and port-related business in light of the shortage of depot. CMLHF is a subsidiary of CMG and hence a connected person of the Company.

(xvi) On 30 October 2012, ZCMP entered into a new lease agreement with CMLHF to lease a parcel of land in the Zhangzhou Economic Development Zone with a total area of 12,600 square meters to be used as a warehouse for a term of three years commencing on 1 November 2012. The total annual rental payable by ZCMP to CMLHF under the lease agreement is RMB378,000 for the two months ended 31 December 2012, RMB2,268,000 for each of the years ending 31 December 2013 and 31 December 2014 and RMB1,890,000 for the ten months ending 31 October 2015. The transaction contemplated under the lease agreement constitutes a de minimis continuing connected transaction pursuant to Rule 14A.33(3) of the Listing Rules. The Directors are of the view that the leasing of the warehouse under the lease agreement will facilitate a smooth business operation of the Group's port and port-related business in light of the shortage of warehouse. CMLHF is a subsidiary of CMG and hence a connected person of the Company.

(d) The Independent Non-executive Directors have reviewed the continuing connected transactions set out in paragraph (c) 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 SCT1, details of which are set out in note (i) to paragraph (c) of this section, the aggregate rental has not exceeded HK$6,100,000, the annual cap for the year ended 31 December 2012;

(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 (c) 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 2012;

(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 (c) of this section, the aggregate rental received for the year ended 31 December 2012 based on the tenancy renewal agreements has not exceeded the annual cap of HK$39,885,120;

(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 (c) 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 2012;

(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 (c) of this section, the aggregate rental has not exceeded RMB5,900,000, the annual cap for the year ended 31 December 2012;

(vi) in respect of the leases by CMSIZ to SCMPS of 21 parcels of land in Shekou and certain property assets under the six lease agreements entered into on 30 November 2011, details of which are set out in note (vi) to paragraph (c) of this section, the transactions contemplated under the six 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 six agreements for the year ended 31 December 2012;

(vii) in respect of the leases 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 (vii) to paragraph (c) 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 2012;

(viii) in respect of the lease by CMSIZ to SCMPS of a piece of land in Shekou, details of which are set out in note (viii) to paragraph (c) 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 2012;

(ix) in respect of the lease by Euroasia to CMCS of a piece of land at Tsing Yi Terminal, details of which are set out in note (ix) to paragraph (c) of this section, the aggregate rental has not exceeded HK$13,100,000, the annual cap for the year ended 31 December 2012;

(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 (c) 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 2012;

(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 (c) 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 2012;

(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 (c) 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 2012;

(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 (c) of this section, the annual cap for the total ship berthing fee payable under the ship berthing services agreement has not exceeded HK$9,100,000, the revised annual cap for the year ended 31 December 2012;

(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 (c) 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 2012;

(xv) in respect of the lease by ZCMP to CMLHF of a parcel of land in the Zhangzhou Economic Development Zone, details of which are set out in note (xv) to paragraph (c) 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 2012; and

(xvi) in respect of the lease by ZCMP to CMLHF of a parcel of land in the Zhangzhou Economic Development Zone, details of which are set out in note (xvi) to paragraph (c) 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 2012.

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 56 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 2012, 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

At the annual general meeting of the Company held on 31 May 2012, Messrs. PricewaterhouseCoopers retired as the auditor of the Company and Deloitte Touche Tohmatsu was appointed as the new auditor of the Company.

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

On behalf of the Board
Fu Yuning
Chairman

Hong Kong, 27 March 2013

Independent Auditor's Report

Deloitte.
德勤

TO THE MEMBERS 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 (collectively referred to as the "Group") set out on pages 61 to 162, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and 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 judgment, 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.

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 2012, 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.

Other Matter

The consolidated financial statements of the Group for the year ended 31 December 2011 were audited by another auditor who expressed an unmodified opinion on those statements on 29 March 2012.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
27 March 2013

Consolidated Income Statement

For the year ended 31 December 2012

	Note	**2012 HK$'million**	2011 HK$'million (as restated)
Revenue	5	**11,022**	9,470
Cost of sales		**(6,687)**	(5,418)
Gross profit		**4,335**	4,052
Other gains, net	8	**1,787**	1,949
Other income	8	**250**	108
Distribution costs		**(61)**	(47)
Administrative expenses		**(1,241)**	(1,177)
Operating profit		**5,070**	4,885
Finance income	12	**162**	187
Finance costs	12	**(1,328)**	(1,061)
Finance costs, net	12	**(1,166)**	(874)
Share of profits less losses of			
Associates	21	**2,754**	3,329
Jointly controlled entities	22	**213**	346
Profit before taxation		**6,871**	7,686
Taxation	13	**(1,163)**	(995)
Profit for the year	7	**5,708**	6,691
Attributable to:			
Equity holders of the Company		**3,818**	5,589
Non-controlling interests		**1,890**	1,102
Profit for the year		**5,708**	6,691
Dividends	15	**1,744**	2,424
Earnings per share for profit attributable to equity holders of the Company	14		
Basic (HK cents)		**153.26**	225.89
Diluted (HK cents)		**153.09**	225.33

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Note	**2012 HK$'million**	2011 HK$'million (as restated)
Profit for the year		**5,708**	6,691
Exchange differences from retranslation of investments in subsidiaries, associates and jointly controlled entities		**166**	2,116
Reclassification of reserves upon ceasing to control certain subsidiaries	40	**(170)**	—
Increase/(decrease) in fair values of available-for-sale financial assets, net of deferred taxation		**157**	(454)
Share of reserves of associates		**88**	(100)
Share of net actuarial loss on defined benefit plans of an associate		**(28)**	(18)
Share of reserve of a jointly controlled entity		**3**	45
Total other comprehensive income for the year, net of tax		**216**	1,589
Total comprehensive income for the year		**5,924**	8,280
Total comprehensive income attributable to:			
Equity holders of the Company		**3,954**	6,670
Non-controlling interests		**1,970**	1,610
		5,924	8,280

Consolidated Statement of Financial Position

As at 31 December 2012

	Note	**31 December 2012 HK$'million**	31 December 2011 HK$'million (as restated)	1 January 2011 HK$'million (as restated)
ASSETS				
Non-current assets				
Goodwill	16	**3,293**	3,338	3,298
Intangible assets	16	**4,796**	1,253	91
Property, plant and equipment	17	**16,863**	18,269	16,835
Investment properties	18	**1,534**	4,340	3,662
Land use rights	19	**7,946**	9,883	9,683
Interests in associates	21	**28,468**	27,394	23,701
Interests in jointly controlled entities	22	**5,172**	5,038	4,589
Other financial assets	23	**2,092**	1,919	2,418
Other non-current assets	24	**1,130**	344	342
Deferred tax assets	35	**120**	136	114
		71,414	71,914	64,733
Current assets				
Inventories	25	**89**	240	159
Properties under development and held for sale	26	**—**	4,380	2,241
Other financial assets	23	**369**	963	382
Debtors, deposits and prepayments	27	**1,400**	2,776	4,484
Taxation recoverable		**2**	2	—
Cash and bank balances	28	**4,192**	6,811	6,352
		6,052	15,172	13,618
Total assets		**77,466**	87,086	78,351

	Note	**31 December 2012 HK$'million**	31 December 2011 HK$'million (as restated)	1 January 2011 HK$'million (as restated)
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Share capital	29	**249**	247	246
Reserves		**44,097**	41,522	36,905
Proposed dividend	15	**1,196**	1,683	1,918
		45,542	43,452	39,069
Non-controlling interests		**8,140**	11,355	10,329
Total equity		**53,682**	54,807	49,398
LIABILITIES				
Non-current liabilities				
Loans from the ultimate holding company	31	**—**	985	938
Loans from an intermediate holding company	32	**617**	—	587
Other financial liabilities	33	**11,184**	16,231	14,144
Other non-current liabilities	34	**1,489**	1,049	—
Deferred tax liabilities	35	**1,693**	2,304	2,038
		14,983	20,569	17,707
Current liabilities				
Creditors and accruals	36	**1,641**	3,888	4,382
Loans from the ultimate holding company	31	**986**	1,615	1,748
Loans from an intermediate holding company	32	**—**	616	—
Other financial liabilities	33	**6,035**	5,279	4,855
Taxation payable		**139**	312	261
		8,801	11,710	11,246
Total liabilities		**23,784**	32,279	28,953
Total equity and liabilities		**77,466**	87,086	78,351
Net current (liabilities)/assets		**(2,749)**	3,462	2,372
Total assets less current liabilities		**68,665**	75,376	67,105

The consolidated financial statements on pages 61 to 162 were approved and authorised for issue by the Board of Directors on 27 March 2013 and are signed on its behalf by:

Dr. Fu Yuning
DIRECTOR

Mr. Hu Jianhua
DIRECTOR

Statement of Financial Position

As at 31 December 2012

	Note	2012 HK$'million	2011 HK$'million
ASSETS			
Non-current assets			
Property, plant and equipment	17	**3**	3
Interests in subsidiaries	20	**31,740**	28,058
		31,743	28,061
Current assets			
Debtors, deposits and prepayments	27	**28**	3
Advances to subsidiaries	20	**301**	297
Cash and bank balances	28	**1,327**	1,123
		1,656	1,423
Total assets		**33,399**	29,484
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	29	**249**	247
Reserves	30(b)	**20,480**	19,148
Proposed dividend	15	**1,196**	1,683
Total equity		**21,925**	21,078
LIABILITIES			
Non-current liabilities			
Advances from subsidiaries	20	**8,456**	7,513
Other financial liabilities	33	**—**	847
Other non-current liabilities		**25**	—
		8,481	8,360
Current liabilities			
Advances from subsidiaries	20	**2,374**	—
Creditors and accruals	36	**123**	46
Other financial liabilities	33	**496**	—
		2,993	46
Total liabilities		**11,474**	8,406
Total equity and liabilities		**33,399**	29,484
Net current (liabilities)/assets		**(1,337)**	1,377
Total assets less current liabilities		**30,406**	29,438

Dr. Fu Yuning
DIRECTOR

Mr. Hu Jianhua
DIRECTOR

Consolidated Statement of Changes In Equity

For the year ended 31 December 2012

	Note	Attributable to equity holders of the Company					Non-controlling interests	Total
		Share capital HK$'million	Share premium HK$'million	Other reserves HK$'million (note 30(a))	Retained earnings HK$'million	Total HK$'million	HK$'million	HK$'million
At 1 January 2012 (as previously stated)		247	15,526	7,744	19,888	43,405	11,355	54,760
Effects of adoption of amendments to HKAS 12		—	—	—	47	47	—	47
At 1 January 2012 (as restated)		247	15,526	7,744	19,935	43,452	11,355	54,807
COMPREHENSIVE INCOME								
Profit for the year		—	—	—	3,818	3,818	1,890	5,708
Exchange differences from retranslation of investments in subsidiaries, associates and jointly controlled entities		—	—	85	—	85	81	166
Reclassification of reserves upon ceasing to control certain subsidiaries	40	—	—	(176)	6	(170)	—	(170)
Increase/(decrease) in fair value of available-for-sale financial assets, net of deferred taxation		—	—	158	—	158	(1)	157
Share of reserves of associates		—	—	88	—	88	—	88
Share of net actuarial loss on a defined benefit plan of an associate		—	—	—	(28)	(28)	—	(28)
Share of reserve of a jointly controlled entity		—	—	3	—	3	—	3
Other comprehensive income/(expense) for the year, net of tax		—	—	158	(22)	136	80	216
Total comprehensive income for the year		—	—	158	3,796	3,954	1,970	5,924
TRANSACTIONS WITH OWNERS								
Issue of shares on exercise of share options, net of share issue expenses	29(a)	—	19	—	—	19	—	19
Issue of shares in lieu of dividends	29(b)	2	362	—	—	364	—	364
Transfer to reserves		—	—	152	(152)	—	—	—
Acquisition of subsidiaries	39	—	—	—	—	—	1,386	1,386
Acquisition of additional interests in subsidiaries from non-controlling equity holders		—	—	(16)	—	(16)	(38)	(54)
Capital contribution to subsidiaries		—	—	—	—	—	360	360
Ceasing to control certain subsidiaries	40	—	—	—	—	—	(6,335)	(6,335)
Repayment of capital contribution to non-controlling equity holders		—	—	—	—	—	(42)	(42)
Dividends		—	—	—	(2,231)	(2,231)	(516)	(2,747)
Total transactions with owners for the year		2	381	136	(2,383)	(1,864)	(5,185)	(7,049)
At 31 December 2012		249	15,907	8,038	21,348	45,542	8,140	53,682

	Note	Attributable to equity holders of the Company					Non-controlling interests	Total
		Share capital HK$'million	Share premium HK$'million	Other reserves HK$'million (note 30(a))	Retained earnings HK$'million	Total HK$'million	HK$'million	HK$'million
At 1 January 2011 (as previously stated)		246	15,085	6,531	17,180	39,042	10,329	49,371
Effects of adoption of amendments to HKAS 12		—	—	—	27	27	—	27
At 1 January 2011 (as restated)		246	15,085	6,531	17,207	39,069	10,329	49,398
COMPREHENSIVE INCOME								
Profit for the year (as restated)		—	—	—	5,589	5,589	1,102	6,691
Exchange differences from retranslation of investments in subsidiaries, associates and jointly controlled entities		—	—	1,607	—	1,607	509	2,116
Decrease in fair value of available-for-sale financial assets, net of deferred taxation		—	—	(453)	—	(453)	(1)	(454)
Share of reserves of associates		—	—	(100)	—	(100)	—	(100)
Share of net actuarial loss on defined benefit plans of associates		—	—	—	(18)	(18)	—	(18)
Share of reserve of a jointly controlled entity		—	—	45	—	45	—	45
Other comprehensive income/(expense) for the year, net of tax		—	—	1,099	(18)	1,081	508	1,589
Total comprehensive income for the year		—	—	1,099	5,571	6,670	1,610	8,280
TRANSACTIONS WITH OWNERS								
Issue of shares on exercise of share options, net of share issue expenses	29(a)	—	30	—	—	30	—	30
Issue of shares in lieu of dividends	29(b)	1	411	—	—	412	—	412
Transfer to reserves		—	—	183	(183)	—	—	—
Acquisition of additional interests in subsidiaries from non-controlling equity holders		—	—	(75)	—	(75)	(97)	(172)
Partial disposal of interest in a subsidiary without losing control		—	—	6	—	6	116	122
Repayment of capital contribution to non-controlling equity holders		—	—	—	—	—	(39)	(39)
Dividends		—	—	—	(2,660)	(2,660)	(564)	(3,224)
Total transactions with owners for the year		1	441	114	(2,843)	(2,287)	(584)	(2,871)
At 31 December 2011 (as restated)		247	15,526	7,744	19,935	43,452	11,355	54,807

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Note	2012 HK$'million	2011 HK$'million
Cash flows from operating activities			
Net cash inflow from operations	37	**5,085**	3,186
Hong Kong Profits Tax paid		**(17)**	(8)
PRC corporate income tax paid		**(669)**	(546)
Withholding tax paid on dividends received		**(196)**	(190)
Dividends received from associates and jointly controlled entities		**2,130**	2,229
Net cash generated from operating activities		**6,333**	4,671
Cash flows from investing activities			
Interest income received		**162**	187
Proceeds from disposal of property, plant and equipment and land use rights		**1,146**	69
Income received from held-to-maturity investments		**22**	—
Repayment of loan from an associate		**470**	107
Purchase of property, plant and equipment, land use rights and port operating rights		**(3,911)**	(1,962)
Acquisition of subsidiaries, net of cash acquired	39	**(1,459)**	—
Acquisition of additional interest in associates		**—**	(178)
Ceasing to control certain subsidiaries	40	**(5,790)**	—
Investments in associates and jointly controlled entities		**(353)**	(92)
Acquisitions of other financial assets		**(3,276)**	(620)
Proceeds from disposals of other financial assets		**3,454**	—
Loan to an associate		**(180)**	—
Proceeds from disposals of interests in associates		**1,485**	—
Placement of short-term time deposits		**(1,386)**	(291)
Short-term time deposits matured		**291**	—
Net cash used in investing activities		**(9,325)**	(2,780)
Net cash (outflow)/inflow before financing activities carried forward		**(2,992)**	1,891

	Note	2012 HK$'million	2011 HK$'million
Net cash (outflow)/inflow before financing activities brought forward		**(2,992)**	1,891
Cash flows from financing activities			
Net proceeds from exercise of share options		**19**	30
Proceeds from new other financial liabilities		**12,233**	9,432
Net proceeds on issue of notes payable		**5,634**	3,013
Loans from non-controlling equity holders		**73**	12
Loans from the ultimate holding company		**1,057**	1,787
Loans from an intermediate holding company		**492**	—
Capital contributions from non-controlling equity holders of subsidiaries		**243**	122
Purchase of additional interests in subsidiaries		**(44)**	(151)
Dividends paid		**(1,867)**	(2,660)
Dividends paid to non-controlling equity holders of subsidiaries		**(803)**	(582)
Interests paid		**(1,440)**	(1,048)
Repayment of other financial liabilities		**(13,063)**	(9,854)
Repayment of loans from the ultimate holding company		**(2,632)**	(2,025)
Repayment of loans from an intermediate holding company		**(492)**	—
Repayment of loans from non-controlling equity holders		**(72)**	—
Repayment of capital contribution to non-controlling equity holders		**(42)**	(39)
Net cash used in financing activities		**(704)**	(1,963)
Decrease in cash and cash equivalents		**(3,696)**	(72)
Cash and cash equivalents at 1 January		**6,520**	6,352
Effect of foreign exchange rate changes		**(18)**	240
Cash and cash equivalents at 31 December	28	**2,806**	6,520

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION

China Merchants Holdings (International) Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred as to the "Group") are principally engaged in ports operation, bonded logistics and cold chain operations, property development and investment.

The Company is a limited liability company incorporated in Hong Kong and has its shares listed on The Stock Exchange of Hong Kong Limited (the "HKSE"). As at 31 December 2012, China Merchants Group Limited ("CMG"), directly or indirectly, held 54.76% issued share capital of the Company. The immediate holding company is China Merchants Union (BVI) Limited ("CMU"), 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies of the Group applied in the preparation of these consolidated financial statements are set out below, which are the same as the accounting policies of the Group's reportable segments. 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") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). 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.

(i) Revision and amendments to existing standards and interpretation effective in the current year but not relevant to the Group

Amendments to HKFRS 7 "Financial Instruments: Disclosures – Transfers of Financial Assets"

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(ii) Revision and amendments to existing standards and interpretation effective in the current year and relevant to the Group

Amendments to HKAS 12 "Deferred Tax: Recovery of Underlying Assets"

Under the amendments to HKAS 12 "Deferred Tax: Recovery of Underlying Assets", investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment Property" are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group measures its investment properties using the fair value model. As a result of the adoption of the amendments to HKAS 12, the Directors reviewed the Group's investment property portfolios and concluded that the Group's investment properties in Hong Kong are not held under a business model whose objective is to consume substantially all of the economic benefits embodies in the investment properties over time, and that the presumption set out in the amendments to HKAS 12 is not rebutted. As a result of the adoption of the amendments to HKAS 12, the Group does not recognise any deferred taxes on changes in fair value of its investment properties in Hong Kong as the Group is not subject to any major income taxes on disposal of its investment properties. Previously, the Group recognised deferred taxes on changes in fair value of its investment properties in Hong Kong on the basis that the entire carrying amounts of the properties were recovered through use. The Group considers that the investment properties of the Group and its associates in Mainland China are to be consumed substantially all of the economic benefits embodied in the investment properties over time, rather than through sale, and that the presumption set out in the amendments to HKAS 12 is rebutted. The Group continues to recognise deferred taxes on changes in fair value of the investment properties of the Group and its associates in Mainland China on the basis that the entire carrying amounts of the properties were recovered through use and hence, the adoption of the amendments to HKAS 12 on the investment properties of the Group and its associates in Mainland China has no effect on the amounts in the consolidated financial statements.

The amendments to HKAS 12 have been adopted retrospectively, resulting in the Group's deferred tax liabilities being decreased by HK$27 million and HK$47 million as at 1 January 2011 and 31 December 2011 respectively, with the corresponding adjustment being recognised in retained earnings.

In addition, the adoption of the amendments has resulted in the Group's income tax expense for the year ended 31 December 2012 and 31 December 2011 being reduced by HK$6 million and HK$20 million, respectively, and hence resulted in the profit for the year ended 31 December 2012 and 31 December 2011 being increased by HK$6 million and HK$20 million, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(ii) Revision and amendments to existing standards and interpretation effective in the current year and relevant to the Group (Continued)

Amendments to HKAS 12 "Deferred Tax: Recovery of Underlying Assets" (Continued)

The effects of the above changes in accounting policies on the financial positions of the Group as at 1 January 2011 and 31 December 2011 are summarised as follows:

	As at 1 January 2011 (as previously stated) HK$'million	Effects of adoption of amendments to HKAS 12 HK$'million	As at 1 January 2011 (as restated) HK$'million	As at 31 December 2011 (as previously stated) HK$'million	Effects of adoption of amendments to HKAS 12 HK$'million	As at 31 December 2011 (as restated) HK$'million
Deferred tax liabilities	(2,065)	27	(2,038)	(2,351)	47	(2,304)
Other assets and liabilities	51,436	—	51,436	57,111	—	57,111
Net assets	49,371	27	49,398	54,760	47	54,807
Share capital, share premium and other reserves	21,862	—	21,862	23,517	—	23,517
Retained earnings	17,180	27	17,207	19,888	47	19,935
Non-controlling interests	10,329	—	10,329	11,355	—	11,355
Total equity	49,371	27	49,398	54,760	47	54,807

The effects of the above changes in accounting policies on the basic and diluted earnings per share for the year ended 31 December 2012 and 31 December 2011 are set out as follows:

	Year ended 31 December	
	2012 HK cents	2011 HK cents
Increase in basic earnings per share	**0.24**	0.77
Increase in diluted earnings per share	**0.24**	0.77

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(iii) New standards, amendments to existing standards and interpretation have been issued but are not yet effective for the financial year beginning 1 January 2012 and have not been early adopted by the Group

		Effective for annual periods beginning on or after
Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle	1 January 2013
Amendments to HKFRS 1	Government Loans	1 January 2013
Amendments to HKFRS 7	Disclosures - Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures	1 January 2015
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	1 January 2013
Amendments to HKFRS 10, HKFRS12 and HKAS27	Investment Entities	1 January 2014
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
HKAS 19 (Revised 2011)	Employee Benefits	1 January 2013
HKAS 27 (Revised 2011)	Separate Financial Statements	1 January 2013
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures	1 January 2013
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities	1 January 2014
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.

Annual Improvements to HKFRSs 2009-2011 Cycle issued in June 2012

The "Annual Improvements to HKFRSs 2009-2011 Cycle" include a number of amendments to various HKFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013.

HKAS 1 requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to HKAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(iii) New standards, amendments to existing standards and interpretation have been issued but are not yet effective for the financial year beginning 1 January 2012 and have not been early adopted by the Group (Continued)

HKFRS 9 "Financial Instruments"

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in consolidated income statement.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in consolidated income statement. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to consolidated income statement. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in consolidated income statement.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(iii) New standards, amendments to existing standards and interpretation have been issued but are not yet effective for the financial year beginning 1 January 2012 and have not been early adopted by the Group (Continued)

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011). Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and Separate Financial Statements" that deal with consolidated financial statements. HK (SIC)-Int 12 "Consolidation – Special Purpose Entities" will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 "Interests in Joint Ventures". HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK (SIC) - Int 13 "Jointly Controlled Entities – Non-monetary Contributions by Venturers" will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time. These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

The directors anticipate that the application of these five standards will have no material effect on amounts reported in the consolidated financial statements. The application of HKFRS 12 may result in more extensive disclosures in the consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(iii) New standards, amendments to existing standards and interpretation have been issued but are not yet effective for the financial year beginning 1 January 2012 and have not been early adopted by the Group (Continued)

HKFRS 13 "Fair Value Measurement"

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors anticipate that the application of the new standard may result in more extensive disclosures in the consolidated financial statements.

HKAS 19 (as revised in 2011) "Employee Benefits"

The amendments to HKAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of HKAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of HKAS 19 are replaced with a 'net-interest' amount, which is calculated by applying the discount rate to the net defined benefit liability or asset.

The amendments to HKAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application. The directors anticipate that the application of the amendments to HKAS 19 may have an impact on the amounts reported in respect of the defined benefit plans of an associate of the Group. The directors consider that it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(iii) New standards, amendments to existing standards and interpretation have been issued but are not yet effective for the financial year beginning 1 January 2012 and have not been early adopted by the Group (Continued)

Amendments to HKAS 1 "Presentation of Items of Other Comprehensive Income"

The amendments to HKAS 1 introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a "statement of comprehensive income" is renamed as a "statement of profit or loss and other comprehensive income" and an "income statement" is renamed as a "statement of profit or loss". The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to statement of profit or loss; and (b) items that may be reclassified subsequently to statement of profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

The directors anticipate that other amendments will have no effect on the Group's consolidated financial statements.

2.2 Consolidation

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

(i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as contractual terms between shareholders, etc.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(i) Subsidiaries (Continued)

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group having a contractual obligation in respect of those interests that meets the definition of a financial liability. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity holders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity holders of the Company.

(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.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date (see note 2.21 below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(i) Subsidiaries (Continued)

(a) Business combinations (Continued)

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets", as appropriate, with the corresponding gain or loss being recognised in consolidated income statement.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

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 the consolidated 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 consolidated income statement after reassessment of all identifiable assets and liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(i) Subsidiaries (Continued)

(b) Changes in ownership interests in existing 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 of the carrying value of net assets of the subsidiary acquired 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 recognised in consolidated 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 recognised 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 consolidated income statement.

(ii) Separate financial statements

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(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. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. For associates using accounting policies that differ from those of the Group for like transactions and events in similar circumstances, appropriate adjustments have been made to conform the associates' accounting policies to those of the Group. 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 consolidated income statement, where appropriate.

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

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 pursuant to the requirements of HKAS 39 with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment and recognises the amount in the consolidated income statement. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(iii) Associates (Continued)

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.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date which is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to consolidated income statement on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

(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. The financial statements of jointly controlled entities used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. 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.

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 consolidated income statement where appropriate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(iv) Joint ventures (Continued)

The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in 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 pursuant to the requirements of HKAS 39 with respect to the Group's investment in a jointly controlled entity. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment and recognises the amount in the consolidated income statement. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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.

Upon disposal of a jointly controlled entity that results in the Group losing joint control over that jointly controlled entity, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the jointly controlled entity. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that jointly controlled entity on the same basis as would be required if that jointly controlled entity had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that jointly controlled entity would be reclassified to consolidated income statement on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses joint control over that jointly controlled entity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM, 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.

(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 consolidated income statement.

All foreign exchange gains and losses are presented in the consolidated income statement within "other gains, net".

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Foreign currency translation (Continued)

(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 year end exchange rate;
- 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 year end exchange rate. Exchange differences arising therefrom are recognised in other comprehensive income.

(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 consolidated 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 consolidated 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 consolidated income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Property, plant and equipment

Property, plant and equipment comprise mainly buildings, harbour works, buildings and dockyard, plant and machinery, furniture and equipment, vessels and ship, motor vehicles and leasehold improvements. Leasehold land classified as finance lease and all other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

Leasehold land classified as finance lease	Shorter of remaining lease term of 50 years or useful life
Buildings	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	Shorter of the lease term or 5 to 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of the reporting period.

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.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.8).

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

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in equity. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained earnings.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Investment properties

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields 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 consolidated income statement as part of a valuation gain or loss in "other gains, net".

2.7 Goodwill and intangible assets

(i) Goodwill

Goodwill arising on the acquisition of subsidiaries 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 acquiree and the fair value of the non-controlling interest in the acquiree.

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Goodwill and intangible assets (Continued)

(iii) Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relationships 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 rights

Port operating right primarily resulted from the entering of agreement for the right to construct, operate, manage and develop container terminals. 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 rights on the relevant container terminals.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. Other intangible assets are derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of other intangible assets are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in consolidated income statement in the period when the asset is derecognised.

2.8 Impairment of non-financial assets

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Financial assets

(i) 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.

(a) 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. A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) 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 and are classified as non-current assets. The Group's loans and receivables comprise "debtors and deposits" and "cash and cash equivalents" in the consolidated statement of financial position (notes 2.13 and 2.14).

(c) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Financial assets (Continued)

(i) Classification (Continued)

(d) 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.

(ii) 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 consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-for-maturity financial assets are subsequently carried at amortised cost using the effective interest method.

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

Equity securities held by the Group that are classified as available-for-sale are measured at fair value at the end of each reporting period. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated in equity under the heading of investments revaluation reserve.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in entity under the heading of "investment revaluation reserve" are included in the consolidated income statement as "other gains, net".

Dividends on available-for-sale equity instruments are recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 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.

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;
- 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; or
  - (b) national or local economic conditions that correlate with defaults on the assets in the portfolio; or
- any other objective evidence that indicate an impairment of the financial asset may exist.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Impairment of financial assets (Continued)

(i) Assets carried at amortised cost (Continued)

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

For trade receivables (included as loans and receivables category), assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

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

(ii) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. 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 consolidated income statement - is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through consolidated 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). 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 from 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 consolidated 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 consolidated income statement in the period in which they are incurred.

2.19 Current and deferred income tax

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Current and deferred income tax (Continued)

(i) Current income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. 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

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. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the economic benefits embodied in the properties will be recovered).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Current and deferred income tax (Continued)

(ii) Deferred income tax (Continued)

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.

2.20 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$1,250 ("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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Employee benefits (Continued)

(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 obligations

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.

2.21 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 on a straight-line basis over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

2.23 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) Provision 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Revenue recognition (Continued)

(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 consolidated income statement on a straight-line basis over the term of the lease.

2.24 Interest income

Interest income from a financial asset is recognised on a time-proportion basis using effective interest method when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition. 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 are recognised using the original effective interest rate.

2.25 Dividend income

Dividend income from investments is recognised when the shareholders' rights to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.26 Leases

(i) The Group as lessee

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

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

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 liabilities. The interest element of the finance cost is charged to the consolidated 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.

(ii) Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "land use rights" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

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.

Dividends proposed before the consolidated financial statements were authorised for issue but not yet authorised by the Company's equity holders during the period is presented separately as dividend payable under equity.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(i) Market risk

(a) 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 currencies 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.

77% (2011: 48%) of the Group's borrowings (including loans from the ultimate holding company and an intermediate holding company) as at 31 December 2012 are denominated in Hong Kong dollar and United States dollar while the remaining 19% (2011: 52%) are denominated in Renminbi and 4% (2011: nil) are denominated in Euro. 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 2012, if Renminbi had strengthened/weakened by 1% (2011: 5%) with all other variables held constant, profit for the year would have been approximately HK$28 million higher/lower (2011: HK$165 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 currencies of the relevant group companies.

At 31 December 2012 and 2011, no significant change on profit for the respective years as a result of the 0.1% (2011: 0.1%) strengthened/weakened of United States dollar.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(i) Market risk (Continued)

(b) 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 2012, if there had been a 10% (2011: 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$204 million (2011: HK$186 million) and HK$36 million (2011: HK$33 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.

(c) 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 2012, 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. Accordingly, management does not anticipate any significant impact resulting from changes in interest rates on interest-bearing assets.

At 31 December 2012, if interest rates on borrowings had been 100 basis points (2011: 100 basis points) higher/lower with all other variables held constant, post-tax profit for the year would have been HK$49 million (2011: HK$106 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 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 banks or financial institutions. Management considers that the credit risk associated with the deposits with these 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 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	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	HK$'million	HK$'million	**HK$'million**	HK$'million	**HK$'million**	HK$'million	**HK$'million**	HK$'million	**HK$'million**	HK$'million
Group										
Loans from the ultimate holding company	**1,032**	1,665	**—**	1,032	**—**	—	**—**	—	**1,032**	2,697
Loans from an intermediate holding company	**27**	631	**27**	—	**629**	—	**—**	—	**683**	631
Other financial liabilities	**6,771**	6,325	**733**	5,227	**6,348**	11,658	**6,778**	1,825	**20,630**	25,035
Other non-current liabilities	**9**	—	**16**	—	**206**	131	**3,728**	3,754	**3,959**	3,885
Trade creditors	**294**	318	**—**	—	**—**	—	**—**	—	**294**	318
Amount due to an intermediate holding company	**5**	5	**—**	—	**—**	—	**—**	—	**5**	5
Amounts due to fellow subsidiaries	**107**	82	**—**	—	**—**	—	**—**	—	**107**	82
Other payables	**1,235**	3,483	**—**	—	**—**	—	**—**	—	**1,235**	3,483
	9,480	12,509	**776**	6,259	**7,183**	11,789	**10,506**	5,579	**27,945**	36,136
Company										
Other financial liabilities	**500**	10	**—**	852	**—**	—	**—**	—	**500**	862
Other payables	**123**	10	**—**	—	**—**	—	**—**	—	**123**	10
Advances from subsidiaries	**—**	—	**2,331**	90	**6,992**	7,123	**1,507**	2,353	**10,830**	9,566
	623	20	**2,331**	942	**6,992**	7,123	**1,507**	2,353	**11,453**	10,438

Further, the Company has provided corporate guarantees to certain of 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, inter alia, the net gearing ratios. These ratios are calculated as net interest bearing debts divided by net assets attributable to the Company's equity holders and total equity.

During the year, the Group's strategy was to maintain desired levels of net gearing ratios 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 2012 and 2011 were as follows:

	2012 HK$'million	2011 HK$'million
Loans from the ultimate holding company (note 31)	**986**	2,600
Loans from an intermediate holding company (note 32)	**617**	616
Interest-bearing other financial liabilities (note 33)	**17,219**	21,482
Total interest-bearing debts	**18,822**	24,698
Less: cash and bank balances (note 28)	**(4,192)**	(6,811)
Net interest-bearing debts	**14,630**	17,887
Net gearing ratios		
Net interest-bearing debts divided by equity attributable to the Company's equity holders	**32.1%**	41.2%
Net interest-bearing debts divided by total equity	**27.3%**	32.6%

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 that are measured at their fair values at 31 December 2012.

	Level 1 HK$'million	**Level 2 HK$'million**	**Level 3 HK$'million**	**Total HK$'million**
Financial assets				
Financial asset at fair value through profit or loss (note 23)	—	—	**369**	**369**
Available-for-sale financial assets (note 23)	**1,855**	—	**237**	**2,092**
	1,855	—	**606**	**2,461**

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

3. FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

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

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

Specific valuation techniques used to value financial instruments include:

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

The following table presents the changes in level 3 instruments for the year ended 31 December 2012 and 2011:

	Financial asset at fair value through profit or loss HK$'million	Available-for-sale financial assets HK$'million	Total HK$'million
Year ended 31 December 2012			
As at 1 January 2012	**329**	**192**	**521**
Gain recognised in other comprehensive income	—	**45**	**45**
Gain recognised in consolidated income statement	**40**	—	**40**
As at 31 December 2012	**369**	**237**	**606**
Year ended 31 December 2011			
As at 1 January 2011	382	273	655
Exchange adjustments	—	2	2
Loss recognised in other comprehensive income	—	(83)	(83)
Loss recognised in consolidated income statement	(53)	—	(53)
As at 31 December 2011	329	192	521

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 underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 Key sources of estimation uncertainty

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.

(i) 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 CGUs have been determined based on value-in-use calculations. These calculations require the use of estimates.

(ii) Estimated fair value of investment properties

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

(iii) 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 year whereas the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

4.2 Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see above), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

(i) Acquisition of business or asset

The adoption of accounting treatments for a transaction between the purchase of a business or an asset would have significant implications for the Group's consolidated financial statements. The differences in accounting treatments not only affect an entity's consolidated financial statements in the period of the acquisition but also in future periods. Business combinations involve gaining control over one or more business. If the assets acquired do not constitute a business, the acquisition should be accounted for as an asset acquisition, not a business combination. Considerable judgment need to be exercised in assessing whether the Group's acquisition transactions constitute a business or an asset. Management uses all available internal and market information to make such judgment for the acquisition as set out in note 39.

(ii) Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities arising from investment properties that are measured using the fair value model, the directors have reviewed the Group's investment property portfolios and concluded that the Group's investment properties in Hong Kong are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in measuring the Group's deferred taxation on investment properties, the directors have determined that the presumption that the carrying amounts of investment properties in Hong Kong measured using the fair value model are recovered entirely through sale is not rebutted. As a result, the Group has not recognised any deferred taxes on changes in fair value of investment properties as the Group is not subject to any income taxes on disposal of its investment properties.

(iii) Deferred taxation on unremitted earnings

The Group fully provides for deferred tax liabilities in relation to the unremitted earnings from the subsidiaries, associates and jointly controlled entities in Mainland China.

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. The following is an analysis of the Group's revenue from its major products and services offered during the year.

	2012 HK$'million	2011 HK$'million
Ports service, transportation income, container service and container yard management income	**6,653**	6,394
Logistics services income (including rental income)	**1,830**	1,414
Sales of properties and goods	**2,499**	1,623
Gross rental income from investment properties	**40**	39
	11,022	9,470

6. SEGMENT INFORMATION

The key management team of the Company is regarded as the CODM, who reviews the Group's internal reports in order to assess performance, allocate resources and determine the operating segments. The CODM manages the Group's operations by divisions from both a business and geographic perspective.

Individual operating segments are operated by their respective management teams for which discrete financial information is available are identified by the CODM and are aggregated in arriving at the reportable segments of the Group.

From a business and financial 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 includes container terminal operation, bulk and general cargo terminal operation operated by the Group and its associates and jointly controlled entities. Ports operation is further evaluated on a geographic basis, including the Pearl River Delta excluding Hong Kong ("PRD excluding HK"), Hong Kong, Yangtze River Delta and other locations.

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 its associates.

Port-related manufacturing operations include construction of modular housing and container manufacturing operated by the Group and its associates.

Other operations include property development and investment and corporate function.

As set out in further details in note 40, upon the Group ceasing to control 中國南山開發(集團)股份有限公司 (China Nanshan Development (Group) Incorporation, being an unofficial English Name) ("China Nanshan") and its subsidiaries (together the "Nanshan Group"), on 28 December 2012, Nanshan Group excluding 深圳赤灣港航股份有限公司 (Shenzhen Chiwan Wharf Holdings Limited, being an unofficial English Name) ("Shenzhen Chiwan") and its subsidiaries (together the "Shenzhen Chiwan Group") (Nanshan Group excluding Shenzhen Chiwan Group hereinafter be referred to as the "Nanshan Outgoing Group"), China Nanshan is accounted for as an investment in associate of the Group. Thereafter, the performance of the Nanshan Outgoing Group is also evaluated by the CODM as part of the other operations.

6. SEGMENT INFORMATION (Continued)

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

Over 90% of the revenue of the Group for the years ended 31 December 2012 and 2011 were derived in Mainland China.

There was no single customer who accounted for over 10% of the Group's total revenue in any of the years ended 31 December 2012 or 2011.

As at 31 December 2012, 84% (2011: 92%) non-current assets other than financial instruments and deferred tax assets were located in Mainland China and the remaining balance were located outside of Mainland China.

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 2012								
	Ports operation					Bonded logistics & 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	5,814	216	–	623	6,653	1,830	720	1,819	11,022
Share of associates	164	802	7,522	466	8,954	584	18,257	762	28,557
Share of jointly controlled entities	1	16	294	1,662	1,973	–	–	673	2,646
Total segment revenue	5,979	1,034	7,816	2,751	17,580	2,414	18,977	3,254	42,225

	For the year ended 31 December 2011								
	Ports operation					Bonded logistics & 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 segment revenue	5,815	1,101	5,630	2,460	15,006	1,996	21,382	2,589	40,973

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 2012										
	Ports operation					Bonded logistics & 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)	2,530	25	55	294	2,904	1,005	29	1,365	(233)	1,132	5,070
Share of profits less losses of											
– Associates	40	216	1,560	131	1,947	130	546	131	–	131	2,754
– Jointly controlled entities	–	1	77	169	247	–	–	(34)	–	(34)	213
	2,570	242	1,692	594	5,098	1,135	575	1,462	(233)	1,229	8,037
Finance costs, net	(91)	–	–	(57)	(148)	(196)	(15)	(223)	(584)	(807)	(1,166)
Taxation	(480)	(4)	(142)	(32)	(658)	(148)	(34)	(323)	–	(323)	(1,163)
Profit/(loss) for the year	1,999	238	1,550	505	4,292	791	526	916	(817)	99	5,708
Non-controlling interests	(694)	–	–	(80)	(774)	(504)	32	(644)	–	(644)	(1,890)
Profit/(loss) attributable to equity holders of the Company	1,305	238	1,550	425	3,518	287	558	272	(817)	(545)	3,818
Other information:											
Depreciation and amortisation	863	8	–	147	1,018	189	22	48	7	55	1,284
Capital expenditure	1,258	6	–	1,799	3,063	553	37	443	1	444	4,097

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 2011 (as restated)										
	Ports operation					Bonded logistics & 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 8)											1,367
Finance costs, net	(85)	—	—	(80)	(165)	(144)	(17)	(86)	(462)	(548)	(874)
Taxation	(502)	(5)	(261)	(22)	(790)	(57)	(72)	(76)	—	(76)	(995)
Profit/(loss) for the year	2,143	365	1,314	349	4,171	369	1,083	290	(589)	(299)	6,691
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	328	(589)	(261)	5,589
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)

For the purposes of monitoring segment performances and allocating resources between segments, all assets are allocated to reportable segments other than taxation recoverable and deferred tax assets and all liabilities are allocated to reportable segments other than taxation payable and deferred tax liabilities.

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

	As at 31 December 2012										
	Ports operation					Bonded logistics & 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$'million	Other investments HK$'million	Corporate function HK$'million	Sub-total HK$'million	HK$'million
ASSETS											
Segment assets (excluding interests in associates and jointly controlled entities)	24,215	165	1,848	9,558	35,786	4,119	19	1,444	2,336	3,780	43,704
Interests in associates	1,301	1,656	14,734	1,048	18,739	440	6,597	2,692	–	2,692	28,468
Interests in jointly controlled entities	3	5	833	4,331	5,172	–	–	–	–	–	5,172
Total segment assets	25,519	1,826	17,415	14,937	59,697	4,559	6,616	4,136	2,336	6,472	77,344
Taxation recoverable											2
Deferred tax assets											120
Total assets											77,466
LIABILITIES											
Segment liabilities	(4,910)	(32)	–	(3,380)	(8,322)	(1,296)	–	(7)	(12,327)	(12,334)	(21,952)
Taxation payable											(139)
Deferred tax liabilities											(1,693)
Total liabilities											(23,784)

6. SEGMENT INFORMATION (Continued)

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

	As at 31 December 2011 (as restated)										
	Ports operation					Bonded logistics & 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
ASSETS											
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
Taxation recoverable											2
Deferred tax assets											136
Total assets											87,086
LIABILITIES											
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											(2,304)
Total liabilities											(32,279)

7. PROFIT FOR THE YEAR

	2012 HK$'million	2011 HK$'million
Profit for the year has been arrived at after charging:		
Cost of inventories (including properties held for sale)	**1,514**	1,071
Staff costs (including Directors' and chief executive's emoluments) (note 9)	**1,537**	1,482
Depreciation of property, plant and equipment	**1,076**	1,155
Amortisation of intangible assets and land use rights	**208**	257
Auditors' remuneration	**15**	22
Operating lease rentals in respect of		
– land and buildings	**117**	128
– plant and machinery	**75**	14

8. OTHER GAINS, NET AND OTHER INCOME

	2012 HK$'million	2011 HK$'million
Other gains/(losses)		
Increase in fair value of investment properties (note 18)	**522**	445
Gain on deemed disposal of interest in an associate (note 21(d))	—	1,367
Gain/(loss) on disposal of interests in associates	**1,287**	(2)
Increase/(decrease) in fair value of financial asset at fair value through profit or loss (note 23(c))	**40**	(53)
Net loss associated with ceasing to control certain subsidiaries	**(225)**	—
Gain on disposal of property, plant and equipment	**136**	3
Net exchange gains	**27**	189
	1,787	1,949
Other income		
Dividend income from available-for-sale financial assets		
– listed equity investments	**47**	21
– unlisted equity investments	**16**	20
Dividend income from financial asset at fair value through profit or loss	**29**	30
Income from held-to-maturity investments	**22**	—
Others	**136**	37
	250	108

9. STAFF COSTS (INCLUDING DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS)

	2012 HK$'million	2011 HK$'million
Wages, salaries and bonus	**1,316**	1,289
Retirement benefit scheme contributions (Note)	**221**	193
	1,537	1,482

Note: No forfeiture was utilised for the year ended 31 December 2012 (2011: nil), leaving no available balance at the year end to reduce future contributions.

10. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and chief executive's emoluments comprise payments to the following Directors and the chief executive of the Company by the Group in connection with the management of the affairs of the Group. The amount paid to each Director and the chief executive was as follows:

Name of Director	Fees HK$'million	Salary HK$'million	Discretionary bonus HK$'million (Note (i))	Share based payment HK$'million	Employer's contribution to pension scheme HK$'million	2012 Total HK$'million	2011 Total HK$'million
Fu Yuning (Chairman)	—	—	—	—	—	—	—
Li Jianhong (Vice Chairman)	—	—	—	—	—	—	—
Li Yinquan	—	—	—	—	—	—	1.17
Hu Zheng	—	—	—	—	—	—	—
Meng Xi	—	—	—	—	—	—	—
Su Xingang	—	—	—	—	—	—	—
Yu Liming	—	—	—	—	—	—	0.36
Hu Jianhua (Managing director)	—	0.99	1.34	—	0.14	**2.47**	2.76
Wang Hong	—	—	—	—	—	—	0.18
Liu Yunshu (Note (ii))	—	0.24	0.04	—	0.01	**0.29**	2.14
Zheng Shaoping (Note (iii))	—	1.51	—	—	—	**1.51**	—
Kut Ying Hay	0.21	—	—	—	—	**0.21**	0.21
Lee Yip Wah Peter	0.21	—	—	—	—	**0.21**	0.21
Li Kwok Heem John	0.21	—	—	—	—	**0.21**	0.21
Li Ka Fai David	0.21	—	—	—	—	**0.21**	0.21
Bong Shu Ying Francis	0.21	—	—	—	—	**0.21**	0.21
Total for the year ended 31 December 2012	1.05	2.74	1.38	—	0.15	**5.32**	
Total for the year ended 31 December 2011	1.05	2.31	2.95	1.17	0.18		7.66

Notes:

(i) Bonus is recommended by the Remuneration Committee and is approved by the board of directors, having regard to the Group's operating results, individual performance and comparable market statistics.

(ii) Mr. Liu Yunshu resigned as an executive director of the Company on 10 February 2012.

(iii) Mr. Zheng Shaoping was appointed as an executive director of the Company on 10 February 2012.

(iv) No Director nor the chief executive waived any emoluments in respect of the years ended 31 December 2012 and 2011.

11. EMPLOYEES' EMOLUMENTS

(a) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, one (2011: two) is/are Director(s) (including the chief executive) of the Company whose emoluments are included in note 10 to the consolidated financial statements above. The total emoluments of the remaining four (2011: three) individuals is as follows:

	2012 HK$'million	2011 HK$'million
Salaries, other allowances and benefit-in-kinds	**4**	4
Performance related incentive payments	**4**	3
	8	7

The emoluments fell within the following bands:

	Number of individuals	
	2012	2011
HK$1,500,001 - HK$2,000,000	**3**	—
HK$2,000,001 - HK$2,500,000	—	2
HK$2,500,001 - HK$3,000,000	**1**	1
	4	3

(b) Emoluments of senior management

The total emoluments of senior management is as follows:

	2012 HK$'million	2011 HK$'million
Salaries, other allowances and benefit-in-kinds	**7**	7
Performance related incentive payments	**6**	7
	13	14

The emoluments fell within the following bands:

	Number of senior management	
	2012	2011
Below HK$1,500,000	**1**	—
HK$1,500,001 - HK$2,000,000	**4**	3
HK$2,000,001 - HK$2,500,000	**1**	3
HK$2,500,001 - HK$3,000,000	**1**	1
	7	7

12. FINANCE INCOME AND COSTS

	2012 HK$'million	2011 HK$'million
Interest income on:		
Bank deposits	**162**	183
Advance to a non-controlling equity holder of a subsidiary	**—**	4
Finance income	**162**	187
Interest expense on:		
Bank borrowings		
– wholly repayable within five years	**(438)**	(463)
– not wholly repayable within five years	**(16)**	(19)
Listed notes payable		
– wholly repayable within five years	**(358)**	(359)
– not wholly repayable within five years	**(245)**	(113)
Unlisted notes wholly repayable within five years	**(251)**	(53)
Loans from non-controlling equity holders of subsidiaries	**(6)**	(1)
Loans from the ultimate holding company	**(93)**	(114)
Loans from an intermediate holding company	**(27)**	(26)
Total borrowing costs incurred	**(1,434)**	(1,148)
Less: amount capitalised on qualifying assets (Note)	**106**	87
Finance costs	**(1,328)**	(1,061)
Finance costs, net	**(1,166)**	(874)

Note: Capitalisation rate of 5.42% per annum (2011: 5.64% per annum) was used, representing the weighted average rate of the costs of borrowings used to finance the qualifying assets.

13. TAXATION

Hong Kong Profits Tax has been provided for at the rate of 16.5% (2011: 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 People's Republic of China ("PRC corporate income tax"). The standard PRC corporate income tax rate is 25%. For foreign invested enterprises established in PRC before 1 January 2008 previously taxed at preferential tax rate of 15%, PRC corporate income tax rate was 24% in 2011 whereas 25% standard rate is applied from year 2012 onwards. Certain of the Group's subsidiaries are exempted from PRC corporate income tax in the first five profit making years and followed by a 50% reduction in 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 PRC entities held by companies incorporated in certain places, including Hong Kong and Singapore, preferential tax rate of 5% will be applied if such companies are the beneficial owner of over 25% of these PRC entities according to PRC tax regulations.

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.

13. TAXATION (Continued)

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

	2012 HK$'million	2011 HK$'million (as restated)
Current taxation		
Hong Kong Profits Tax	**8**	7
PRC corporate income tax	**630**	569
PRC corporate income tax arising from disposals of associates (Note (i))	**248**	—
PRC withholding income tax	**190**	209
Overseas withholding income tax	**5**	—
Deferred taxation		
Origination and reversal of temporary differences	**174**	66
Deferred taxation on PRC withholding income tax arising from change in tax rate (Note (ii))	—	144
Release of deferred taxation upon ceasing to control certain subsidiaries (note 40)	**(92)**	—
	1,163	995

Notes:

(i) Amount represents PRC corporate income tax for the year ended 31 December 2012 arising from the disposals of two associates established in PRC as set out in note 21(b).

(ii) Upon deemed disposal of interest in an associate as disclosed in note 21(d), the Group is no longer entitled to 5% preferential tax rate on its dividend receivable from the associate and accordingly an additional amount of HK$144 million deferred taxation was provided for the year ended 31 December 2011 for the then unremitted earnings of this investment.

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:

	2012 HK$'million	2011 HK$'million (as restated)
Profit before taxation (excluding share of profits of associates and jointly controlled entities)	**3,904**	4,011
Expected tax calculated at the weighted average applicable tax rate	**888**	867
Income not subject to tax	**(155)**	(387)
Expenses not deductible for tax purposes	**193**	110
Tax losses for which no deferred income tax asset was recognised	**76**	19
Utilisation of previously unrecognised tax losses	**(101)**	(14)
Withholding tax on unremitted earnings of subsidiaries, associates and jointly controlled entities in Mainland China	**262**	400
Tax charge	**1,163**	995

The weighted average applicable tax rate was 22.7% (2011: 21.6%).

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.

	2012	2011 (as restated)
Basic		
Profit attributable to equity holders of the Company (HK$'million)	**3,818**	5,589
Weighted average number of ordinary shares in issue	**2,490,749,114**	2,474,154,494
Basic earnings per share (HK cents)	**153.26**	225.89
Diluted		
Profit attributable to equity holders of the Company (HK$'million)	**3,818**	5,589
Weighted average number of ordinary shares in issue	**2,490,749,114**	2,474,154,494
Adjustment for share options (Note)	**2,736,995**	6,098,348
Weighted average number of ordinary shares for diluted earnings per share	**2,493,486,109**	2,480,252,842
Diluted earnings per share (HK cents)	**153.09**	225.33

Note: Adjustment represents assumption of exercise 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.

15. DIVIDENDS

	2012 HK$'million	2011 HK$'million
Interim, paid, of 22 HK cents (2011: 30 HK cents) per share	**548**	741
Final, proposed, of 48 HK cents (2011: 68 HK cents) per share	**1,196**	1,683
	1,744	2,424

At a meeting held on 27 March 2013, the Board proposed a final dividend of 48 HK cents per share, 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 consolidated financial statements.

The amount of proposed final dividend for 2012 was based on 2,491,853,388 (2011: 2,474,491,236) shares in issue as at 27 March 2013.

16. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Intangible assets			
	HK$'million	Trademarks HK$'million	Contractual customer relationships HK$'million	Port operating rights HK$'million	Total HK$'million
Year ended 31 December 2012					
As at 1 January 2012	**3,338**	**6**	**82**	**1,165**	**1,253**
Exchange adjustments	—	—	—	**179**	**179**
Addition	—	—	—	**101**	**101**
Acquisition of subsidiaries (note 39)	—	—	—	**3,270**	**3,270**
Ceasing to control certain subsidiaries (note 40)	**(45)**	—	—	—	—
Amortisation (Note (a))	—	—	**(7)**	—	**(7)**
As at 31 December 2012	**3,293**	**6**	**75**	**4,715**	**4,796**
As at 31 December 2012					
Cost	**3,293**	**6**	**90**	**4,715**	**4,811**
Accumulated amortisation	—	—	**(15)**	—	**(15)**
Net book value	**3,293**	**6**	**75**	**4,715**	**4,796**
Year ended 31 December 2011					
As at 1 January 2011	3,298	6	85	—	91
Exchange adjustments	40	—	4	27	31
Addition	—	—	—	1,138	1,138
Amortisation (Note (a))	—	—	(7)	—	(7)
As at 31 December 2011	3,338	6	82	1,165	1,253
As at 31 December 2011					
Cost	3,338	6	90	1,165	1,261
Accumulated amortisation	—	—	(8)	—	(8)
Net book value	3,338	6	82	1,165	1,253

16. GOODWILL AND INTANGIBLE ASSETS (Continued)

Notes:

(a) Amortisation of HK$7 million (2011: HK$7 million) is included in "administrative expenses" in the consolidated income statement.

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

	2012 **HK$'million**	2011 HK$'million
Ports operation		
– PRD excluding HK	**2,927**	2,927
– Hong Kong	**52**	52
– Other locations	**10**	10
Bonded logistics and cold chain operations	**304**	349
	3,293	3,338

The recoverable amount of a CGU is determined based on higher of fair value less cost to sales and value-in-use calculations. The value-in-use 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 (Note (i))		**Discount rate (Note (ii))**	
	2012	2011	**2012**	2011
Ports operation				
– PRD excluding HK	**5%**	5%	**9.99%**	9.35% to 11.34%
– Hong Kong	**3% to 5%**	5%	**9.99%**	9.35%
– Other locations	**5%**	5%	**9.99%**	9.35%
Bonded logistics and cold chain operations	**3% to 5%**	5%	**9.99%**	9.35%

Notes:

(i) Weighted average growth rates are used to extrapolate cash flows beyond the budget period which do not exceed the historical trend of the respective CGUs.

(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 2012, there is no impairment of any of its CGUs or group of CGUs containing goodwill with indefinite useful lives (2011: nil).

17. PROPERTY, PLANT AND EQUIPMENT

	Group						Company
	Land and buildings HK$'million (Note (e))	Harbour works, buildings and dockyard HK$'million (Note (e))	Plant, machinery, furniture and equipment HK$'million	Others HK$'million (Note (c))	Assets under construction HK$'million	Total HK$'million	Furniture and equipment and motor vehicles HK$'million
Year ended 31 December 2012							
As at 1 January 2012	506	8,895	5,514	1,185	2,169	18,269	3
Exchange adjustments	—	(8)	(7)	—	(1)	(16)	—
Additions	1	203	82	112	2,489	2,887	—
Disposals	—	(3)	(851)	(43)	—	(897)	—
Acquisition of subsidiaries (note 39)	—	8	—	—	—	8	—
Ceasing to control certain subsidiaries (note 40)	(159)	(714)	(244)	(464)	(390)	(1,971)	—
Transfers	3	842	286	146	(1,277)	—	—
Transfer to investment properties (note 18)	—	—	—	—	(366)	(366)	—
Transfer from other non-current assets	—	—	—	—	25	25	—
Depreciation (Note (d))	(16)	(365)	(543)	(152)	—	(1,076)	—
As at 31 December 2012	335	8,858	4,237	784	2,649	16,863	3
As at 31 December 2012							
Cost	529	11,788	8,056	1,418	2,649	24,440	10
Accumulated depreciation and impairment	(194)	(2,930)	(3,819)	(634)	—	(7,577)	(7)
Net book value	335	8,858	4,237	784	2,649	16,863	3

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Group						Company
	Land and buildings HK$'million (Note (e))	Harbour works, buildings and dockyard HK$'million (Note (e))	Plant, machinery, furniture and equipment HK$'million	Others HK$'million (Note (c))	Assets under construction HK$'million	Total HK$'million	Furniture and equipment and motor vehicles HK$'million
Year ended 31 December 2011							
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)	—
Transfers	13	139	240	125	(517)	—	—
Transfer to investment properties (note 18)	—	(6)	—	—	—	(6)	—
Depreciation (Note (d))	(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)

Notes:

(a) Included in assets under construction is capitalised interest of approximately HK$45 million (2011: HK$22 million).

(b) At 31 December 2012, property, plant and equipment with net book value of HK$35 million (2011: HK$190 million) were pledged as security for the Group's bank borrowings (note 33(a)).

(c) Others mainly comprise vessels and ships, motor vehicles and leasehold improvements with net book values of HK$430 million (2011: HK$423 million), HK$108 million (2011: HK$239 million) and HK$70 million (2011: HK$184 million) respectively as at 31 December 2012.

(d) Depreciation expenses charged for the year are included in the consolidated income statement as follows:

	2012 HK$'million	2011 HK$'million
Cost of sales	**1,027**	1,102
Administrative expenses	**49**	53
	1,076	1,155

(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**	
	2012 HK$'million	2011 HK$'million	**2012 HK$'million**	2011 HK$'million
Land and buildings in Hong Kong, held on medium-term leases	**187**	192	—	—
Land and buildings outside Hong Kong, held on medium-term leases	**148**	314	**8,858**	8,895
	335	506	**8,858**	8,895

(f) Included in the disposals of the plant, machinery, furniture and equipment during the year ended 31 December 2012 was transfer of such assets with a net book value of HK$832 million, to Qingdao Qianwan United Container Terminal Co., Ltd. ("QQCTU"), a company established in PRC and being held as to 50% and accounted for as a jointly controlled entity of the Group, for an aggregate consideration of HK$1,096 million, resulting in a gain, to the extent of unrelated investor's interest in QQCTU, of HK$132 million.

18. INVESTMENT PROPERTIES

	2012 HK$'million	2011 HK$'million
As at 1 January	**4,340**	3,662
Exchange adjustments	**2**	134
Addition	—	93
Transfer from property, plant and equipment (note 17)	**366**	6
Increase in fair value (note 8)	**522**	445
Disposal	**(21)**	—
Ceasing to control certain subsidiaries (note 40)	**(3,675)**	—
As at 31 December	**1,534**	4,340

Notes:

(a) The investment properties were revalued at 31 December 2012 by the following independent and professional 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	Shenzhen Yongxin Ruihe Asset Evaluation Co., Ltd.

(b) The Group's interests in investment properties, held on medium-term leases, at their carrying values are analysed as follows:

	2012 HK$'million	2011 HK$'million
Hong Kong	**1,444**	1,373
Mainland China	**90**	2,967
	1,534	4,340

(c) At 31 December 2011, investment properties with net book value of HK$102 million were pledged as security for the Group's bank borrowings, and has been released upon ceasing to control certain subsidiaries during the year (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:

	2012 HK$'million	2011 HK$'million
As at 1 January	**9,883**	9,683
Exchange adjustments	**(10)**	374
Additions	**108**	—
Transfer from other non-current assets	—	76
Amortisation	**(201)**	(250)
Ceasing to control certain subsidiaries (note 40)	**(1,834)**	—
As at 31 December	**7,946**	9,883

Notes:

(a) The Group's interest in land use rights, held on medium-term leases at their book values, are located in Mainland China.

(b) At 31 December 2012, land use rights with a net book value of HK$7 million (2011: nil) are pledged as security for the Group's bank borrowings (note 33(a)).

20. INTERESTS IN SUBSIDIARIES

	Company	
	2012 HK$'million	2011 HK$'million
Unlisted shares, at cost	**9,646**	8,615
Advances to subsidiaries - non-current (Note (a))		
– interest free	**21,810**	19,032
– interest bearing	**284**	411
	31,740	28,058
Advances to subsidiaries - current (Note (b))	**301**	297
Advances from subsidiaries - non-current (Note (c))		
– interest free	—	566
– interest bearing	**8,456**	6,947
	8,456	7,513
Advances from subsidiaries - current (Note (d))		
– interest free	**50**	—
– interest bearing	**2,324**	—
	2,374	—

Notes:

(a) The advances to subsidiaries included in non-current assets of HK$21,810 million (2011: HK$19,032 million) represent investments in its subsidiaries and are unsecured, interest free and will be repayable at the sole discretion of the directors of these subsidiaries. The amount of HK$284 million (2011: HK$411 million) is unsecured, interest bearing at an effective interest rate of 1.53% to 3.31% per annum (2011: 1.46% to 1.66% per annum) and without fixed repayment terms.

(b) As at 31 December 2012, the advances to subsidiaries included in current assets are unsecured, interest bearing at an effective interest rate of 1.67% per annum (2011: 1.88% per annum) and repayable on demand.

(c) The advances from subsidiaries included in non- current liabilities of HK$8,456 million (2011: HK$6,947 million) are unsecured, interest bearing at 5.29% to 7.25% per annum (2011: 7.25% per annum) and will not be repayable within one year.

(d) The advances from subsidiaries included in current liabilities of HK$2,324 million (2011: nil) are unsecured, interest bearing at 7.25% per annum. The amount of HK$50 million (2011: nil) is unsecured, interest free and repayable on demand.

(e) Particulars of the Company's principal subsidiaries at 31 December 2012 are set out in note 43 to the financial statements.

21. INTERESTS IN ASSOCIATES

	2012 HK$'million	2011 HK$'million
Share of net assets of:		
Listed associates	**20,799**	20,922
Unlisted associates	**6,976**	5,115
	27,775	26,037
Goodwill:		
Listed associates	**532**	881
Unlisted associates	**161**	161
	693	1,042
Advance to an associate (Note (c))	—	315
Total	**28,468**	27,394
Market value of listed associates	**26,154**	25,591

21. INTERESTS IN ASSOCIATES (Continued)

Notes:

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

	2012				2011			
	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	**16,900**	**7,522**	**4,135**	**28,557**	19,307	5,349	4,311	28,967
Net interest expenses	**(142)**	**(220)**	**(72)**	**(434)**	(135)	(194)	(73)	(402)
Depreciation and amortisation	**(348)**	**(751)**	**(360)**	**(1,459)**	(324)	(620)	(337)	(1,281)
Profit for the year, attributable to the Group	**609**	**1,560**	**585**	**2,754**	1,121	1,421	787	3,329
Non-current assets	**7,762**	**20,266**	**12,222**	**40,250**	7,443	19,537	9,925	36,905
Current assets	**12,076**	**4,784**	**5,810**	**22,670**	12,829	4,332	4,035	21,196
Current liabilities	**(8,043)**	**(4,355)**	**(2,583)**	**(14,981)**	(9,840)	(4,166)	(3,036)	(17,042)
Non-current liabilities and non-controlling interests	**(5,650)**	**(6,042)**	**(8,472)**	**(20,164)**	(4,565)	(5,815)	(4,642)	(15,022)
Net assets attributable to the Group	**6,145**	**14,653**	**6,977**	**27,775**	5,867	13,888	6,282	26,037

(b) Disposal of associates in 2012

On 11 September 2012, the Group completed the disposals of two associates established in PRC, for an aggregate consideration of approximately HK$1,436 million to an independent third party, resulting in a gain on disposal HK$1,287 million.

(c) The balance as at 31 December 2011 was unsecured, interest bearing at 5.81% per annum and without fixed repayment terms. The full amount had been settled during the year.

(d) Deemed disposal of interest in SIPG in 2011

On 27 October 2010, SIPG 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 8).

(e) Acquisition of 20% equity interest in Chu Kong River Trade Terminal Co., Limited in 2011

On 1 February 2011, the Group acquired 20% equity interest in Chu Kong River Trade Terminal Co., Limited ("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 was 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.

(f) Particulars of the Group's principal associates at 31 December 2012 are set out in note 44 to the financial statements.

22. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2012 HK$'million	2011 HK$'million
Share of net assets of unlisted jointly controlled entities	**5,117**	4,983
Goodwill	**55**	55
	5,172	5,038

Notes:

(a) The Group's share of revenue, net interest expenses, depreciation and amortisation, other income and expenses, 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:

	2012 HK$'million	2011 HK$'million
Revenue	**2,646**	2,536
Net interest expenses	**(157)**	(93)
Depreciation and amortisation	**(279)**	(296)
Other income and expenses	**(1,997)**	(1,801)
Profit for the year attributable to the Group	**213**	346
Non-current assets	**10,197**	8,517
Current assets	**691**	2,498
Current liabilities	**(2,470)**	(3,664)
Non-current liabilities and non-controlling interests	**(3,301)**	(2,368)
Net assets attributable to the Group	**5,117**	4,983

(b) Particulars of the Group's principal jointly controlled entities at 31 December 2012 are set out in note 45 to the financial statements.

23. OTHER FINANCIAL ASSETS

	2012 HK$'million	2011 HK$'million
Non-current assets		
Available-for-sale financial assets (Note (a))	**2,092**	1,919
Current assets		
Held-to-maturity investments (Note (b))	—	634
Financial asset at fair value through profit or loss (Note (c))	**369**	329
	369	963

23. OTHER FINANCIAL ASSETS (Continued)

Notes:

(a) Available-for-sale financial assets, at fair value

	2012 HK$'million	2011 HK$'million
Listed equity investments in Mainland China	**1,855**	1,727
Unlisted equity investments in Mainland China	**237**	192
	2,092	1,919

The movements in available-for-sale financial assets are summarised as follows:

	2012 HK$'million	2011 HK$'million
As at 1 January	**1,919**	2,418
Exchange adjustments	—	4
Net change in fair value transferred to equity	**173**	(503)
As at 31 December	**2,092**	1,919

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

(b) Held-to-maturity investments

Amount as at 31 December 2011 represented unlisted short-term notes receivable issued by financial institutions in Mainland China. The notes receivable bore interest rate of 5.97% per annum to 6.5% per annum, with maturity dates ranged from 75 days to 122 days.

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

	2012 HK$'million	2011 HK$'million
Unlisted convertible preference shares in United States	**369**	329

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

	2012 HK$'million	2011 HK$'million
As at 1 January	**329**	382
Fair value gain/(loss) (note 8)	**40**	(53)
As at 31 December	**369**	329

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

24. OTHER NON-CURRENT ASSETS

	2012 HK$'million	2011 HK$'million
Prepayments for purchase of non-current assets	**1,019**	319
Others	**111**	25
	1,130	344

25. INVENTORIES

	2012 HK$'million	2011 HK$'million
Raw materials	**54**	116
Spare parts and consumables	**35**	124
	89	240

26. PROPERTIES UNDER DEVELOPMENT AND HELD FOR SALE

	2012 HK$'million	2011 HK$'million
As at 1 January	**4,380**	2,241
Exchange adjustments	**(15)**	157
Additions	**1,473**	1,766
Transfer from other non-current assets	—	899
Properties sold	**(1,117)**	(683)
Ceasing to control certain subsidiaries (note 40)	**(4,721)**	—
As at 31 December	—	4,380

Amount comprises:

	2012 HK$'million	2011 HK$'million
Land use rights in Mainland China	—	3,601
Interest capitalised	—	244
Construction costs	—	472
Properties under development for sale	—	4,317
Completed properties held for sale	—	63
	—	4,380

All properties under development and held for sale as at 31 December 2011 were located in Mainland China and the land held were on medium-term leases.

As at 31 December 2011, the entire amount of properties under development for sale was expected to be recovered after more than one year while all of the completed properties held for sale was expected to be recovered within one year.

27. DEBTORS, DEPOSITS AND PREPAYMENTS

	Group		Company	
	2012 HK$'million	2011 HK$'million	**2012 HK$'million**	2011 HK$'million
Trade debtors	**878**	1,242	**—**	—
Less: provision for impairment of trade debtors (Note (a))	**(26)**	(38)	**—**	—
Trade debtors, net (Note (c))	**852**	1,204	**—**	—
Amounts due from fellow subsidiaries (Note (f))	**8**	5	**—**	—
Amounts due from associates (Note (f))	**122**	206	**—**	—
Amounts due from jointly controlled entities (Note (f))	**7**	649	**—**	—
Dividend receivables	**53**	102	**—**	—
	1,042	2,166	**—**	—
Other debtors, deposits and prepayments	**358**	610	**28**	3
	1,400	2,776	**28**	3

Notes:

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

	2012 HK$'million	2011 HK$'million
As at 1 January	**38**	33
Exchange adjustments	**—**	1
Provision for impairment of trade debtors	**6**	5
Reversal of provision	**—**	(1)
Ceasing to control certain subsidiaries	**(18)**	—
As at 31 December	**26**	38

The creation and release of provision for impairment of trade debtors have been included in administrative expenses in the consolidated income statement. Deposits and prepayments do not contain impaired assets.

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

(b) Bill receivables of HK$17 million (2011: HK$35 million) are included in trade debtors as at 31 December 2012.

27. DEBTORS, DEPOSITS AND PREPAYMENTS (Continued)

Notes: (Continued)

(c) The Group has a credit policy of allowing an average credit period of 90 days (2011: 90 days) to its trade customers. The ageing analysis of the trade debtors, net of provision for impairment of trade debtors, is as follows:

	2012 HK$'million	2011 HK$'million
Not yet due	**273**	266
Days overdue		
– 1 - 90 days	**539**	733
– 91 - 180 days	**29**	44
– 181 - 365 days	**8**	140
– Over 365 days	**3**	21
	852	1,204

(d) As at 31 December 2012, trade debtors of HK$273 million (2011: HK$266 million) and balances with related companies of HK$190 million (2011: HK$962 million) are neither past due nor impaired and are fully performing.

(e) As at 31 December 2012, trade debtors of HK$568 million (2011: HK$777 million) are 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:

	2012 HK$'million	2011 HK$'million
Days overdue		
– 1 to 90 days	**539**	733
– 91 to 180 days	**29**	44
	568	777

As at 31 December 2012, it is noted that provision for impairment may be required in respect of trade debtors for the gross amount of HK$37 million (2011: HK$199 million) and a provision of HK$26 million (2011: HK$38 million) has been made thereon. The individually impaired trade debtors mainly relate to customers which are in difficult financial situations while it is assessed that a portion of the trade debtors is expected to be recovered.

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

28. CASH AND BANK BALANCES

	Group		Company	
	2012 **HK$'million**	2011 HK$'million	**2012** **HK$'million**	2011 HK$'million
Cash at bank and in hand	**2,001**	4,582	**21**	198
Short-term time deposits with maturity less than three months	**805**	1,938	**531**	925
Short-term time deposits with maturity more than three months	**1,386**	291	**775**	—
	4,192	6,811	**1,327**	1,123

The weighted average effective interest rate on time deposits as at the end of the reporting period is approximately 2.74% (2011: 2.33%) per annum. These deposits had an average maturity period of 64 days (2011: 63 days).

Cash and bank balances are denominated in the following currencies:

	Group		Company	
	2012 **HK$'million**	2011 HK$'million	**2012** **HK$'million**	2011 HK$'million
Hong Kong dollar	**317**	1,488	**11**	844
Renminbi	**2,165**	5,054	**30**	200
United States dollar	**1,394**	246	**1,286**	56
Euro	**316**	23	**—**	23
	4,192	6,811	**1,327**	1,123

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

	Group		Company	
	2012 **HK$'million**	2011 HK$'million	**2012** **HK$'million**	2011 HK$'million
Cash and bank balances	**4,192**	6,811	**1,327**	1,123
Less:				
Short-term time deposits with maturity more than three months	**(1,386)**	(291)	**(775)**	—
	2,806	6,520	**552**	1,123

29. SHARE CAPITAL

	Company			
	Number of shares		Share capital	
	2012	2011	**2012 HK$'million**	2011 HK$'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	**2,474,411,236**	2,458,027,459	**247**	246
Issue of shares on exercise of share options (Note (a))	**980,000**	1,441,000	**—**	—
Issue of scrip dividend shares (Note (b))	**16,032,152**	14,942,777	**2**	1
As at 31 December	**2,491,423,388**	2,474,411,236	**249**	247

Notes:

(a) During the year, 980,000 (2011: 1,441,000) shares were issued upon exercise of share options. Total net proceeds were HK$19 million (2011: HK$30 million).

The weighted average share price at the time of exercise was HK$24.26 (2011: HK$34.06) 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
2011 final dividend	20 July 2012	14,859,081	2	332	334
2012 interim dividend	**28 November 2012**	**1,173,071**	—	**30**	**30**
2012 Total		**16,032,152**	**2**	**362**	**364**
2011 Total		14,942,777	1	411	412

29. SHARE CAPITAL (Continued)

Notes: (Continued)

(c) Share options

Under the share option scheme adopted through shareholders' resolutions passed on 20 December 2001 and 27 August 2002 ("the Old Scheme"), 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 HKSE 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 HKSE 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 Old 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.

The Old Scheme expired on 9 December 2011. The Board considered that it is in its best interests to adopt a new share option scheme in place of the Old Scheme, and therefore proposed that the Old Scheme be terminated and a new scheme be adopted (the "New Scheme") in 2011.

Upon termination of the Old Scheme, no further options will be granted thereunder. However, the rules of the Old Scheme will remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior to its termination, or otherwise to the extent as may be required in accordance with the rules of the Old Scheme. All options granted under the Old Scheme prior to its termination will continue to be valid and exercisable in accordance with the rules of the Old Scheme.

The terms of the New Scheme and the Old Scheme are generally similar. The New Scheme has already been adopted on 9 December 2011 upon the approval by the shareholders of the Company at an extraordinary general meeting on the same date and is valid and effective for a period of 10 years.

No share options have been granted under the New Scheme since its adoption.

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

	2012		2011	
	Weighted average exercise price HK$	**Number of share options**	Weighted average exercise price HK$	Number of share options
As at 1 January	**21.99**	**27,157,000**	21.93	28,598,000
Exercised	**19.62**	**(980,000)**	20.71	(1,441,000)
Lapsed	**23.03**	**(180,000)**	—	—
As at 31 December	**22.08**	**25,997,000**	21.99	27,157,000

All share options are exercisable as at 31 December 2012 and 2011. Share options outstanding at 31 December 2012 and 2011 have the following expiry dates and exercise prices:

		Number of share options	
Year of expiry	**Exercise price HK$**	**2012**	2011
2014	11.08	**2,050,000**	2,330,000
2016	23.03	**23,797,000**	24,677,000
2016	20.91	**150,000**	150,000
		25,997,000	27,157,000

30. RESERVES

(a) Other reserves of the Group

	Group					
	Share- based compensation reserve HK$'million	Capital reserve HK$'million	Investment revaluation reserve HK$'million	Translation reserve HK$'million	Statutory reserves HK$'million (Note)	Total HK$'million
As at 1 January 2012	**190**	**(523)**	**1,214**	**5,495**	**1,368**	**7,744**
OTHER COMPREHENSIVE INCOME						
Exchange differences from retranslation of investments in subsidiaries, associates and jointly controlled entities	—	—	—	**85**	—	**85**
Reclassification of reserves upon ceasing to control certain subsidiaries	—	**6**	**(1)**	**(170)**	**(11)**	**(176)**
Increase in fair value of available-for-sale financial assets, net of deferred taxation	—	—	**158**	—	—	**158**
Share of reserves of associates	—	**36**	**52**	—	—	**88**
Share of reserve of a jointly controlled entity	—	**3**	—	—	—	**3**
Other comprehensive income/(expense) for the year, net of tax	—	**45**	**209**	**(85)**	**(11)**	**158**
TRANSACTIONS WITH OWNERS						
Transfer from retained earnings	—	—	—	—	**152**	**152**
Acquisition of additional interests in subsidiaries from non-controlling equity holders	—	**(16)**	—	—	—	**(16)**
	—	**(16)**	—	—	**152**	**136**
As at 31 December 2012	**190**	**(494)**	**1,423**	**5,410**	**1,509**	**8,038**
As at 1 January 2011	190	(478)	1,746	3,888	1,185	6,531
OTHER COMPREHENSIVE INCOME						
Exchange differences from retranslation of investments in subsidiaries, associates and jointly controlled entities	—	—	—	1,607	—	1,607
Decrease in fair value of available-for-sale financial assets, net of deferred taxation	—	—	(453)	—	—	(453)
Share of reserves of associates	—	(21)	(79)	—	—	(100)
Share of reserve of a jointly controlled entity	—	45	—	—	—	45
Other comprehensive income/(expense) for the year, net of tax	—	24	(532)	1,607	—	1,099
TRANSACTIONS WITH OWNERS						
Transfer from retained earnings	—	—	—	—	183	183
Acquisition of additional interests in subsidiaries from non-controlling equity holders	—	(75)	—	—	—	(75)
Partial disposal of interest in a subsidiary without losing control	—	6	—	—	—	6
	—	(69)	—	—	183	114
As at 31 December 2011	190	(523)	1,214	5,495	1,368	7,744

30. RESERVES (Continued)

(a) Other reserves of the Group (Continued)

Note: Amount mainly represents statutory reserve of the Group's subsidiaries in PRC. According to the relevant laws in PRC, wholly foreign-owned enterprises in PRC are required to transfer at least 10% of their net profit after taxation, as determined under the PRC accounting regulations, to a non-distributable reserve fund until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to equity owners. Such reserve fund can be used to offset the previous years' losses, if any, and is non-distributable other than upon liquidation.

(b) Reserves of the Company

	Company				
	Share premium HK$'million	Share-based compensation reserve HK$'million	Capital reserve HK$'million (Note (i))	Retained earnings HK$'million (Note (ii))	Total HK$'million
As at 1 January 2012	**15,526**	**190**	**2,340**	**2,775**	**20,831**
Issue of shares on exercise of share options, net of share issue expenses of negligible amount	**19**	—	—	—	**19**
Profit for the year	—	—	—	**2,693**	**2,693**
Dividends paid (note 29(b))	**364**	—	—	**(2,231)**	**(1,867)**
As at 31 December 2012	**15,909**	**190**	**2,340**	**3,237**	**21,676**
Retained earnings as at 31 December 2012 representing:					
Reserves				**2,041**	
Proposed dividend				**1,196**	
				3,237	
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
Retained earnings as at 31 December 2011 representing:					
Reserves				1,092	
Proposed dividend				1,683	
				2,775	

30. RESERVES (Continued)

(b) Reserves of the Company (Continued)

Notes:

(i) 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 and may be applied by the Company in paying up its unissued shares to be allotted to members of the company as fully paid bonus shares.

(ii) Profit attributable to equity holders is dealt with in the financial statements of the Company to the extent of HK$2,693 million (2011: HK$1,519 million).

31. LOANS FROM THE ULTIMATE HOLDING COMPANY

The loans from the ultimate holding company are unsecured, interest bearing at annual rates of 5.20% (2011: 2.72% to 5.20%) and are denominated in the following currencies:

	2012 HK$'million	2011 HK$'million
Hong Kong dollar	—	100
Renminbi	**986**	2,500
	986	2,600

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

	2012 HK$'million	2011 HK$'million
Within 1 year	**986**	1,615
Between 1 to 2 years	—	985
	986	2,600

32. LOANS FROM AN INTERMEDIATE HOLDING COMPANY

The loans from an intermediate holding company are unsecured, interest bearing at annual rate of 4.35% (2011: 4.35%) and are denominated in Renminbi.

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

	2012 HK$'million	2011 HK$'million
Within 1 year	—	616
Between 2 to 5 years	**617**	—
	617	616

33. OTHER FINANCIAL LIABILITIES

	Group		Company	
	2012 HK$'million	2011 HK$'million	**2012 HK$'million**	2011 HK$'million
Bank loans				
Short-term bank loans				
– unsecured	**2,489**	3,200	—	—
– secured (Note (a))	**37**	79	—	—
Long-term bank loans, wholly repayable within five years				
– unsecured	**1,855**	7,157	**496**	847
– secured (Note (a))	—	106	—	—
Secured long-term bank loans, not wholly repayable within five years (Note (a))	**503**	106	—	—
	4,884	10,648	**496**	847
Loan from non-controlling equity holders of subsidiaries (Note (c))	**183**	40	—	—
Notes payable (Note (d))				
– US$300 million, 6.125% guaranteed listed notes maturing in 2013	**2,323**	2,325	—	—
– US$500 million, 5.375% guaranteed listed notes maturing in 2015	**3,869**	3,877	—	—
– US$200 million, 7.125% guaranteed listed notes maturing in 2018	**1,534**	1,536	—	—
– US$500 million, 5% guaranteed listed notes maturing in 2022	**3,814**	—	—	—
– RMB500 million, 5.28% unlisted notes maturing in 2017	**612**	—	—	—
– RMB1,800 million, 6.65% unlisted notes maturing in 2016	—	2,220	—	—
– RMB700 million, 6.13% unlisted notes maturing in 2016	—	864	—	—
	12,152	10,822	—	—
Total	**17,219**	21,510	**496**	847
Less: amounts due within one year included under current liabilities	**(6,035)**	(5,279)	**(496)**	—
Non-current portion	**11,184**	16,231	—	847

33. OTHER FINANCIAL LIABILITIES (Continued)

Notes:

(a) At 31 December 2012, the following assets are pledged against the Group's secured bank loans:

	2012 HK$'million	2011 HK$'million
Property, plant and equipment (note 17(b))	**35**	190
Investment properties (note 18(c))	—	102
Land use rights (note 19 (b))	**7**	—
	42	292

In addition to the above, the entire shareholding in a subsidiary owned by the Group as at 31 December 2012 is also pledged to various banks for bank facilities granted to that subsidiary.

(b) Bank borrowings drawn and listed notes issued by subsidiaries of the Company of HK$11,540 million (2011: HK$8,387 million) are secured by corporate guarantees provided by the Company.

(c) At 31 December 2012, the amount represents a loan from a non-controlling equity holder of a subsidiary and is unsecured, interest-bearing at 4.65% per annum and no balance is required to be repaid within twelve months from the end of the reporting period. Accordingly, the entire balance is classified as non-current.

The amount as at 31 December 2011 were unsecured, interest free and are repayable on demand except for a loan amount of HK$12 million which borne an interest at annual rate of 7.54%. The full amount had been settled during the year.

(d) All of the note payables are issued by subsidiaries of the Company. The effective interest rates are as follows:

	2012	2011
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%
US$500 million, 5% guaranteed listed notes maturing in 2022	**5.22%**	—
RMB500 million, 5.28% unlisted notes maturing in 2017	**5.63%**	—
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 2012, the Group has undrawn bank loan facilities amounting to HK$16,335 million (2011: HK$26,285 million), out of which HK$15,386 million (2011: HK$25,333 million) and HK$949 million (2011: HK$952 million) are committed and uncommitted credit facilities respectively.

Subsequent to the end of the reporting period, the Group obtained a loan facility amounting to HK$7,800 million from CMU for working capital of the Group.

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 interest of subsidiaries		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	HK$'million	HK$'million	**HK$'million**	HK$'million	**HK$'million**	HK$'million	**HK$'million**	HK$'million	**HK$'million**	HK$'million
Within 1 year	**3,712**	5,239	**2,323**	—	**—**	—	**—**	40	**6,035**	5,279
Between 1 and 2 years	**135**	2,099	**—**	2,325	**—**	—	**—**	—	**135**	4,424
Between 2 and 5 years	**702**	3,204	**3,869**	3,877	**612**	3,084	**—**	—	**5,183**	10,165
Wholly repayable within 5 years	**4,549**	10,542	**6,192**	6,202	**612**	3,084	**—**	40	**11,353**	19,868
Not wholly repayable within 5 years	**335**	106	**5,348**	1,536	**—**	—	**183**	—	**5,866**	1,642
	4,884	10,648	**11,540**	7,738	**612**	3,084	**183**	40	**17,219**	21,510

	Company	
	2012	2011
	HK$'million	HK$'million
Within 1 year	**496**	—
Between 2 and 5 years	**—**	847
Wholly repayable within 5 years	**496**	847

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

	Group		Company	
	2012	2011	**2012**	2011
Hong Kong dollar	**1.34% to 3.70%**	0.73% to 7.20%	**1.34%**	1.08% to 1.18%
Renminbi	**5.32% to 7.87%**	4.86% to 7.76%	**—**	—
Euro	**3.85%**	—	**—**	—

33. OTHER FINANCIAL LIABILITIES (Continued)

Notes: (Continued)

(h) The fair values of long-term bank loans, the listed notes payable and the unlisted notes payable are HK$2,284 million (2011: HK$7,313 million), HK$12,575 million (2011: HK$8,246 million) and HK$594 million (2011: HK$3,031 million) respectively. The fair values of long-term bank loans and unlisted notes payable were determined by discounting the future cash flows at the current market interest rate available to the Group and the fair value of the listed notes payable was determined with reference to quoted market price. Other than long-term bank loans and the listed and unlisted notes payable, the carrying amounts of the other financial liabilities approximate their fair values as at 31 December 2012.

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

	Group		Company	
	2012	2011	**2012**	2011
	HK$'million	HK$'million	**HK$'million**	HK$'million
Hong Kong dollar	**3,038**	4,151	**496**	847
Renminbi	**1,956**	9,621	**—**	—
United States dollar	**11,540**	7,738	**—**	—
Euro	**685**	—	**—**	—
	17,219	21,510	**496**	847

34. OTHER NON-CURRENT LIABILITIES

Included in the balance is the minimum guaranteed royalty and premium payable of HK$1,112 million (2011: HK$1,049 million) under a BOT Agreement with Sri Lanka Ports Authority ("SLPA") due by a non-wholly-owned subsidiary, Colombo International Container Terminals Limited, to SLPA, determined by discounting the future annual guaranteed cash flows at the market rate of 7% in 2011.

The BOT Agreement was entered into in 2011 for the right to construct, operate, manage and develop Colombo South Container Terminal for 35 years.

35. DEFERRED TAXATION

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

	2012 **HK$'million**	2011 HK$'million (as restated)
As at 1 January (as previously stated)	**(2,215)**	(1,951)
Effects of adoption of amendments to HKAS 12	**47**	27
As at 1 January (as restated)	**(2,168)**	(1,924)
Exchange adjustments	**(19)**	(83)
Acquisition of subsidiaries (note 39)	**(360)**	—
Charged to consolidated income statement (note 13)	**(174)**	(210)
(Charged)/credited to other comprehensive income	**(16)**	49
Ceasing to control certain subsidiaries (note 40)	**1,072**	—
Release of deferred taxation upon ceasing to control certain subsidiaries (note 13)	**92**	—
As at 31 December	**(1,573)**	(2,168)

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$509 million (2011: HK$454 million) to be carried forward against future taxable income. The unrecognised tax losses of HK$43 million (2011: HK$20 million) can be carried forward indefinitely. The remaining HK$466 million (2011: HK$434 million) expires in the following years:

	2012 **HK$'million**	2011 HK$'million
2012	—	15
2013	**4**	96
2014	**134**	190
2015	**72**	25
2016	**143**	108
2017	**113**	—
	466	434

35. DEFERRED TAXATION (Continued)

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax liabilities

	Withholding tax relating to unremitted earnings		Accelerated tax depreciation allowance		Fair value gains		Total	
	2012 HK$'million	2011 HK$'million	**2012 HK$'million**	2011 HK$'million	**2012 HK$'million**	2011 HK$'million	**2012 HK$'million**	2011 HK$'million
As at 1 January (as previously stated)	**(729)**	(491)	**(1,542)**	(1,445)	**(80)**	(129)	**(2,351)**	(2,065)
Effects of adoption of amendments to HKAS 12	**—**	—	**47**	27	**—**	—	**47**	27
As at 1 January (as restated)	**(729)**	(491)	**(1,495)**	(1,418)	**(80)**	(129)	**(2,304)**	(2,038)
Exchange adjustments	**—**	(25)	**(19)**	(65)	**—**	—	**(19)**	(90)
Acquisition of subsidiaries (note 39)	**—**	—	**(360)**	—	**—**	—	**(360)**	—
Change in tax rate	**—**	(144)	**—**	—	**—**	—	**—**	(144)
Charged to consolidated income statement	**(63)**	(69)	**(124)**	(12)	**—**	—	**(187)**	(81)
Release of deferred taxation upon ceasing to control certain subsidiaries	**92**	—	**—**	—	**—**	—	**92**	—
(Charged)/credited to other comprehensive income	**—**	—	**—**	—	**(16)**	49	**(16)**	49
Ceasing to control certain subsidiaries (note 40)	**—**	—	**1,101**	—	**—**	—	**1,101**	—
As at 31 December	**(700)**	(729)	**(897)**	(1,495)	**(96)**	(80)	**(1,693)**	(2,304)

Deferred tax assets

	Provision		Others		Total	
	2012 HK$'million	2011 HK$'million	**2012 HK$'million**	2011 HK$'million	**2012 HK$'million**	2011 HK$'million
At 1 January	**83**	66	**53**	48	**136**	114
Exchange adjustments	**—**	4	**—**	3	**—**	7
Credited to consolidated income statement	**2**	13	**11**	2	**13**	15
Ceasing to control certain subsidiaries (note 40)	**(17)**	—	**(12)**	—	**(29)**	—
At 31 December	**68**	83	**52**	53	**120**	136

36. CREDITORS AND ACCRUALS

	Group		Company	
	2012 HK$'million	2011 HK$'million	**2012 HK$'million**	2011 HK$'million
Trade creditors (Note (a))	**294**	318	—	—
Amount due to an intermediate holding company (Note (b))	**5**	5	—	—
Amounts due to fellow subsidiaries (Note (b))	**107**	82	—	—
	406	405	—	—
Receipt in advance from sales of properties	—	823	—	—
Other payables and accruals	**1,235**	2,660	**123**	46
	1,641	3,888	**123**	46

Notes:

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

	2012 HK$'million	2011 HK$'million
Not yet due	**5**	63
Days overdue		
– 1 - 90 days	**207**	219
– 91 - 180 days	**49**	5
– 181 - 365 days	**7**	14
– Over 365 days	**26**	17
	294	318

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

37. CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of operating profit to net cash inflow from operations:

	2012 **HK$'million**	2011 HK$'million
Operating profit	**5,070**	4,885
Adjustments for:		
Depreciation and amortisation	**1,284**	1,412
Gain on disposal of property, plant and equipment	**(136)**	(3)
Increase in fair value of investment properties	**(522)**	(445)
Net loss associated with ceasing to control certain subsidiaries	**225**	—
Gain on deemed disposal of interest in an associate (note 21(d))	—	(1,367)
(Gain)/loss on disposal of interests in associates	**(1,287)**	2
(Increase)/decrease in fair value of financial asset at fair value through profit or loss	**(40)**	53
Income from held-to-maturity investments	**(22)**	—
Operating profit before working capital changes	**4,572**	4,537
Increase in inventories, properties under development and held for sale	**(383)**	(1,093)
Decrease in debtors, deposits and prepayments	**133**	567
Increase/(decrease) in creditors and accruals	**763**	(825)
Net cash inflow from operations	**5,085**	3,186

38. COMMITMENTS

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

	2012 HK$'million	2011 HK$'million
Group:		
Authorised but not contracted		
– Property, plant and equipment	**103**	1,698
– Land use rights	**—**	4
	103	1,702
Contracted but not provided for		
– Property, plant and equipment	**6,112**	4,251
– Land use rights	**216**	206
	6,328	4,457
	6,431	6,159
Jointly controlled entities:		
Authorised but not contracted		
– Property, plant and equipment	**6**	199
Contracted but not provided for		
– Property, plant and equipment	**973**	1,277
	979	1,476
	7,410	7,635

(b) Capital commitments for investments

	2012 HK$'million	2011 HK$'million
Group:		
Contracted but not provided for		
– Additional interests in subsidiaries	**2,204**	—
– Ports projects	**2,165**	594
	4,369	594

38. COMMITMENTS (Continued)

(c) Commitments under operating leases

At 31 December 2012, the Group has future aggregate minimum lease payments under non-cancellable operating leases for property, plant and equipment and land use rights as follows:

	2012 HK$'million	2011 HK$'million
Within one year	**175**	127
In the second to fifth year inclusive	**403**	179
After the fifth year	**2,001**	60
	2,579	366

(d) Future operating lease receivables

At 31 December 2012, the Group has future aggregate lease receivables under non-cancellable operating leases for land and buildings as follows:

	2012 HK$'million	2011 HK$'million
Within one year	**195**	190
In the second to fifth year inclusive	**96**	101
After the fifth year	**24**	4
	315	295

39. BUSINESS COMBINATION

Acquisition of subsidiaries for development of a container terminal in West Africa

On 29 August 2012, the Group completed the acquisition of 50% of issued share capital in, and assignment of the related shareholders' loans to, Thesar Maritime Limited ("TML"), whose wholly-owned subsidiary, Lome Container Terminal S.A. ("LCTSA"), is granted with a port operating right in Togolese Republic, at an aggregate consideration of EUR150 million (equivalent to HK$1,459 million). Pursuant to the relevant shareholders' agreement, the Group and the other shareholder of TML have agreed to form an executive committee ("EC") to manage the operating and financing activities of TML and via TML, LCTSA. The Group has a majority voting power in the EC and accordingly the directors of the Company consider that the relevant financing and operating decisions of TML and LCTSA are determined by the EC and accordingly the Group has the power to govern the financial and operating policies of TML and via TML, LCTSA, so as to obtain benefits from their activities.

The Group considers the transaction fits into its strategy of developing its business operations into overseas market as a pertinent means to effectively add new growth drivers to its ports business.

	HK$'million
Consideration satisfied in cash	**1,459**
Fair value of identifiable assets acquired and liabilities assumed	
Intangible assets (note 16)	**3,270**
Property, plant and equipment (note 17)	**8**
Other non-current assets	**90**
Debtors, deposits and prepayments	**2**
Other financial liabilities	**(208)**
Creditors and accruals	**(30)**
Deferred tax liabilities (note 35)	**(360)**
Total identifiable net assets	**2,772**
Non-controlling interests	**(1,386)**
	1,386
Assignment of shareholder's loan	**73**
	1,459

The acquisition-date fair value of the intangible assets were determined by the management with reference to a valuation performed by an independent professional valuer using the discounted cash flow approach over the tenure of the port operating right.

The non-controlling interests in TML recognised at the acquisition date was measured by reference to the fair value of the identifiable assets acquired and liabilities assumed and amounted to HK$1,386 million.

39. BUSINESS COMBINATION (Continued)

Acquisition of subsidiaries for development of a container terminal in West Africa (Continued)

Acquisition-related costs amounting to HK$8 million have been excluded from the consideration transferred and have been recognised as an expense in the current year, within administrative expenses in the consolidated income statement.

The acquiree contributed no revenue and incurred operating expenses of HK$11 million since the completion of the acquisition.

Had the acquiree been consolidated from 1 January 2012, the Group's consolidated income statement for the year would have shown profit attributable to the equity holders of the Company of HK$3,800 million while the revenue of the Group shown in the consolidated income statement would not have changed.

40. CEASING TO CONTROL CERTAIN SUBSIDIARIES

Ceasing to control the Nanshan Outgoing Group

On 18 June 2010, the Company and China Merchants Holdings (Hong Kong) Company Limited ("CMHK"), an intermediate holding company, entered into an entrustment agreement ("China Nanshan Entrustment Agreement") pursuant to which CMHK agreed to grant to the Company the management rights and the power to direct the voting right over approximately 23% of the total issued share capital of China Nanshan. The China Nanshan Entrustment Agreement took effect on 12 August 2010 upon being approved by the independent shareholders of the Company. Together with the approximately 37% equity interest in Nanshan then held by the Group, the Group was able to exercise control over China Nanshan and the Nanshan Group became subsidiaries of the Group from that date.

On 17 September 2012, the Company and China Nanshan, then still a subsidiary of the Company, entered into an entrustment agreement (the "Chiwan Entrustment Agreement"), pursuant to which China Nanshan granted to the Company the management rights and the power to direct the voting right over its 58% interest in Shenzhen Chiwan, a joint stock limited company established under the laws of the PRC, whose A shares and B shares are listed on the Shenzhen Stock Exchange, held by China Nanshan. The Chiwan Entrustment Agreement became effective on 1 November 2012 upon the formal approval of the relevant PRC government authority.

Upon the Chiwan Entrustment Agreement became effective, the Group, on its own without exercising its control rights and power over China Nanshan, is entitled to exercise the management rights and has the power to direct the voting rights over the interest in Shenzhen Chiwan. Accordingly, the Group, on its own without the equity interests of China Nanshan, is able to control the operating and financing decision of Shenzhen Chiwan and consolidates Shenzhen Chiwan in its consolidated financial statements. On 31 December 2012, the Group (excluding China Nanshan and its subsidiaries) is beneficially interested in approximately 9% of Shenzhen Chiwan.

On 27 December 2012, the Group and China Nanshan entered into a transfer agreement (the "Chiwan Transfer Agreement"), pursuant to which China Nanshan agreed to transfer 25% interest in Shenzhen Chiwan out of its 58% interests held therein to a wholly-owned subsidiary of the Company for a consideration of RMB1,787 million. The transfer of 25% interest in Shenzhen Chiwan by China Nanshan is conditional on obtaining the formal approval of the relevant PRC government authorities and such amount is included in capital commitment for acquisition of additional interests in subsidiaries as set out in note 38(b). Up to the date these consolidated financial statements were authorised for issuance, the transaction has not yet been completed.

40. CEASING TO CONTROL CERTAIN SUBSIDIARIES (Continued)

Ceasing to control the Nanshan Outgoing Group (Continued)

On 28 December 2012, the Company and CMHK entered into a termination agreement to terminate the China Nanshan Entrustment Agreement ("Termination Agreement"). The Termination Agreement was approved by the independent shareholders of the Company on the extraordinary general meeting held on 21 February 2013 and took effect from the date of the Termination Agreement. As at the date of the Termination Agreement, the Company owned, through its wholly-owned subsidiaries, approximately 37% of the total issued capital of China Nanshan.

As a result, the Group was no longer able to exercise the management rights and did not have the power to direct the voting right over the approximately 23% of the total issued share capital of China Nanshan under the China Nanshan Entrustment Agreement, and accordingly, the Group was no longer being able to control, and hence to consolidate the assets, liabilities and other financial results of the Nanshan Outgoing Group into its consolidated financial statements, and the approximately 37% equity interest in China Nanshan held by the Group is accounted for as an associate using the equity accounting method.

The aggregate amounts of assets and liabilities attributable to the Nanshan Outgoing Group on the date the Group ceased to control it were as follows:

	HK$'million
Deemed consideration received	
Interest in an associate (Note (a))	2,695
Assets and liabilities over which the Group ceased to control	
Goodwill (note 16)	45
Property, plant and equipment (note 17)	1,971
Investment properties (note 18)	3,675
Land use rights (note 19)	1,834
Interests in associates	2,203
Interests in jointly controlled entities	157
Other financial assets	456
Other non-current assets	286
Deferred tax assets (note 35)	29
Inventories	150
Properties under development and held for sale (note 26)	4,721
Debtors, deposits and prepayments	1,059
Cash and bank balances	5,790
Other financial liabilities	(9,189)
Deferred tax liabilities (note 35)	(1,101)
Creditors and accruals	(2,290)
Taxation payable	(371)
	9,425

40. CEASING TO CONTROL CERTAIN SUBSIDIARIES (Continued)

Ceasing to control the Nanshan Outgoing Group (Continued)

	HK$'million
Net loss associated with ceasing to control of the Nanshan Outgoing Group (Note (b))	
Deemed consideration received	2,695
Net assets derecognised	(9,425)
Non-controlling interests	6,335
Cumulative translation reserve in respect of the net assets of Nanshan Outgoing Group reclassified from equity to consolidated income statement upon ceasing to control	170
	(225)
Release of deferred tax liabilities in respect of the Nanshan Outgoing Group upon ceasing to control (Note (c))	92
	(133)
Net cash outflow arising on ceasing to control Nanshan Outgoing Group, represents cash and bank balance derecognised	(5,790)

Notes:

(a) The deemed consideration received by the Group upon ceasing to control the Nanshan Outgoing Group represents the Group's share of the net fair values of the identifiable assets and liabilities of the retained interests of the Nanshan Outgoing Group upon the Termination Agreement became effective, of which the then business enterprise value of the Nanshan Outgoing Group was HK$855 million.

The Group considered that except for the land use rights in the Mainland China held by the Nanshan Outgoing Group, the then carrying values of the other underlying assets and liabilities of the Nanshan Outgoing Group at the date when the Group ceased the control over it represented their fair values. Since the business enterprise value based on the market prices of the relevant business units, was unable to reflect in full the economic values of the underlying assets and liabilities of the Nanshan Outgoing Group, the Group's management therefore determined that the underlying assets and liabilities provided better indicators for the fair values of the relevant assets and liabilities.

(b) The net loss comprises the loss from derecognition of assets, liabilities and non-controlling interests of the Nanshan Outgoing Group from the consolidated financial statements of the Group upon the Termination Agreement became effective and the Group cease to control the Nanshan Outgoing Group of HK$2,235 million, net of (i) the bargain purchase of the Nanshan Outgoing Group as an associate of the Group of HK$1,840 million, (ii) the release of translation reserve of the Nanshan Outgoing Group of HK$170 million upon the deemed disposal by the Group and (iii) the release of deferred tax liabilities provided by the Group in connection with the Nanshan Outgoing Group of HK$92 million. The resulting net loss is accounted for in the consolidated income statement for the year.

(c) This represented the release of deferred tax liabilities related to the withholding income tax on the unremitted earnings recognised by the Group in relation to the Nanshan Outgoing Group upon ceasing to be controlled by the Group.

41. RELATED PARTY TRANSACTIONS

The Directors regard CMG, a stated-owned enterprise incorporated in PRC, as 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 2012 are as follows:

(a) Balances and transactions with CMG, its subsidiaries, associates and jointly controlled entities (collectively referred to as the "CMG Group")

	Notes	**2012 HK$'million**	2011 HK$'million
Rental income from	(i)		
– an associate		**3**	3
– an intermediate holding company		**28**	27
– a fellow subsidiary		**12**	12
Rental expenses paid to	(i)		
– fellow subsidiaries		**103**	92
– an intermediate holding company		**2**	—
Service income from	(ii)		
– fellow subsidiaries		**30**	17
– jointly controlled entities		**157**	139
– associates		**6**	—
Service fee paid to	(iii)		
– fellow subsidiaries		**19**	11
– jointly controlled entities		**8**	—
– associates		**2**	—
Interest expenses and upfront fees paid to	(iv)		
– the ultimate holding company		**93**	114
– an intermediate holding company		**27**	26

Notes:

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

(ii) The service fees were charged with reference to market rates.

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

(iv) Interest expenses were charged at interest rate as specified in notes 31 and 32 to the consolidated financial statements on the outstanding amounts due to ultimate and an intermediate holding company.

41. RELATED PARTY TRANSACTIONS (Continued)

(a) Balances and transactions with CMG, its subsidiaries, associates and jointly controlled entities (collectively referred to as the "CMG Group") (Continued)

Notes: (Continued)

(v) During the year, the Group transferred certain assets to QQCTU, jointly controlled entities of the Group, at a consideration of HK$1,096 million.

(vi) During the year, a wholly-owned subsidiary of the Group entered into a transaction with certain subsidiaries of CMSKIZ, at a consideration of HK$572 million for the acquisition of certain property interests located in Shenzhen, the PRC. The transaction has not yet been completed at the end of the reporting period and the amount paid by the Group amounting to HK$459 million is accounted for as a prepayment for purchase of non-current assets.

(vii) As at 31 December 2012, the Group places deposits of HK$1,841 million (2011: HK$2,087 million) with and has outstanding bank loans of HK$151 million (2011: HK$2,475 million) from China Merchants Bank Co., Ltd. ("CMB"), an associate of CMG.

During the year, interest income from and interest expenses paid and payable to CMB amounted to HK$53 million (2011: HK$29 million) and HK$77 million (2011: HK$109 million) respectively.

The balances with entities within CMG Group as at 31 December 2012 are disclosed in notes 27, 31, 32 and 36 to the consolidated financial statements.

(b) Transactions with other government-related entities in PRC

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

(c) Balance and transaction with non-controlling equity holder of subsidiaries:

	2012 HK$'million	2011 HK$'million
Interest expense and upfront fee paid (Note)	**6**	1

Note: Interest expense was charged at interest rate as specified in note 33 to the consolidated financial statements on the outstanding loan from non-controlling equity holders of subsidiaries.

The balances with non-controlling equity holder of subsidiaries as at 31 December 2012 and 2011 are disclosed in note 33 to the consolidated financial statements.

(d) Key management compensation

	2012 HK$'million	2011 HK$'million
Salaries and other short-term employee benefits	**14**	20

42. EVENTS AFTER THE REPORTING PERIOD

(a) Acquisition of an associate for development of seaports and terminals and port related business in East Africa

On 29 December 2012, a wholly-owned subsidiary of the Company entered into a share purchase agreement with, among others, Djibouti Ports & Free Zones Authority, to acquire 23.5% of the issued share capital in Port de Djibouti S.A. ("PDSA"), at a cash consideration of US$185 million. Upon the completion of the pre-closing reorganisation, the key assets and operations of PDSA will be the various levels of equity interests in entities engaging to plan, develop, construct and operate seaports and terminals and port related business in the city of Djibouti in Djibouti.

This transaction has been completed subsequent to the end of the reporting period and the Company is in the process to determine the financial impacts of the transaction to the Group.

(b) Acquisition of an associate interested in geographically-diversified container terminals

On 25 January 2013, the Company and a wholly-owned subsidiary of the Company entered into a share purchase agreement with, among others, CMA Terminals Holding SAS, a company organised under the laws of France ("CMATH"), to acquire 49% of the issued share capital in Terminal Link SAS, a company organized under the laws of France ("Terminal Link"), at an aggregate cash consideration of EUR400 million subject to the terms of the aforesaid share purchase agreement. Upon the completion of the pre-closing reorganisations, Terminal Link will own certain equity interests in various container and bulk cargo terminals located in Europe, Mediterranean Basin, Africa, Americas and Asia.

Pursuant to the relevant share purchase agreement, CMATH shall indemnify the Group for each of the seven years ending on 31 December 2019 in the event that the dividends it receives from Terminal Link do not achieve an agreed percentage of the Group's investment in Terminal Link.

Up to the date these consolidated financial statements were authorised for issuance, this transaction has not yet been completed.

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

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

Name of subsidiary	Place of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of issued capital/ registered capital held by the Company				Principal activities
			Directly		Indirectly		
			2012 %	2011 %	**2012 %**	2011 %	
China Merchants Container Services Limited	Hong Kong	HK$500,000	—	—	**100.00**	100.00	Provision of container terminal services and ports transportation
China Merchants (CIMC) Holdings Limited	Hong Kong	HK$2	**100.00**	100.00	—	—	Investment holding and securities trading
China Merchants International Cold Chain (Shenzhen) Company Limited (Note (b))	PRC	US$5,000,000	—	—	**35.70**	35.70	Operation of reefer warehouse in Shenzhen, PRC
China Merchants International Terminals (Ningbo) Limited	British Virgin Islands	US$1	**100.00**	100.00	—	—	Investment holding
China Merchants International Container Terminal (Qingdao) Co., Ltd. (Note (a))	PRC	US$206,300,000	—	—	**100.00**	100.00	Provision of container terminal services and ports transportation
China Merchants International Terminal (Qingdao) Company Ltd. (Note (b))	PRC	US$44,000,000	—	—	**90.10**	90.10	Port, container terminal and logistic business
China Merchants Towage (Qingdao) Co., Ltd. (Note (b))	PRC	RMB27,000,000	—	—	**100.00**	100.00	Operation of tugboats
China Merchants Bonded Logistics Co., Limited (Note (a))	PRC	RMB700,000,000	—	—	**71.97**	71.74	Provision of container related logistics services
China Merchants Port Services (Shenzhen) Company Limited (Note (a))	PRC	RMB550,000,000	—	—	**100.00**	100.00	Provision of terminal services and ports transportation
China Nanshan Development (Group) Incorporation (Note (b))	PRC	RMB900,000,000	—	—	**(Note(c))**	37.01	Investment holding
CMH International (China) Investment Co., Ltd. (Note (a))	PRC	US$30,000,000	**100.00**	100.00	—	—	Investment holding
Colombo International Container Terminals Limited	Republic of Sri Lanka	US$150,000,088	**85.00**	55.00	—	—	Provision of containers terminal services
Kangxin Logistics (Harbin) Co., Ltd. (Note (a))	PRC	US$5,000,000	—	—	**51.00**	51.00	Provision of cold storage services

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of issued capital/ registered capital held by the Company Directly 2012 %	Directly 2011 %	Indirectly 2012 %	Indirectly 2011 %	Principal activities
Kangxin Logistics (Tianjin) Co., Ltd. (Note (a))	PRC	US$5,619,300	–	–	**51.00**	51.00	Provision of cold storage services and logistic services
Lome Container Terminal S.A.	Togolese Republic	XOF200,000,000	–	–	**50.00 (note 39)**	–	Provision of containers terminal services
Mega Shekou Container Terminals Limited	British Virgin Islands	US$120	–	–	**80.00**	80.00	Investment holding
Rich Products (Tianjin) Co., Ltd. (Note (a))	PRC	US$5,000,000	–	–	**51.00**	51.00	Holding a piece of land in Tianjin, PRC
She Kou Container Terminals Ltd. (Note (a))	PRC	HK$618,201,150	–	–	**80.00**	80.00	Operation of berth No. 1 & 2 in Shekou, PRC
Shekou Container Terminals (Phase II) Company Limited (Note (a))	PRC	RMB608,549,000	–	–	**80.00**	80.00	Operation of berth No. 3 & 4 in Shekou, PRC
Shekou Container Terminals (Phase III) Company Limited (Note (a))	PRC	RMB1,276,000,000	–	–	**80.00**	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) (Note (d))	PRC	RMB644,763,730	–	–	**29.91**	29.35	Port operations
Shenzhen Chiwan Petroleum Supply Base Co., Ltd (B Shares listed in the Mainland China)	PRC	RMB230,600,000	–	–	**(Note (c))**	19.44	Port transportation and petroleum services
Shenzhen Haiqin Engineering Supervision & Management Co., Ltd. (Note (b))	PRC	RMB3,000,000	–	–	**100.00**	71.66	Provision of services on ports construction
Shenzhen Hauxing Harbor Development Company Ltd. (Note (b))	PRC	US$15,151,500	–	–	**67.00**	67.00	Provision of container terminal services
Shenzhen Huxing Tug Service Co., Ltd (Note (b))	PRC	RMB2,000,000	–	–	**55.00**	55.00	Operation of tugboats
Shenzhen Mawan Port Service Co., Ltd. (Note (b))	PRC	RMB200,000,000	–	–	**78.97**	78.81	Operation of berth No. 5 in Mawan, Shenzhen, PRC
Shenzhen Mawan Terminals Co., Ltd. (Note (b))	PRC	RMB335,000,000	–	–	**78.97**	78.81	Operation of berths No. 6 & No. 7 in Mawan, Shenzhen, PRC

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of issued capital/ registered capital held by the Company				Principal activities
			Directly		Indirectly		
			2012 %	2011 %	2012 %	2011 %	
Shenzhen Mawan Wharf Co., Ltd. (Note (b))	PRC	RMB200,000,000	—	—	**78.97**	78.81	Operation of berth No. 0 in Mawan, Shenzhen, PRC
Universal Sheen Investment Limited	Hong Kong	HK$100	**100.00**	100.00	—	—	Property holding
Xia Men Bay China Merchants Terminals Co., Ltd. (Note (b))	PRC	RMB80,000,000	—	—	**60.00**	60.00	Provision of container terminal services and ports transportation
Zhangzhou China Merchants Port Co., Ltd. (Note (b))	PRC	RMB1,000,000,000	—	—	**60.00**	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 (Note (b))	PRC	RMB15,000,000	—	—	**70.00**	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 (Note (b))	PRC	RMB50,000,000	**76.84**	76.84	**6.93**	6.80	Provision of computer network services
安通捷碼頭倉儲服務(深圳)有限公司 (Note (a))	PRC	HK$100,000,000	—	—	**100.00**	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 (Note (a))	PRC	HK$100,000,000	—	—	**100.00**	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 (Note (a))	PRC	RMB60,600,000	—	—	**80.00**	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	PRC	RMB300,000,000	—	—	**(Note (c))**	37.01	Investment holdings, property development and investments

Notes:

(a) Foreign investment enterprises

(b) Sino-foreign joint ventures

(c) Upon the ceasing to control described in note 40, the Nanshan Outgoing Group became an associate of the Group.

(d) This entity is considered to be a subsidiary of the Company despite the Group holds less than half of the equity interest therein as the Group is entitled to exercise the management rights and has the power to direct the voting rights of more than half of the total issued share capital of the entity by virtue of agreements with other investors. Further details are set out in note 40.

44. PARTICULARS OF PRINCIPAL ASSOCIATES

Name of associate	Place of incorporation/ registration and operation	Proportion of issued capital/ registered capital indirectly held by the Company 2012 %	2011 %	Principal activities
Asia Airfreight Terminal Company Limited	Hong Kong	**20.00**	20.00	Airfreight services
China International Marine Containers (Group) Co., Ltd. (shares listed in the HKSE since 2012 and B shares listed in the Mainland China previously)	PRC	**25.54**	25.54	Design, manufacture and sales of dry freight containers and refrigerated containers
China Nanshan Development (Group) Incorporation	PRC	**37.01**	(Note (b))	Investment holding
Chu Kong River Trade Terminal Co., Limited	British Virgin Islands	**20.00**	20.00	Provision of shuttle-barge ports services
Modern Terminals Limited	Hong Kong	**27.01**	27.01	Provision of container terminal services and warehouse services
Shanghai International Port (Group) Co., Ltd. (A shares listed in the Mainland China) (Note (a))	PRC	**24.49**	24.49	Ports and container terminal business
Shenzhen Chiwan Sembawang Engineering Co., Ltd	PRC	**(Note (c))**	6.22	Manufacturing and selling steel structure products
Shenzhen Tiehe Storage & Transportation Co., Ltd. (Note (a))	PRC	**45.00**	45.00	Provision of logistics and storage services
Tianjin Haitian Bonded Logistics Co., Ltd. (Note (a))	PRC	**49.00**	49.00	Provision of container terminal services and warehouse services
Tin-Can Island Container Terminal Ltd. (Note (a))	Federal Republic of Nigeria	**28.50**	28.50	Provision of container terminal services
Yahgee Modular House Company Limited (A Shares listed in the Mainland China)	PRC	**(Note (c))**	18.05	Development manufacture and sales of prefabricated houses

Notes:

(a) Sino-foreign joint ventures

(b) China Nanshan, a subsidiary of the Group in 2011, has been deconsolidated from the consolidated financial statements of the Group since 28 December 2012 and thereafter became an associate of the Group, the details are set out in note 40.

(c) These entities are no longer as associates of the Group upon the ceasing to control of China Nanshan since 28 December 2012.

45. PARTICULARS OF PRINCIPAL JOINTLY CONTROLLED ENTITIES

Name of jointly controlled entity	Issued capital/ registered capital	Proportion of Issued capital/ registered capital held by the Company indirectly 2012 %	2011 %	Principal activities
Ningbo Daxie China Merchants International Terminals Co., Ltd (Note (a))	RMB1,209,090,000	**45.00**	45.00	Ports and container terminal business
Qingdao Qianwan United Container Terminal Co., Ltd.	RMB2,000,000,000	**50.00**	50.00	Ports and container terminal business
Qingdao Qianwan West Port United Terminal Co., Ltd.	RMB500,000,000	**49.00**	49.00	Ports and bulk cargo terminal business
Regional Merchants International Freight Forwarding Co., Ltd. (Note (a))	HK$12,000,000	**20.00**	20.00	Provision of transportation service
Regional Merchants Maritime Limited (Note (a))	HK$8,000,000	**20.00**	20.00	Provision of shipping service
Zhanjiang Port (Group) Co., Ltd. (Note (a))	RMB4,020,690,955	**40.29**	40.29	Ports and container terminal business
惠陽新城市房地產開發有限公司	RMB60,000,000	**(Note (b))**	18.51	Property development

Notes:

(a) Sino-foreign joint ventures

(b) This entity is no longer as a jointly controlled entity of the Group upon the ceasing to control of China Nanshan since 28 December 2012.

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

Deloitte Touche Tohmatsu

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, Wan Chai
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 Salon I-IV, Mezzanine Floor, Grand Hyatt Hong Kong, 1 Harbour Road, Hong Kong on Tuesday, 18 June 2013 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 2012 together with the Report of the Directors and the Independent Auditor's Report.

2. To declare a final dividend of 48 HK cents per share for the year ended 31 December 2012 in scrip form with cash option.

3. A. Each as a separate resolution, to re-elect the following retiring Directors:

   (a) To re-elect Mr. Li Jianhong as a Director;

   (b) To re-elect Mr. Hu Zheng as a Director;

   (c) To re-elect Mr. Hu Jianhua as a Director;

   (d) To re-elect Mr. Wang Hong as a Director;

   (e) To re-elect Mr. Bong Shu Ying Francis as a Director; and

   B. To authorise the Board to fix the remuneration of the Directors.

4. To re-appoint Messrs. Deloitte Touche Tohmatsu as Auditor of the Company and to authorise the Board to fix their remuneration.

5. As special business, to consider and, if thought fit, to pass with or without modifications the following resolutions as ordinary resolutions:

   A. "**THAT**:

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

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

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

(d) for the purposes of this Resolution:

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

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

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable law to be held; and

(iii) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders in general meeting.

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

B. "**THAT**:

(a) subject to paragraph (b) of this Resolution, the exercise by the Directors of the Company during the Relevant Period (as defined below) of all the powers of the Company to repurchase its own shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;

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

(c) for the purposes of this Resolution:

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

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

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable law to be held; and

(iii) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders of the Company in general meeting."

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

By Order of the Board
China Merchants Holdings (International) Company Limited
Fu Yuning
Chairman

Hong Kong, 30 April 2013

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's 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 11 June 2013 to 18 June 2013, 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 Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on 10 June 2013.

   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 Monday, 24 June 2013. 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 Monday, 24 June 2013.

4. Concerning resolutions numbered 5A and 5C above, the Board wishes to state that it has no immediate plans to issue any new shares in the Company. The ordinary resolution is being sought from members as a general mandate in compliance with section 57B of the Companies Ordinance and the Listing Rules.

5. Concerning resolution numbered 5B above, the Board wishes to state that it has no immediate plans to repurchase any existing shares pursuant to the relevant mandate. Approval is being sought from members as a general mandate to be given to the Directors to repurchase shares. The Explanatory Statement required by the Listing Rules in connection with the proposed repurchase mandate will be despatched to members together with the notice of the meeting.

6. Pursuant to Rule 13.39(4) of the Listing Rules, all votes at the Annual General Meeting will be taken by poll 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.

7. 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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(INTERNATIONAL) COMPANY LIMITED

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