招商局港口控股有限公司
CHINA MERCHANTS PORT HOLDINGS COMPANY LIMITED

Stock Code : 00144

WE CONNECT THE WORLD

ANNUAL REPORT 2016

2016
Contents

Financial Highlights

	2016 HK$'million	2015 HK$'million	Year-on-year changes
Consolidated statement of profit or loss highlights			
Revenue[1]	**44,221**	43,525	1.6%
Profit attributable to equity holders of the Company	**5,494**	4,808	14.3%
Non-recurrent gains, net of tax[2]	**(913)**	(346)	163.9%
Recurrent profit	**4,581**	4,462	2.7%
Earnings per share (HK cents)			
Basic	**175.58**	155.07	13.2%
Diluted	**175.58**	154.91	13.3%
Dividend per share (HK cents)			
Interim dividend	**22.00**	22.00	—
Final dividend	**65.00**	55.00	18.2%
	87.00	77.00	13.0%
Consolidated statement of financial position highlights			
Total assets	**103,113**	102,349	0.7%
Capital and reserves attributable to equity holders of the Company	**65,908**	68,828	(4.2%)
Net interest-bearing debts[3]	**18,797**	8,852	112.3%
Consolidated statement of cash flows highlights			
Net cash generated from operating activities	**5,552**	6,684	(16.9%)

	2016 HK$'million	2015 HK$'million	Year-on-year changes
Revenue[1]			
Ports operation	**24,506**	21,488	14.0%
Bonded logistics operation	**612**	613	(0.2%)
Port-related manufacturing operation	**14,115**	18,279	(22.8%)
Other operations	**4,988**	3,145	58.6%
Total	**44,221**	43,525	1.6%
EBITDA[4]			
Ports operation	**11,542**	10,610	8.8%
Bonded logistics operation	**266**	306	(13.1%)
Port-related manufacturing operation	**1,211**	1,740	(30.4%)
Other operations	**1,659**	1,006	64.9%
EBITDA	**14,678**	13,662	7.4%
Unallocated net income[6]	**133**	30	343.3%
Net interest expenses[5]	**(2,020)**	(1,553)	30.1%
Taxation[5]	**(1,876)**	(2,076)	(9.6%)
Depreciation and amortisation[5]	**(4,190)**	(3,906)	7.3%
Non-controlling interests[5]	**(1,231)**	(1,349)	(8.7%)
Profit attributable to equity holders of the Company	**5,494**	4,808	14.3%

1 Include revenue of the Company, its subsidiaries and share of revenue of its associates and joint ventures.

2 For 2016, include gain on disposal of an available-for-sale financial asset, net of tax of HK$461 million, gain on deemed disposal of interests in an associate of HK$6 million and increase in fair value of investment properties, net of tax of HK$446 million. For 2015, include gain on disposal of subsidiaries of HK$52 million, gain on partial disposal of an associate of HK$2 million, increase in fair value of investment properties of HK$3 million, gain on deemed disposal of interests in associates and a joint venture of HK$399 million, and additional provision of deferred taxation upon deemed disposal of HK$110 million.

3 Interest-bearing debts less cash and bank balances.

4 Earnings before net interest expenses, taxation, depreciation and amortisation, but excluding unallocated income less expenses and profit attributable to non-controlling interests ("Defined Earnings") of the Company, its subsidiaries, and its share of Defined Earnings of associates and joint ventures.

5 Include the respective items of the Company and its subsidiaries, and its share of the respective sums of associates and joint ventures.

6 For 2016, include expenses for corporate function, gain on disposal of an available-for-sale financial asset and gain on deemed disposal of interests in an associate. For 2015, include expenses for corporate function, gain on disposal of subsidiaries and gain on deemed disposal of interests in associates and a joint venture.

Presence of China Merchants Port Holdings Company Limited

Indian Subcontinent and Africa

Colombo, Sri Lanka
Colombo International Container Terminals

Lagos, Nigeria
Tin-Can Island Container Terminal

Lomé, Togo
Lomé Container Terminal

City of Djibouti , Djibouti
Port de Djibouti

Abidjan, Côte d'Ivoire
Terra Abidjan

Europe and Mediterranean

Casablanca, Morocco
Somaport

Tangiers, Morocco
Eurogate Tanger

Marsaxlokk, Malta
Malta Freeport Terminals

Fos, France
Eurofos

Le Havre, France
Terminal de France
Terminal Nord

Dunkirk, France
Terminal des Flandres

Montoir, France
Terminal du Grand Ouest

Antwerp, Belgium
Antwerp Gateway

Istanbul, Turkey
Kumport

Others

Busan, South Korea
Busan New Container Terminal

Miami, United States
South Florida Container Terminal

Houston, United States
Terminal Link Texas

Mainland China, Hong Kong and Taiwan

Ports | Logistics

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

Yangtze River Delta

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

Bohai Rim

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

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

Xiamen Bay Economic Zone

Ports:
- Zhangzhou China Merchants Port
- Xiamen Haicang Xinhaida Container Terminal

South-West Area

Ports:
- Zhanjiang Port

Kaohsiung, Taiwan

Ports:
- Kao Ming Container Terminal

Corporate Profile

China Merchants Port Holdings Company Limited ("**CMPort**") is China's largest and a global leading port developer, investor and operator, with a comprehensive ports network at the hub locations along coastal China as well as South Asia, Africa, Europe and Mediterranean, amongst others.

Top Ten Container Ports in China - 2016 | Unit: million TEUs

	Port	CMPort Presence	2016	16 vs 15 Change
1.	Shanghai	✓	37.13	1.6%
2.	Shenzhen	✓	23.99	-1.0%
3.	Ningbo - Zhoushan	✓	21.57	4.6%
4.	Hong Kong	✓	19.81	-1.3%
5.	Guangzhou		18.58	6.8%
6.	Qingdao	✓	18.01	3.3%
7.	Tianjin	✓	14.50	2.8%
8.	Xiamen	✓	9.60	4.6%
9.	Dalian	✓	9.59	1.5%
10.	Yingkou		6.01	1.6%

CMPort investment strategy focuses on hub ports in regions that attract foreign investments and are economically vibrant with strong import and export trade growth.

CMPort strives to, as a gateway to China's foreign trade and with its expanding global ports portfolio, provide its customers timely and efficient port and related maritime logistics services by pursuing its management style that emphasizes determination, discipline and efficiency. Through synergies achieved by its existing port network, CMPort seeks to enhance its value creation for its shareholders.

CMPort, with the professional management experience accumulated for years, its self-developed global leading ports operating system and integrated logistics platform for import and export, its extensive maritime logistics support system, the modern and all-rounded integrated logistics solutions it offers, its quality engineering management, and the outstanding and reliable services it provides, has earned itself reputation across the industry.

CMPort strategic vision is to be a world's leading comprehensive port service provider. Through implementation of domestic, international and innovation strategies, CMPort strives to achieve world-class level on various fronts, including global container throughput, market share, income from integrated port services, operational management capabilities, asset utilization, labor productivity and brand name.

In addition, CMPort also invests in bonded logistics operation and port-related manufacturing operation in China. Against the backdrop of a feeble growth in global economic and trade activities, these business segments have continued to demonstrate rapid growth, reflecting their strategic value to the extension of port's value chain.

Major Milestones in 2016

Feb

CMPort's Board of Directors announced that Mr. Li Jianhong resigned as the Chairman and Executive Director of CMPort, and it has resolved to appoint Mr. Li Xiaopeng and Mr. Hu Jianhua as the Chairman and Vice Chairman of CMPort

Feb

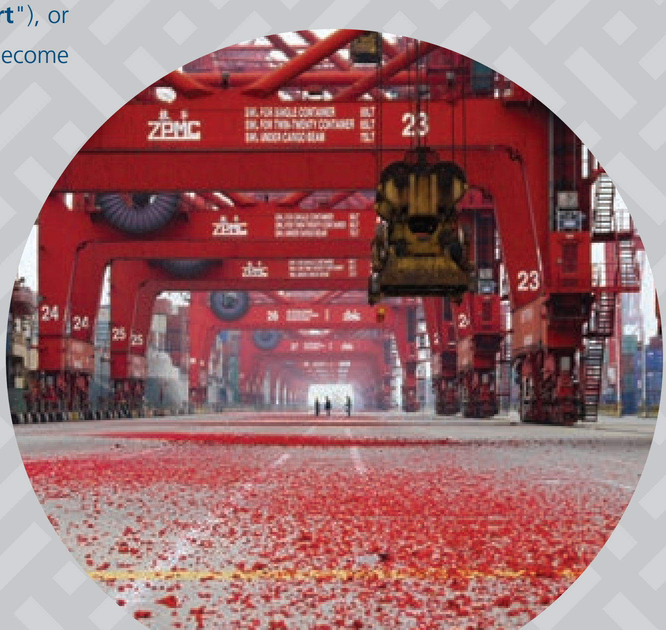
CMPort completed the subscription of 1.18 billion newly issued H shares of Dalian Port (PDA) Company Limited ("**Dalian Port**"), or 21.05% of its enlarged capital, and become its second largest shareholder

Jul

CMPort, China Merchants Shekou Industrial Zone Company Limited ("**CMSIZ**") and China Merchants Logistics Holdings Co., Ltd. formed a JV with equity interest of 14%, 82.5% and 3.5% respectively, so as to develop and manage the various interests in land in Shenzhen Qianhai held by the China Merchants Group Limtied

Aug

China Merchants Holdings (International) Company Limited officially changed its name to "China Merchants Port Holdings Company Limited"



Nov

CMPort completed the issuance of a tranche of RMB Debt Financing Instruments in the form of Super Short-term Notes in a principal amount of RMB1.5 billion

Dec

Colombo International Container Terminals Limited, CMPort's investment in Sri Lanka, achieved a breakthrough of 2 million TEUs in containter throughput for the year

Nov

CMPort, Djibouti Ports & Free Zones Authority, China Merchants Investment Development Company Limited, CMSIZ, Dalian Port and IZP Group entered into an investment agreement in relation to the investment and development of the Djibouti International Free Trade Zone

Chairman's Statement

It is with great delight that I present China Merchants Port Holdings Company Limited (the "**Company**") and its subsidiaries' (the "**Group**") 2016 annual report and its audited financial statements for the year ended 31 December 2016.

In 2016, the global economy continued its deep adjustment. The economic growth rate further slowed down and the risks arisen from various changes further increased. Growth momentum varied with different developed economies, while the overall growth rate of the emerging markets and developing economies gradually stabilised. International trade remained sluggish and the growth rate of port industry continued to slow down. Albeit the adverse macroeconomic environment, the Group had, with the construction of a comprehensive port ecosystem as a pivot, adhered to our strategic plans and the "Six Breakthroughs", the key objectives proposed at the meeting held at the beginning of the year, to pursue various designated tasks in a comprehensive and effective manner and successfully accomplished various operational goals.

In 2016, the overall operating performance of the Group can be summarised by "five merits", namely a steady and orderly kickoff, well-planned consolidation, successful port networking, innovation-in-progress and powerful "Dual Drives". In terms of ports operation, the domestic and overseas projects in which the Group invested delivered a record-high container throughput of 95.77 million TEUs in aggregate, up 14.5% from 2015, among which the container throughput handled by the Group's overseas ports grew by 5.7% year-on-year to 16.96 million TEUs, with Colombo International Container Terminals Limited ("**CICT**") in Sri Lanka continuing a significant growth and achieved a breakthrough of 2 million TEUs. In terms of designated tasks, overseas expansion including in Djibouti has made substantial progress. The consolidation of domestic ports operation, through the equity investment in Dalian Port (PDA) Company Limited ("**Dalian Port**"), becoming the largest shareholder of Zhanjiang Port (Group) Co., Ltd. ("**ZPG**") with the interests held by the Group and its parent company, promoting the strategic cooperation in the region with Shanghai International Port (Group) Co., Ltd. ("**SIPG**"), 浙江省海港投資運營集團有限公司 ("**Zhejiang PG**") and 汕頭港務集團有限公司 ("**Shantou PG**"), have also achieved preliminary results. Through the investments in 中糧招商局 (深圳) 糧食電子交易中心有限公司, Silk Road E-Merchants Information Technologies Co., Ltd. ("**Silk Road E-Merchants**"), Shenzhen Baohong Ecommerce Integrated Services Co., Ltd. to participate in innovation projects such as an integrated electronic bulk trading platform for grains ("**exgrain.com**"), a comprehensive global trade service platform ("**Silk Road Station**") and the cross-border e-commerce integrated service platform ("**Globex e-Services**") have shown promising development signs, and capital management in existing portfolio that were driven by integration of industry with elements of finance have provided solid support for the enhancement of the Group's results.

Operating Results

Profit attributable to equity holders of the Group in 2016 amounted to HK$5,494 million, representing an increase of 14.3% from 2015. Of this amount, recurrent profit [Note1] totalled HK$4,581 million, an increase of 2.7% from 2015. The proportion of EBITDA [Note2] derived from the Group's core port operations increased from 77.7% in 2015 to 78.6% in 2016.

Dividends

The Board of Directors of the Group has resolved to propose at the forthcoming Annual General Meeting the payment of a final dividend of 65 HK cents per ordinary share which, together with the interim dividend of 22 HK cents per share already paid, will give a total dividend of 87 HK cents per ordinary share for the whole year, representing a payout ratio of 41.5%. Subject to the approval by shareholders at the forthcoming Annual General Meeting, the final dividend for ordinary shares will be payable on or around 18 July 2017 to shareholders whose names appear on the register of members of the Company as at 9 June 2017.

Note1 Profit attributable to equity holders of the Company net of non-recurrent gains after tax. Non-recurrent gains include: for 2016, gain on disposal of an available-for-sale financial asset, gain on deemed disposal of interests in associates and change in fair value of investment properties; while for 2015, gain on disposal of subsidiaries, gain on partial disposal of interest in an associate, change in fair value of investment properties, gain on deemed disposal of interests in associates and a joint venture, and additional provision of deferred taxation upon deemed disposal.

Note2 Earnings before net interest expenses, taxation, depreciation and amortisation but excluding unallocated income less expenses and profit attributable to non-controlling interests ("Defined Earnings") of the Company, its subsidiaries and its share of Defined Earnings of associates and joint ventures.

Review for the Year

The year under review was a turbulent year filled with "black swan events" around the world. The progress of globalisation faced tough challenges, such as regional turmoil, struggles among major countries and development of geopolitical landscapes. Against this backdrop of macroeconomic environment, the global economic growth was lower than expected and appeared to vary with different economies, resulting in increased uncertainties. According to "World Economic Outlook" report published in January 2017, the International Monetary Fund ("**IMF**") revealed that global economy grew by 3.1% in 2016, down 0.1 percentage point from that of 2015. Of this, that for the developed economies grew 1.6%, down 0.5 percentage point from that of 2015, which was lower than expected while emerging markets and developing economies recorded a growth of 4.1%, which remained at the same level of 2015. Global trade volume (including goods and services) grew by 1.9%, representing a further decrease of 0.8 percentage point from that for 2015.

In 2016, China's GDP grew by 6.7% for the year and its economic growth rate remained at the top position among major economies. The economic development trend is broadly stable with steady growth. Attributing to soft external demand, negative growth was seen in China's total export and import value for the year, with total trade value amounting to US$3.68 trillion, a decrease of 6.8% over that of 2015. However, it demonstrated a positive upward trend for the year, which has been stabilising quarter by quarter. In the fourth quarter, both import and export values recorded a positive growth. Container throughput handled by ports of significant scale in China totalled 218 million TEUs during 2016, representing a year-on-year increase of 3.6%, or a decrease of 0.5 percentage points over that of 2015 in growth rate.

In light of unfavourable global economic and trade environment, the global ports growth continued to slow down in 2016. Benefitting from the contribution from newly acquired projects, as well as the volume growth of projects in Hong Kong, Taiwan and overseas, the Group's ports operation was able to outperform the industry by registering a total container throughput of 95.77 million TEUs, which represented a 14.5% year-on-year rise and bulk cargo throughput of 460 million tonnes, representing an increase of 30.2% year-on-year. Looking into the regional performance, container throughput handled by the Group's ports in Mainland China totalled 71.93 million TEUs, up 17.0%. Ports in Hong Kong and Taiwan handled a combined container throughput of 6.88 million TEUs, up 12.0%, while overseas operations delivered a container throughput of 16.96 million TEUs, up 5.7%. Among the major ports in the Group's portfolio, SIPG, handling a container throughput of 37.13 million TEUs, or a year-on-year increase of 1.6%, continued to be the world's largest operator for seven consecutive years. Container throughput handled by the Group's terminals in West Shenzhen was 10.97 million TEUs for the year, up 2.0%, which was 3 percentage points higher than the overall growth of ports in Shenzhen. In the overseas arena, CICT in Sri Lanka delivered a noticeable growth of 29.1%, handling a container throughput of 2.02 million TEUs, while Lomé Container Terminal S.A. in Togo handled a container throughput of 0.53 million TEUs in 2016, up 5.1%. Ports de Djibouti S.A. handled a container throughput of 0.99 million TEUs, up 10.1%. Terminal Link SAS disposed its 35% equity interests in Container Handling Zeebrugge in Belgium by the end of 2015 and handled container throughput of 12.35 million TEUs during the year, representing a decrease of 2.1%.

In 2016, the Group insisted on following the strategic guidance and adhered to the three strategic directives of "focus on domestic markets, overseas expansion and innovation", seeking to achieve breakthroughs among six major aspects including homebase port development, ports consolidation, overseas expansion, capital management in existing portfolio by integration of industry with elements of finance, operational transformation and business innovation. The Group has achieved remarkable progress over the past year thus ensuring the sustainable growth of the Group's core ports operation and its business performance.

With respect to homebase port development, the phase II of Tonggu Channel widening project has commenced construction in November 2016 and will be completed by the end of 2017. The project will be of significant importance to the improvement of navigation conditions in accommodating the trend of deployment of mega-vessels. Synchronisation of operations within West Shenzhen Port Zone was further facilitated by establishing a financial resource sharing centre to unify the accounting operation in order to share financial workforce. Since the cooperation between West Shenzhen Port Zone, Sinotrans Guangdong Co., Ltd. and Chu Kong Shipping Enterprises (Group) Company Limited in respect of domestic feeder business has made substantial progress, the Group's influence in such regions was further enhanced, which was beneficial to the implementation of "one-stop" service model in the Pearl River Delta. Regarding the innovation on customs clearance regulatory model, the Group has reached a consensus on the development of certain new businesses including finance lease, bonded display, e-commerce and parallel import of cars with the customs.

As for ports consolidation, based on "regional consolidation and enhancement of synergy", the Group proactively captured the opportunities arising from the consolidation and reform of the ports along coastal regions in China. On 12 January 2016, the Group entered into a share purchase agreement with Dalian Port, after which the Group becomes its second largest shareholder. This marked a major step forward to further expand in Bohai Rim in the future. For Yangtze River Delta region, the Group actively discussed with SIPG and Zhejiang PG to strengthen the cooperation on ports operation in the region. For Pearl River Delta region, the Group and its parent company became the largest shareholder of ZPG by virtue of their interest in the company, while at the same time, the Group put greater efforts in the strategic cooperation with Shantou PG, which is favourable for the Group to promote resources consolidation for ports operations in Pearl River Delta region.

Regarding overseas expansion, on the basis of optimising the projects as a whole, the Group continued to focus on promoting the development of the projects and strengthening its presence in overseas markets, with the goals to "solidify ports layout in Asia, improve ports network in Africa, expand footprint in Europe and acquire new exposure in Americas". In 2016, the Group discussed with the Togolese government on further cooperation in Togo. The Group also made proactive efforts to participate in Djibouti Free Trade Zone project and has made substantial progress. As for various ports projects in Europe, Central and South America, South Asia and Africa, the Group has followed up closely on the progress. In 2016, the Group's overseas projects, contributing 17.7% of its total container throughput, has become an important growth driver of the Group.

With respect to capital management in existing portfolio by integration of industry with elements of finance, in 2016, the Group established the Capital Management Department and a platform company that engages in the investment in and equity integration of domestic ports. Besides, meaningful exploration was made in respect of assets optimisation, fair values realisation and asset securitisation and actions were taken accordingly. The gains on capital operation have provided strong support for the growth of the Group's results.

In terms of operational transformation, by adhering to the construction of a comprehensive port ecosystem as a pivot, the Group completed the top-level design of the ecosystem with the transformation and upgrade of facilities as means, while conducting on-site research and communication regarding the implementation of ecosystem for the major ports in China. The Group also conducted study on and restructuring on the invested companies with a focus on the development of comprehensive port services business.

With regards to business innovation, the Group's new businesses demonstrated good momentum of growth in 2016. For example, Silk Road E-Merchants established a training centre in Djibouti, while "exgrain.com" recorded a cumulative spot trading volume of over 12 million tonnes in 2016 and was rewarded "Top 50 B2B Bulk Trading Company in China of 2016" (2016年全國大宗B2B 50強). Besides, the construction plan of "E-port" project in the West Shenzhen Port Zone was completed and will be implemented in three years, with a view to building a unified service platform for the West Shenzhen Port Zone.

Future prospects

In 2017, the global economy is expected to demonstrate a sluggish recovery in growth with obvious imbalance of performance varying across different countries. Although the projections for economic growth in the United States are relatively positive, it will still be tough for the Euro Zone and Japan to get rid of difficulties, and the steady growth of emerging markets and developing economies will remain the major drivers for the global economic growth. On the other hand, factors such as political confrontation, regional conflicts, trade protection and anti-globalisation will add uncertainties to the global economic growth. According to the latest forecast published by IMF, the global economy is expected to grow by 3.4% in 2017, up 0.3 percentage point from that in 2016, while developed economies are projected to grow by 1.9%, an increase of 0.3 percentage point from 2016. Among which, the projected growth of the United States, Japan and the Euro Zone are 2.3%, 1.6% and 0.8% respectively, an increase of 0.7 percentage point from 2016 for the United States and a decrease of 0.1 percentage point for Japan and the Euro Zone respectively. The emerging markets and developing economies are forecasted to grow by 4.5% in 2017, up 0.4 percentage point from that in 2016, while world trade volume (including goods and services) is projected to grow by 3.8% in 2017, showing recovery to a certain extent as compared to 2016. China's economy is expected to grow by 6.5% in 2017 as structural economic reforms continue to deepen.

Against the backdrop of a feeble economic recovery and the restorative growth of world trade, the global port industry is again anticipating a picture of slow growth in 2017 with performance varying across regions. The three largest shipping alliances have commenced operation in 2017. The supply glut in shipping industry will persist and the transition from competition to consolidation will be the main development trend for regional ports. It is expected that the Group's ports operation will still maintain a relatively positive growth mainly driven by the rapid growth of new projects and overseas projects.

The year of 2017 is critical to achieving the three-year strategic goal. Constantly gravitating upon the strategic vision of "to be a world's leading comprehensive port service provider", the Group will further promote the construction of a comprehensive port ecosystem, enhance quality, efficiency and capability, as well as strengthen, optimise and expand the core ports operation. The Group will strive for the achievement of three strategies directives of "Consolidation", "Port-Zone-City" and "Innovation" with designed tasks as set out below:

Firstly, in order to facilitate the development of the homebase port, the Group will dedicate efforts to constantly pursue consolidation and unification of the West Shenzhen Port Zone and step up its efforts in improving both the software and hardware of the homebase port. The Group will ensure the construction progress of Tonggu Channel and commence transformation of Mawan smart ports as scheduled in order to proactively proceed with the upgrade and transformation of the Qianhai-Shekou Free Trade Zone. The above measures are in support of the establishment of "single window" for free trade zones carried out by the municipal government, with a view to improving the customs clearance environment on an going basis.

Secondly, in respect of consolidation of ports in China, the Group will carry out in-depth study on the "five main" coastal regions, namely the Bohai Rim, the Yangtze River Delta region, the Pearl River Delta region, the south-eastern coastal region and the south-western coastal region, and seek to capture opportunities for expansion of the ports network layout within China. The Group will lead new directions for consolidation of regional ports by focusing on its core strategies and exert every effort in promoting the development.

Thirdly, in terms of the expansion of overseas ports network, the Group will optimise the layout by leveraging on the strategic investment opportunities offered by the "Belt and Road" initiative with an emphasis on enhancing synergy. It will formulate specific work plan as scheduled, while closely monitor the key projects to facilitate the implementation of new projects.

Fourthly, with regards to the construction of a comprehensive port ecosystem, the Group will nurture a comprehensive port ecosystem by taking "E-Port" as the starting point and step up its efforts to promote a comprehensive port development model of "Port-Zone-City". Meanwhile, stemming from the foundation built upon successful experience of its existing "Internet+" businesses such as Silk Road Station, exgrain.com and Globex e-Services, the Group will actively explore the "Port+" operational model with an aim to enrich the Group's business propositions as a comprehensive port services provider and thus achieve business transformation and upgrade of the ports operation.

Lastly, in terms of the capital management in existing portfolio by integration of industry with elements of finance, the Group will continue to apply the "Dual Drivers" development model of assets and capital. More efforts will be put in internal research and reinforce the application of capital management by the integration of industry with elements of finance on multiple levels in order to provide growth drivers to upgrade the Group's existing operations and business performances, thereby achieving the goal of improving production efficiency through the integration of finance elements.

Looking into 2017, with global economy and trade velocity recovering at a slow pace and supply glut in the shipping industry, the prospect for global ports industry remains challenging. Nonetheless, we will tackle these situations rationally by taking proactive actions to seek for innovations and changes to overcome all difficulties, and endeavour to enhance the Group's operating results with an aim to deliver better investment return for shareholders.

Investor Relations

The Group, as always, strives to maintain a smooth investor relation through enhanced communication and exchanges with the investment community with a view to raising their timely understanding of, and confidence towards, the Group. More than 670 visits by investors and analysts were received and/or met by the Group in 2016, including on-site visits and meetings with our senior management. The Group also keeps close contact with its shareholders and the investors through regular roadshow activities conducted from time to time across international investment markets, as a means to enhance the Group's transparency and, in turn, governance standards, all towards establishing for the Group a positive corporate image as a listed company.

Credit Rating

Standard and Poor's and Moody's, the credit rating agencies, maintained the Group's credit ratings at BBB+ and Baa1 respectively in 2016.

Appreciation

The Group has worked in concerted effort to steer through difficulties and achieve new breakthroughs amid the adverse macroeconomic and trade environment in 2016. All its works were completed successfully and steady improvement was seen in its operating results, which could not have been accomplished without the undivided dedication from all of our staff or the support from our shareholders and investors, business partners and those who have taken to heart the Group's interest in the society. For this, I would like to extend my most sincere appreciation and deepest gratitude.

Li Xiaopeng
Chairman

Hong Kong, 29 March 2017

Management Discussion and Analysis

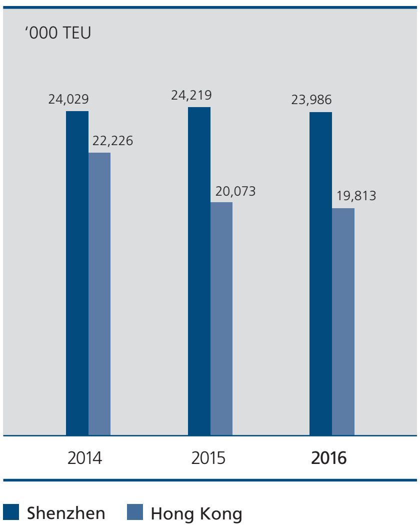
On 10 August 2016, the Company officially changed its name to "China Merchants Port Holdings Company Limited 招商局港口控股有限公司", so as to better reflect the current strategy of the Company to focus on ports and port-related businesses and provide a more definite positioning and corporate image for the Company.

General overview

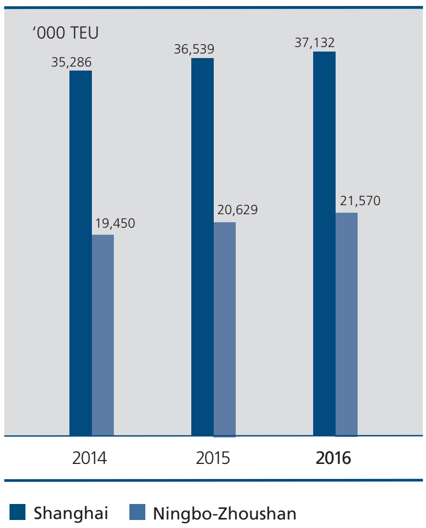
In 2016, "black swan events" happened frequently across the world, resulting in the global economy growing slower than expected and with increasing uncertainty. Since the financial crisis, the global economy has been stagnant with sluggish recovery. In particular, the growth momentum varied with different developed economies with the economy of the United States demonstrating recovery at a relatively faster pace while that of Japan and Europe was still weak. Emerging economies tended to grow more steadily, especially those in Asia-Pacific regions have become the key driver of global growth. According to the "World Economic Outlook" report published by the International Monetary Fund ("**IMF**") on 16 January 2017, the global economic growth rate of 2016 was 3.1%, down 0.1 percentage point as compared to that of 2015, within which developed economies grew at 1.6%, down 0.5 percentage point as compared to that of 2015; and emerging markets and developing economies grew at 4.1%, which remained the same rate as in 2015. Global trade volume (including goods and services) expanded by 1.9%, representing a decrease of 0.8 percentage point as compared to that of 2015.

During the year, in line with the expectation of China's GDP growth rate at 6.7% was substantially achieved. The Chinese government persisted in the philosophy of seeking growth at a stable pace and pushing forward the optimisation of economic structure and reform in development mode while maintaining economic growth within a reasonable range. As affected by the inadequate demand from developed economies and upgrade of the industrial structure in China, China's total import and export value amounted to US$3.68 trillion in 2016, representing a year-on-year decrease of 6.8%, among which the total export value was US$2.10 trillion, indicating a 7.7% year-on-year decrease, while total import value was US$1.59 trillion, reflecting a year-on-year decrease of 5.5%.

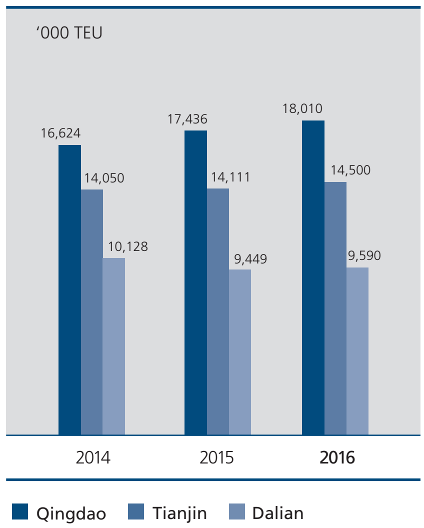
Container throughput in Shenzhen and Hong Kong 2014-2016



Container throughput in Shanghai and Ningbo-Zhoushan 2014-2016



Container throughput in Qingdao, Tianjin and Dalian 2014-2016



With the slow recovery in economy and trade globally, global ports business generally showed soften growth in 2016 while Chinese ports growth also demonstrated a sustained slowdown. Data published by the Ministry of Transport of China revealed that container throughput handled by Chinese ports of significant scale totalled 218 million TEUs in 2016, representing an increase of 3.6% year-on-year but a decline of 0.5 percentage point as compared to the growth rate of previous year.

In 2016, the Group's ports handled a total container throughput of 95.77 million TEUs, grew by 14.5% as compared with last year. Bulk cargo volume handled by the Group's ports was 460 million tonnes, a year-on-year increase of 30.2%. As affected by the sluggish shipping market, China International Marine Containers (Group) Co., Ltd. ("**CIMC**"), of which the Group is the single largest shareholder, recorded a significant decrease in its container sales. In 2016, sales of dry cargo containers and reefers recorded 0.67 million TEUs, a year-on-year decrease of 48.7%.

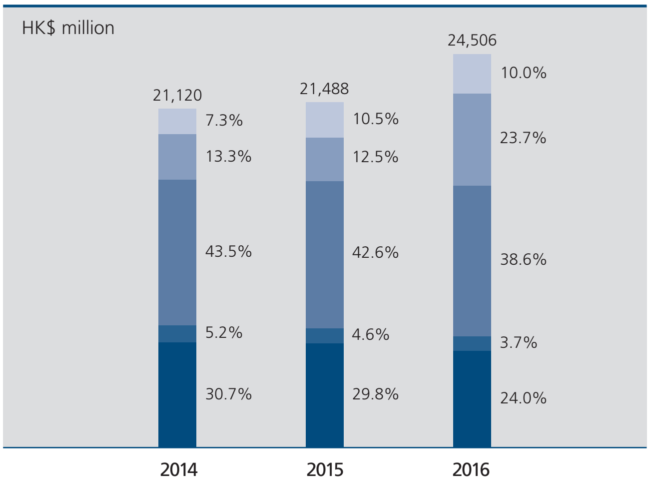
During the year ended 31 December 2016, profit attributable to equity holders of the Company amounted to HK$5,494 million, representing an increase of 14.3% over last year. Recurrent profit [Note 1] was HK$4,581 million, up by 2.7% as compared to last year. EBITDA [Note 2] derived from the Group's core ports operation amounted to HK$11,542 million, up by 8.8% as compared to last year, accounting for 78.6% of the Group's total EBITDA.

Business review

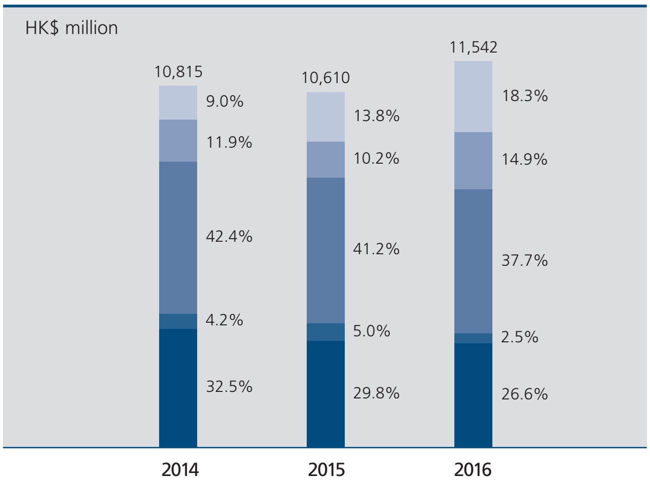
Ports operation

In 2016, the Group's ports handled a total container throughput of 95.77 million TEUs, up by 14.5% year-on-year, among which the Group's ports in Mainland China contributed container throughput of 71.93 million TEUs, indicating an increase of 17.0% year-on-year, which was mainly driven by the additional contribution from a new equity investment in Dalian Port (PDA) Company Limited ("**Dalian**

Ports Revenue



Ports EBITDA



Mainland China, Hong Kong and Taiwan

Pearl River Delta Excluding HK | Hong Kong | Yangtze River Delta | Others | Other locations

Note 1 Profit attributable to equity holders of the Company net of non-recurrent gains after tax. Non-recurrent gains include: for 2016, gain on disposal of an available-for-sale financial asset, gain on deemed disposal of interests in an associate and change in fair value of investment properties; while for 2015, gain on disposal of subsidiaries, gain on partial disposal of an associate, change in fair value of investment properties, gain on deemed disposal of interests in associates and a joint venture, and additional provision of deferred taxation upon deemed disposal.

Note 2 Earnings before net interest expenses, taxation, depreciation and amortisation but excluding unallocated income less expenses and profit attributable to non-controlling interests ("Defined Earnings") of the Company, its subsidiaries and its share of Defined Earnings of associates and joint ventures.

Port") in early 2016, thereby enabling the Group to sustain its leading position among Chinese port operators. The Group's operations in Hong Kong and Taiwan contributed an aggregate container throughput of 6.88 million TEUs, representing a growth of 12.0% over last year. Benefited from the rapid growth of the port operation of Colombo International Container Terminals Limited ("**CICT**") in Sri Lanka and the additional contribution from Kumport Liman Hizmetleri ve Lojistik Sanayi ve Ticaret Anonim Şirketi in Turkey, of which the acquisition was completed by the end of 2015, total container throughput handled by the Group's overseas ports grew by 5.7% year-on-year to 16.96 million TEUs. Total bulk cargo volume handled by the Group's ports increased by 30.2% year-on-year to 460 million tonnes, within which ports in Mainland China handled bulk cargo volume of 453 million tonnes, representing an increase of 30.2% year-on-year. Port de Djibouti S.A. ("**PDSA**") in Djibouti contributed a bulk cargo volume of 6.52 million tonnes, reflecting an increase of 25.8% as compared to previous year.

Pearl River Delta region

In the Pearl River Delta region, the Group's terminals in West Shenzhen handled a total container throughput of 10.97 million TEUs, up by 2.0% year-on-year, of which international container throughput totalled 10.11 million TEUs, up by 1.6%, outperforming the overall Shenzhen port. Chu Kong River Trade Terminal Co., Ltd. handled a total container throughput of 1.38 million TEUs, up by 6.3% year-on-year. Bulk cargo volume handled by the West Shenzhen Port Zone amounted to 19.00 million tonnes, down by 4.2% year-on-year, mainly due to the business transformation pursued by the Group in the Pearl River Delta region. Dongguan Machong Terminal, aided by the addition of new capacity, handled bulk cargo volume of 12.25 million tonnes during the period, representing an increase of 3.9% year-on-year.

Yangtze River Delta region

Shanghai International Port (Group) Co., Ltd. ("**SIPG**") handled a total container throughput of 37.13 million TEUs, up by 1.6% year-on-year. Owing to a decline in coal and ore business volume as a result of the business transformation pursued by SIPG, bulk cargo volume handled during the year decreased by 5.4% year-on-year to 147 million tonnes. As affected by the adjustment of certain shipping routes, Ningbo Daxie China Merchants International Terminals Co., Ltd. handled a total container throughput of 2.65 million TEUs, representing a decrease of 2.1% year-on-year.

Bohai Rim region

Qingdao Qianwan United Container Terminal Co., Ltd. handled a total container throughput of 6.50 million TEUs, representing a decrease of 2.4% year-on-year. Qingdao Qianwan West Port United Terminal Co., Ltd. handled bulk cargo volume of 14.78 million tonnes, representing a decrease of 10.6% year-on-year. Qingdao Port Dongjiakou Ore Terminal Co., Ltd. handled bulk cargo volume of 56.93 million tonnes, indicating an increase of 12.2% year-on-year, with the addition of new capacity. Tianjin Five Continents International Container Terminals Co., Ltd. handled a total container throughput of 2.57 million TEUs, which remained basically the same as last year. Dalian Port, of which the Group became a shareholder on 1 February 2016, has contributed a total container throughput of 9.67 million TEUs and bulk cargo volume of 107.41 million tonnes for the period from February to December.

Xiamen Bay Economic Zone

In the south-eastern coastal region, container throughput handled by Zhangzhou China Merchants Port Co., Ltd. ("**ZCMP**") increased by 4.2% year-on-year to 0.34 million TEUs. Owing to the decrease in demand for timber in the hinterland, bulk cargo volume handled by ZCMP amounted to 9.91 million tonnes, down by 8.0% year-on-year.

South-West region of China

Zhanjiang Port (Group) Co., Ltd. handled a total container throughput of 0.72 million TEUs, up by 17.6% year-on-year; and a total bulk cargo volume of 85.11 million tonnes, up by 3.5% year-on-year.

Hong Kong and Taiwan

The total container throughput handled by ports in Hong Kong dropped by approximately 1.3% year-on-year, of which the container throughput handled by the ports in Kwai Tsing area decreased by 2.4% year-on-year. Modern Terminals Limited and China Merchants Container Services Limited in Hong Kong delivered an aggregate container throughput of 5.15 million TEUs, up by 11.5% year-on-year, which outperformed the overall market of Hong Kong. Benefited from the addition of new capacity, Kao Ming Container Terminal Corporation in Taiwan handled a total container throughput of 1.73 million TEUs, reflecting an increase of 13.3% year-on-year.

Overseas operation

In 2016, total container throughput handled by the Group's overseas operations increased by 5.7% year-on-year to 16.96 million TEUs, among which container throughput handled by CICT in Sri Lanka hit a record high to more than 2 million TEUs and rose significantly by 29.1% year-on-year. Container throughput handled by PDSA in Djibouti and Lomé Container Terminal S.A. in Togo amounted to 0.99 million TEUs and 0.53 million TEUs, up by 10.1% and 5.1% year-on-year respectively. Container throughput handled by Tin-Can Island Container Terminal Limited in Nigeria was 0.41 million TEUs, representing a decrease of 13.0% year-on-year. Terminal Link SAS disposed its 35% equity interests in Container Handling Zeebrugge in Belgium by the end of 2015 and handled container throughput of 12.35 million TEUs during the year, representing a decrease of 2.1% year-on-year.

Strategic deployments in the ports operation

In 2016, which was prevailed with adverse external operating environment, the Group pursued various developments by adhering to the operation philosophy of "seeking for changes while maintaining stability, seeking to promote innovation among changes, and seeking to progress on the back of innovation". The Group, on one hand, captured opportunities offered by the strategic initiatives promoted by China, intensively implemented its development strategies in both domestic and overseas markets, and achieved breakthroughs in the establishment of the homebase port, consolidation of ports in China and expansion of its global ports network; while on the other hand, it leveraged on the core business in ports operation to explore the extension of the ports value chain through various means, such as utilising internet technology, promoting business innovation and cross-sector integration. The Group also exerted great efforts in building a comprehensive port ecosystem to seek breakthroughs in corporate transformation and development.

Regarding the ongoing development of its West Shenzhen homebase port, the Group enhanced the overall competitiveness of the West Shenzhen Port Zone by actively promoting upgrade of hardware, resources consolidation and optimisation of its cargo collection-distribution system. For the upgrade of hardware during 2016, the construction for phase II of Tonggu Channel widening project officially commenced in November with the support from the Shenzhen Government. After the project is completed and commences operation, the navigation conditions in the West Shenzhen Port Zone will be further improved. With respect to resources consolidation, a financial resource sharing centre was established in the West Shenzhen Port Zone to centralise the accounting operation and commonly share the finance workforce resources, further enhancing the integrated operation. As for the cargo collection-distribution system, the West Shenzhen Port Zone actively explored the possibility of and realise the cooperation with Sinotrans Guangdong Co., Ltd. and Chu Kong Shipping Enterprises (Group) Company Limited. The West Shenzhen Port Zone entered into cooperation with Sinotrans Guangdong Co., Ltd. during the year and realised the effective integration of logistics, shuttle-barge and port resources of both parties through coordination of assets, businesses and talents. The launching of an innovative product called "one-stop service for transit at the Pearl River Delta", which provided customers with more convenient and comprehensive logistics services, was well-received by the market. The cooperation would enhance the attractiveness of the West Shenzhen Port Zone for cargo from the hinterland in the Pearl River Delta region.

As for overseas expansion, by seizing the development opportunities arising from the "Belt and Road" initiative promoted by China and pursuing the development direction of "solidify ports layout in Asia, improve ports network in Africa, expand footprint in Europe and acquire new exposure in Americas", the Group actively analysed and captured investment opportunities in ports, logistics and the relevant infrastructure along the sea routes so as to continuously optimise the Group's global port network. Meanwhile, the Group formed two joint venture entities with several joint investors in Djibouti International Free Trade Zone in January 2017 for actively participating in the upgrade of its ports facilities, and planning and construction of surrounding industrial zones, which gathered experience and laid foundation for exploring a comprehensive port development model, and deployment and establishment of "Checkpoints along the Maritime Silk Road".

As for the Group's strategies for the Chinese port market, capitalising on the opportunities arising from the restructuring of regional ports in China, the Group aiming towards collaboration and principle of mutual benefits, proactively enhanced the interaction and exchange with major port groups along coastal China with a view to identifying new investment and cooperation opportunities, so as to further improve its domestic port network and to achieve synergy.

With regards to innovative development, the Group proactively explored and promoted the establishment of a comprehensive port ecosystem on the foundation of port operations. It also enhanced the synergy and integration between the involved parties in port business by utilising internet technology, and strengthened its ability in creating values for customers through innovation of business models and cross-sector integration, which would facilitate its business expansion towards middle and high end of the ports value chain, thereby realising the transformation from a terminal operator to a comprehensive port services provider. The Group's innovation projects achieved remarkable progress in 2016. The overall planning and design of the "E-port" project in the West Shenzhen Port Zone has been completed and the construction would be carried out in three phases. As the unified platform for the external information service in the West Shenzhen Port Zone, "E-port" will consolidate the existing information resources and services to enhance the informatisation capability of trade clearance and cargo collection-distribution business in the West Shenzhen Port Zone. The business scale of "exgrain.com", an integrated electronic bulk trading platform for grains cooperated with COFCO Corporation, expanded rapidly with an aggregate spot trading volume for the year exceeding 12.00 million tonnes. "exgrain.com" was accredited as "2016 Top 50 Bulk B2B in China" and recognised by the industry. Silk Road E-Merchants Information Technologies Co., Ltd., a joint venture established by the Company and IZP Group, proactively pushed forward the development of a comprehensive global trade service platform according to an innovative model: "Customs Clearance, Get through the Exchange and Get through the Chain".

In terms of operational management, the Group integrated the application of its refined management platform with strategic management, and preliminarily established a strategic closed-loop management system with key focuses on strategy formulation, target decomposition, strategy execution and performance assessment, which is of great significance for the Group's execution of strategies and enhancement of management quality. In 2016, the refined management platform of the Group was awarded the Second Prize of the "22nd National Innovative Achievement in Modernised Management by China Corporations", reflecting the wide recognition by the industry.

Bonded logistics operation

In 2016, the Group's bonded logistic business sustained good growth momentum, with remarkable results on innovations initiatives. Through optimising the customer structure, China Merchants Bonded Logistics Co., Ltd., a subsidiary of the Group in Shenzhen, recorded a warehouse utilisation rate of 86% and the operating efficiency of the zone was constantly improving. Leveraging on the opportunities arising from the inclusion of Qingdao City as one of the pilot cities under the comprehensive pilot zone for cross-border e-commerce, China Merchants International Terminal (Qingdao) Co., Ltd. conducted its cross-border e-commerce business following a systematic action plan and took the lead to engage in the integrated business of bonded import and direct purchase within the province, which turned it into the core of the comprehensive pilot zone for cross-border e-commerce in Qingdao and provided a new driver for the improvement of the zone's operating efficiency. Continuing to leverage on the incentive policies available at the Dongjiang Bonded Port Zone, Tianjin Haitian Bonded Logistics Co., Ltd., an associate of the Group, recorded higher rental rates and grew steadily in operation with warehouse resources running almost at full capacity.

In 2016, the total cargo volume handled at the three major air cargo terminals in Hong Kong amounted to 4.01 million tonnes, representing an increase of 8.1% year-on-year. Asia Airfreight Terminal Company Limited, in which the Group has interest, handled a total cargo volume of 0.58 million tonnes, representing an increase of 0.1% year-on-year, representing a market share of 14.5%, down by 1.1 percentage points as compared to last year.

Port-related manufacturing operation

In 2016, the shipping market remained subdued with the decrease in demand of purchase for containers due to deteriorating results of shipping companies. Meanwhile, given the continued weakening price of containers, the container sales business saw a noticeable year-on-year decline and a substantial provision of RMB1.36 billion was made, leading to a significant decline in the operating results of CIMC. In 2016, CIMC recorded profit attributable to equity holders of RMB540 million, down 73.4% year-on-year, while its sales of dry cargo containers and reefers was down 48.7% year-on-year to 0.67 million TEUs in 2016 and revenue of the container sales business decreased by 47.5% year-on-year.

Financial review

For the year ended 31 December 2016, revenue[Note 3] from the Group's core ports operation increased by 14.0% over the same period last year to HK$24,506 million, as a result of added production capacities from overseas greenfield projects in ramp-up period and acquired new projects. Notwithstanding, the Group's revenue recorded HK$44,221 million, slightly increased by 1.6% year-on-year offset by the sluggish global trade weighed on the demand for CIMC's products. Profit attributable to equity holders of the Company amounted to HK$5,494 million, up 14.3% over last year. Due to better-than-expected contributions from overseas greenfield projects and added contributions from new projects, the Group recorded recurrent profit of HK$4,581 million, representing an increase of 2.7% year-on-year.

EBITDA derived from the Group's core ports operation amounted to HK$11,542 million, representing an increase of 8.8% year-on-year, which contributed 78.6% of the Group's total EBITDA. Profit attributable to equity holders of the Company derived from the core ports operation amounted to HK$5,558 million, representing an increase of 24.6% over the previous year.

As at 31 December 2016, total assets of the Group was HK$103,113 million, representing an increase of 0.7% as compared with a corresponding balance of HK$102,349 million as at 31 December 2015. Net assets attributable to equity holders of the Company was HK$65,908 million as at 31 December 2016, representing a decrease of 4.2% from that as at 31 December 2015, mainly resulted from a decrease in fair value of the Group's available-for-sales financial assets and exchange differences from retranslation of foreign investments.

In general, the Group's ports operation continued to yield stable cash inflow. However, due to the timing difference in dividend receipt from certain associates, whereby the distribution of dividend from an associated company, which was supposed to take place in the second half of 2014, was deferred to the first half of 2015, the Group's total net cash inflow from operating activities decreased by 16.9% year-on-year to HK$5,552 million for the year ended 31 December 2016. As significantly higher capital expenditure on business acquisitions was incurred than last year, the Group has generated net cash outflow from investment activities of HK$10,856 million for the year ended 31 December 2016, compare that to HK$1,983 million in the previous year. The Group's net cash outflow from financing activities amounted to HK$1,143 million during the year ended 31 December 2016, comparing to HK$3,782 million in the previous year.

Note 3 Include revenue of the Company and its subsidiaries, and its share of revenue of associates and joint ventures.

Liquidity and treasury policies

As at 31 December 2016, the Group had approximately HK$3,637 million in cash, 15.5% of which was denominated in Hong Kong dollars, 19.8% in US dollars, 63.1% in Renminbi and 1.6% in other currencies.

The Group mainly derived its funding sources from its operating activities related to ports operation, bonded logistics operation, property investment, and investment returns from associates and joint ventures, which amounted to HK$5,552 million in total.

During the year, the Group incurred capital expenditure amounted to HK$7,632 million while the Group continued to adhere a prudent financial policy and to maintain a sound financial position. In addition, as a significant portion of the Group's bank loans were medium- to long-term loans, 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 2016, the Company had 2,625,732,225 shares in issue. During the year, the Company issued 70,000 new shares upon the exercise of share options and received net proceeds of approximately HK$2 million as a result. Other than the above-mentioned newly issued shares, the Company issued 26,758,997 shares under the Company's scrip dividend scheme and 188,135 shares upon conversion of the mandatory convertible securities.

As at 31 December 2016, the Group's net gearing ratio[Note 4] was approximately 25.5%.

The financial statements of the Group's foreign investments are in Renminbi, Euro or United States dollars and any exchange difference so arising from retranslation of these financial statements have been dealt with in the reserve of the Group. The Group will keep monitoring market changes and explore the use of forward exchange contracts, where deemed necessary, in order to hedge foreign exchange risk and to optimise its overall exposure to maintain foreign exchange risk at a manageable level.

During the year, the Company issued fixed-rate unlisted notes maturing in 2017 for the amount of RMB1,500 million to finance the Group's working capital. A non-wholly-owned subsidiary of the Company issued fixed-rate unlisted notes with various maturities for the aggregate amount of RMB850 million to finance its working capital.

The Group had aggregate bank loans and listed notes payable of HK$15,315 million as at 31 December 2016 that contain customary cross default provisions.

Note 4 Net interest-bearing debts divided by total equity.

As at 31 December 2016, the Group's outstanding interest bearing debts are analysed as below:

	2016 HK$'million	2015 HK$'million
Floating-rate bank loans which are repayable as follows (Note):		
Within 1 year	**2,225**	713
Between 1 and 2 years	**516**	643
Between 2 and 5 years	**2,455**	1,401
More than 5 years	**2,304**	2,855
	7,500	5,612
Fixed-rate bank loans which are repayable as follows:		
Within 1 year	**732**	179
Between 1 and 2 years	—	60
More than 5 years	**28**	—
	760	239
Fixed-rate listed notes payable which are repayable:		
In 2018	**1,546**	1,542
In 2020	**1,544**	1,541
In 2022	**3,839**	3,830
In 2025	**3,855**	3,851
	10,784	10,764
Fixed-rate unlisted notes payable which are repayable:		
In 2016	—	597
In 2017	**1,962**	—
In 2018	—	594
In 2019	**334**	—
	2,296	1,191
Loans from the ultimate holding company which are repayable as follows:		
Within 1 year	**336**	277
Between 1 and 2 years	—	358
	336	635
Loans from an intermediate holding company which are repayable as follows:		
Within 1 year	**63**	34
Between 1 and 2 years	**223**	67
Between 2 and 5 years	**56**	239
	342	340
Loans from non-controlling equity holders of subsidiaries which are repayable as follows:		
Within 1 year	**44**	—
More than 5 years	**372**	364
	416	364

Note: All bank loans are unsecured except for HK$4,209 million (2015: HK$4,375 million).

The interest bearing debts are denominated in the following currencies:

	Bank loans 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$' million	Loans from non-controlling equity holders of subsidiaries HK$' million	Total HK$' million
As at 31 December 2016							
USD	**2,569**	**10,784**	—	—	—	**44**	**13,397**
RMB	**3,803**	—	**2,296**	**342**	**336**	—	**6,777**
EURO	**1,888**	—	—	—	—	**372**	**2,260**
	8,260	**10,784**	**2,296**	**342**	**336**	**416**	**22,434**
As at 31 December 2015							
HKD & USD	2,827	10,764	—	—	—	—	13,591
RMB	973	—	1,191	340	635	—	3,139
EURO	2,051	—	—	—	—	364	2,415
	5,851	10,764	1,191	340	635	364	19,145

Assets charge

As at 31 December 2016, the entire shareholdings in two subsidiaries owned by the Company and its subsidiary are pledged to various banks for bank loans of HK$4,209 million (2015: HK$4,375 million).

Employees and remuneration

As at 31 December 2016, the Group employed 5,760 full time staff, of which 194 worked in Hong Kong, 4,653 worked in Mainland China, and the remaining 913 worked overseas. The remuneration paid for the year amounted to HK$1,558 million, representing 27.6% of the total operating expenses of the Group. The remuneration policy of the Group is reviewed every year and appropriate adjustments are made to an individual's remuneration with reference to the Group's performance, individual's performance, conditions of the human resources market and general economy.

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

The Group has at all times strived to maintain a good relationship with its employees and is committed to complying with the Employment Ordinance, the Minimum Wage Ordinance and ordinances relating to the occupational safety of employees of the Group, so as to safeguard the interests and well-being of its employees.

Corporate social responsibility

While striving to continuously improve its operating results and generate return 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 more sustainable direction.

In 2016, aiming at "energy conservation and efficiency enhancement" with "technological innovations" as the means while fulfilling the corporate social responsibility of "conserving energy, reducing emission and carbon footprint, and protecting the environment", the Group has continued its efforts in the building of low-carbon green port by expediting the transformation of our ports, which enables them to become more environment-friendly and energy-conserving. Having become the only state-sponsored demonstration port zone of low-carbon green ports in South China since 2013, the Group's West Shenzhen Port Zone has been working actively to implement the pilot programs relating to the establishment of low-carbon green ports, focusing on 13 key implementation projects in four major areas, including the transformation of infrastructure, upgrading of logistics equipment, optimisation of energy consumption structure and initiation of intelligent operations. Among which, the first 9 key implementation projects have been assessed by the expert group of the Ministry of Transport and passed the examinations and acceptance inspections in May. All of these demonstrated the Group's efforts in establishing a new and modern container port zone that is green, efficient, eco-friendly and sustainable with the use of clean energy and green power.

The Group is committed to integrating its corporate core values into the community by participating actively in various community and charitable activities. In 2016, the Group's charitable activities adhered to the theme of "Shaping Blue Dreams Together" (共鑄藍色夢想), which concerns the ocean and humanities. The Group's South China Container Terminal once again organised the public welfare activity named "Shaping Blue Dreams Together — Summer Camp for Caring of Left-behind Children" (共鑄藍色夢想—關愛留守兒童夏令營), and donated emergency supplies worth of US$30,000 to flooded areas in Sri Lanka and emergency aid of US$50,000 to earthquake-stricken areas in Tanzania. It also continued to run the "Shaping Blue Dreams Together — C Blue restore Sight Project" (共鑄藍色夢想—招商局一帶一路光明行), providing free surgeries for 40 local patients who were poor and suffered from cataract to recover their sight.

Future prospects

In 2017, the global economy is expected to grow at a slightly faster rate, benefitting mainly from the fiscal stimulus implemented by developed economies such as the United States, and the rebound of the emerging markets and developing economies. According to the latest forecast by IMF, global economy is expected to grow by 3.4% in 2017, a 0.3 percentage point improvement as compared to 2016, within which developed economies will grow at 1.9%, up 0.3 percentage point as compared to that of 2016; and emerging markets and developing economies will grow at 4.5%, up 0.4 percentage point as compared to that of 2016. Global trade volume (including goods and services) is expected to expand by 3.8%, an increase of 1.9 percentage points as compared with that of 2016. However, IMF also indicated that there will still be higher downside risk, which includes the rise of trade protectionism, tightening global financial environment and worsening geopolitical tensions. All of these factors will affect the development of the global economic and trade environment.

China's economy is expected to confront relatively high pressure but will sustain a steady pace of growth with the reforms of economic structure gradually taking effect with the support of relevant policies. The forecast published by the IMF suggested that the Chinese economy will grow by 6.5% in 2017, down 0.2 percentage point as compared to that in 2016. In addition, the accelerated implementation of strategies such as "Belt and Road" initiative and collaboration over international production capacity, coupled with declining Renminbi exchange rate at a steady pace, will have a positive effect on economic and trade growth. It is expected that the decrease in the import and export value of China's foreign trade will narrow down in 2017.

In light of the unfavourable global economic and trade environment, shipping industry will continue with the integration of resources, and competition among different alliances will become even more intense. The port industry is presented with further challenges and opportunities, with a concentrated market layout that is dominated by the three largest shipping alliances to be formed by 2017, namely 2M, OCEAN and THE Alliance, along with the rearrangement of trade routes.

Based on the aforementioned analysis and considerations, in 2017, the Group will capitalise on the opportunities arising from the implementation of policy adhering to the directives of "enhancing capability, improving efficiency and quality, striving for self-improvement and integrating to achieve mutual benefits". The Group will also, with building "a comprehensive port ecosystem" as a pivot, expand and consolidate its core ports operation and accelerate the transformation of comprehensive service, with a view to achieving breakthroughs in aspects such as the development of the homebase port, ports consolidation, expansion of its global ports network and innovation development, thereby gradually realising its strategic goal of "to be a world's leading comprehensive port service provider" with its best endeavours.

Regarding the development of the homebase port, the Group will dedicate efforts to constantly enhance its overall competitiveness, by following the development direction of "integrating resources, extending scope of services and transforming existing facilities". The Group seeks to capture available opportunities arising from the implementation of reforms and participate in the consolidation of domestic ports, with a view to enhancing synergy; extend the hinterland coverage of the homebase port by complementing the barge shuttle network and sea-rail intermodal transportations in the Pearl River Delta region, whilst innovating business models through working closely with Sinotrans & CSC Holdings Co., Ltd.; nurture new drivers for profitability by leveraging on the advantages brought by the policies endowed to the Qianhai Free Trade Zone and utilising the development of "E-port" as the means, to actively promote the transformation and upgrade of the homebase port, thereby provide wider range of value-added services to our customers, while at the same time, stemming from the core ports operation, to consistently improve the quality of comprehensive port services which is comprised of trading, customs clearance and port-related logistics operations.

With respect to ports consolidation, by comprehensively studying and seizing available opportunities derived from the supply-side reform and the restructuring of regional ports, the Group will leverage on its own advantages in resources to proactively interact and communicate with major port groups along coastal China and actively participate in the consolidation of domestic ports, with a view to enhance synergies within the Group's domestic port network and its resources and thus further elevate the Group's influence in the domestic port market.

As for overseas expansion, seeking to seize the opportunities offered by the "Belt and Road" initiative promoted by China, the Group will continue to study and capture investment opportunities in ports, logistics and relevant infrastructure in countries along the route and seek to achieve breakthroughs in key areas, so as to strengthen its presence in overseas market. Meanwhile, by capturing the development opportunities available in the emerging markets and taking reference to the development experience in Shekou, the Group will explore the application of the development model of "Port-Zone-City" in an effort to promote comprehensive regional development and construction with a focus on port operations and create a new development model for overseas businesses according to local conditions.

With regards to innovative development, riding on the advantages from integration of the Group's global port network and its resources, the Group will proactively explore and promote the "Port +" business development model in an effort to establish a comprehensive port ecosystem with a foundation of port operations. The Group will also strive to seek for business expansion opportunities in areas such as "Port + Trade", "Port + Service" and "Port + Engineering", so as to provide a new business driver for the sustainable development of the Group.

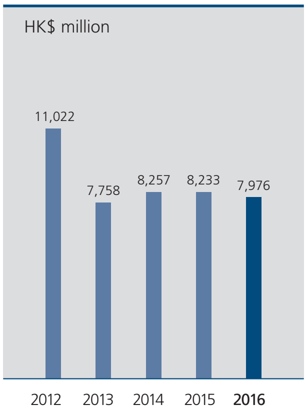
While actively promoting its business development, the Group will place a great emphasis on the enhancement of capacity building and operational quality. In 2017, it will adhere to the directives of "enhancing capacity and improving quality and efficiency" with a focus on reinforcing capacity building in six major aspects, including strategic management and control, management refinement, resources integration, promotion of innovation, organisational development and risk management. Meanwhile, the Group will endeavour on the balanced development of scale expansion and operational efficiency, which will enable it to transform the "scale advantages" into "quality advantages and performance advantages"

Global macroeconomic environment will remain complex in 2017. The uncertainties over global economic and trade growth will heighten, the profound reforms will continue to prevail within China's economy, and the intensifying competition will persist within the ports industry, which will bring about new opportunities and challenges to the Group's ports operation. The Group will, through clearly visualising the prevailing conditions and endeavouring to steadily progress, navigate its business operations by following the already established operational strategies. As always, the Group will endeavour to maximise shareholders' value while enhancing profitability, thereby delivering better returns for its shareholders.

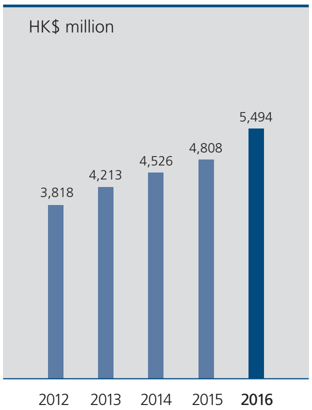
Five-year Financial Summary

	2016 HK$'million	2015 HK$'million	2014 HK$'million	2013 HK$'million	2012 HK$'million
RESULTS					
Revenue	**7,976**	8,233	8,257	7,758	11,022
Profit before taxation	**6,683**	6,315	6,169	5,781	6,871
Profit for the year	**6,206**	5,525	5,018	4,939	5,708
Non-controlling interests	**712**	717	492	726	1,890
Profit attributable to equity holders of the Company	**5,494**	4,808	4,526	4,213	3,818
ASSETS AND LIABILITIES					
Non-current assets	**97,100**	90,063	88,551	83,389	71,414
Net current (liabilities)/assets	**(3,131)**	7,498	3,520	1,050	(2,749)
Total assets less current liabilities	**93,969**	97,561	92,071	84,439	68,665
Non-current liabilities	**20,231**	20,912	16,925	28,013	14,983
Non-controlling interests	**7,830**	7,821	7,716	7,827	8,140
Capital and reserves attributable to equity holders of the Company	**65,908**	68,828	67,430	48,599	45,542
RETURN TO SHAREHOLDERS					
Earnings per share					
– Basic (HK cents)	**175.58**	155.07	159.41	166.89	153.26
– Diluted (HK cents)	**175.58**	154.91	159.28	166.59	153.09
Dividend per share (HK cents)	**87.00**	77.00	77.00	77.00	70.00

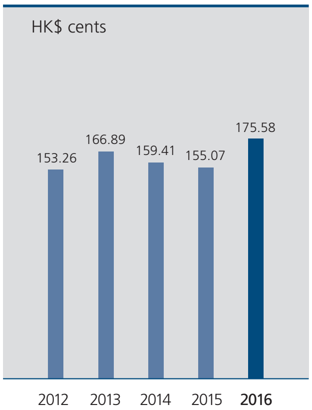
Revenue



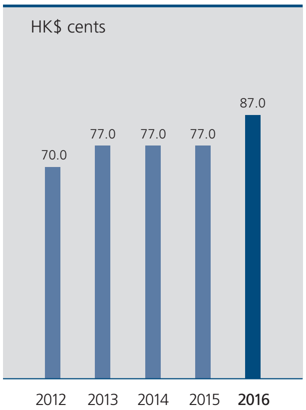
Profit attributable to equity holders of the Company



Earnings per share



Dividend per share



Corporate Governance Report

The Board of Directors (the "**Board**") is pleased to present this Corporate Governance Report in the Company's Annual Report for the year ended 31 December 2016.

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 requirements under the Companies Ordinance, the Securities and Futures Ordinance for, among other things, the disclosure of information, and the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") which sets out the corporate governance principles and code provisions with which listed issuers are expected to follow and comply throughout the year ended 31 December 2016.

In order to ensure effective communication with the shareholders, chairmen of the Audit, Remuneration and Nomination Committees and the external auditor were present at the annual general meeting of the Company held on 3 June 2016 to answer shareholders' questions.

Board of Directors

The Board of the Company comprises:

Executive Directors	Gender	Ethnicity	Age	Length of service (years)
Li Jianhong *(Chairman)* (resigned on 18 February 2016)	Male	Chinese	60	5.2
Li Xiaopeng *(Chairman)* (appointed as Chairman on 18 February 2016)	Male	Chinese	57	2.3
Hu Jianhua *(Vice Chairman)* (appointed as Vice Chairman on 18 February 2016)	Male	Chinese	54	9.6
Su Xingang (resigned on 18 February 2016)	Male	Chinese	58	8.6
Fu Gangfeng (resigned on 29 November 2016)	Male	Chinese	50	1.5
Yu Liming (resigned on 29 November 2016)	Male	Chinese	54	17.9
Wang Hong	Male	Chinese	54	11.6
Hua Li (appointed on 29 November 2016)	Male	Chinese	45	0.1
Deng Renjie (resigned on 29 November 2016)	Male	Chinese	46	1.5
Bai Jingtao *(Managing Director)*	Male	Chinese	51	1.6
Wang Zhixian (appointed on 18 February 2016)	Male	Chinese	51	0.8
Zheng Shaoping	Male	Chinese	53	4.9
Shi Wei (appointed on 29 November 2016)	Female	Chinese	53	0.1

Independent Non-executive Directors	Gender	Ethnicity	Age	Length of service (years)
Kut Ying Hay	Male	Chinese	61	24.6
Lee Yip Wah Peter	Male	Chinese	74	15.5
Li Kwok Heem John	Male	Chinese	61	12.3
Li Ka Fai David	Male	Chinese	61	9.6
Bong Shu Ying Francis	Male	Chinese	74	6.5

The five Independent Non-executive Directors are persons of high calibre, with academic and professional qualifications in the fields of accounting, law, engineering 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, six 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 2016	Attendance rate
Li Jianhong	1/1	100%
Li Xiaopeng	6/6	100%
Hu Jianhua	6/6	100%
Su Xingang	1/1	100%
Fu Gangfeng	5/6	83.3%
Yu Liming	4/6	66.7%
Wang Hong	6/6	100%
Hua Li*	N/A	N/A
Deng Renjie	5/6	83.3%
Bai Jingtao	6/6	100%
Wang Zhixian	5/5	100%
Zheng Shaoping	6/6	100%
Shi Wei*	N/A	N/A
Kut Ying Hay	6/6	100%
Lee Yip Wah Peter	6/6	100%
Li Kwok Heem John	6/6	100%
Li Ka Fai David	6/6	100%
Bong Shu Ying Francis	6/6	100%

* Mr. Hua Li and Ms. Shi Wei were appointed as Executive Directors of the Company on 29 November 2016 and there were no board meetings held during the year since their appointment.

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

The Board formulates the overall strategy of the Group, monitors its financial performance and maintains effective supervision over the management. The Board members are fully committed to their roles and have acted in good faith to maximise the shareholders' value in the long run, and have aligned the Group's goals and directions with the prevailing economic and market conditions. Daily operations and administration are delegated to the management.

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

Training and support for Directors

Every Board member is entitled to 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 year, the Directors also participated in the following trainings:

Name of Director	Type of training
Li Jianhong	*
Li Xiaopeng	A,B,C
Hu Jianhua	A,B,C
Su Xingang	*
Fu Gangfeng	**
Yu Liming	**
Wang Hong	A,B,C
Hua Li	A,B,C
Deng Renjie	**
Bai Jingtao	A,B,C
Wang Zhixian	A,B,C
Zheng Shaoping	A,B,C
Shi Wei	A,B,C
Kut Ying Hay	A,C
Lee Yip Wah Peter	A,C
Li Kwok Heem John	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.

* Mr. Li Jianhong and Mr. Su Xinggang resigned as Executive Director and Chairman of the Board and Executive Director of the Company on 18 February 2016 respectively

** Mr. Fu Gangfeng, Mr. Yu Liming and Mr. Deng Renjie resigned as Executive Directors of the Company on 29 November 2016

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. The Chairman of the Company is Mr. Li Xiaopeng and the Managing Director of the Company is Mr. Bai Jingtao.

Appointment and re-election of Directors

According to Article 89 of the Company's articles of association (the "**Articles of Association**"), 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 3 years. They are also subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with Article 89 of the Articles of Association.

According to Article 95 of the Articles of Association, 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 18 February 2016, the Board resolved to appoint Mr. Li Xiaopeng and Mr. Hu Jianhua as the Chairman and Vice Chairman of the Board of the Company respectively, and has appointed Mr. Wang Zhixian as an Executive Director of the Company.

At a Board meeting held on 29 November 2016, the Board resolved to appoint Mr. Hua Li and Ms. Shi Wei as Executive Directors of the Company.

In respect of the appointment of Mr. Wang Zhixian, Mr. Hua Li and Ms. Shi Wei, the Board has taken into consideration, inter alia, their qualifications, management expertise and experience in relevant industries.

Nomination Committee

The Nomination Committee was established in March 2012. It comprises one Executive Director and five Independent Non-executive Directors. Two meetings were held in 2016. The attendance of each member is set out as follows:

Name of member	Number of meetings attended in 2016	Attendance rate
Kut Ying Hay (Chairman of the Nomination Committee)	2/2	100%
Bai Jingtao	2/2	100%
Lee Yip Wah Peter	2/2	100%
Li Kwok Heem John	2/2	100%
Li Ka Fai David	2/2	100%
Bong Shu Ying Francis	2/2	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 Nomination Committee has made recommendation to the Board on 18 February 2016 on the appointment of Mr. Li Xiaopeng as Chairman of the Board, Mr. Hu Jianhua as Vice Chairman of the Board and Mr. Wang Zhixian as Executive Director to fill the vacancies caused by resignation of Mr. Li Jianhong as Executive Director and Chairman of the Board and Mr. Su Xingang as Executive Director, respectively.

The Nomination committee has made recommendation to the Board on 29 November 2016 on the appointment of Mr. Hua Li and Ms. Shi Wei as Executive Directors to fill the vacancies caused by resignation of Mr. Fu Gangfeng, Mr. Yu Liming and Mr. Deng Renjie as Executive Directors.

A Board Diversity Policy was adopted in August 2013. In designing the Board's composition, board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The Nomination Committee developed measurable objectives to implement the Board Diversity Policy, where selection of candidates will be based on a range of diversity perspectives as set out above, and the ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

Pursuant to the Articles of Association, Mr. Li Xiaopeng, Mr. Wang Hong, Mr. Wang Zhixian, Mr. Zheng Shaoping and Mr. Bong Shu Ying Francis shall retire from office by rotation at the upcoming annual general meeting and shall be eligible and offer themselves for re-election. Mr. Hua Li and Ms. Shi Wei shall hold office until the next following general meeting of the Company and shall be eligible and offer themselves for re-election. The Nomination Committee, in considering the re-election of these Directors, has considered and taken into account the objectives set out in the Board Diversity Policy.

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 identify 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 was established in January 2005. It comprises one Executive Director and five Independent Non-executive Directors. One meeting was held in 2016. The attendance of each member is set out as follows:

Name of member	Number of meetings attended in 2016	Attendance rate
Li Ka Fai David (Chairman of the Remuneration Committee)	1/1	100%
Bai Jingtao	0/1	0%
Kut Ying Hay	1/1	100%
Lee Yip Wah Peter	1/1	100%
Li Kwok Heem John	1/1	100%
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 85 to 88 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 consolidated financial statements.

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 2016, 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 pages 99 to 104.

Audit Committee

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

The Audit Committee meets at least twice a year. Two meetings were held in 2016. 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 is set out as follows:

Name of member	Number of meetings attended in 2016	Attendance rate
Lee Yip Wah Peter (Chairman of the Audit Committee)	2/2	100%
Kut Ying Hay	2/2	100%
Li Kwok Heem John	2/2	100%
Li Ka Fai David	2/2	100%
Bong Shu Ying Francis	2/2	100%

During the meetings held in 2016, the Audit Committee had performed the following work:

(i) reviewed the financial reports for the year ended 31 December 2015 and for the six months ended 30 June 2016;

(ii) reviewed the effectiveness of risk management and Internal control systems;

(iii) reviewed the external auditor's audit plan and engagement letter;

(iv) reviewed the management letter from the external auditor in relation to the audit of the Group for the year ended 31 December 2015;

(v) reviewed and recommended for approval by the Board the 2016 audit scope and fees; and

(vi) reviewed the connected transactions entered into by the Group during 2015.

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 item (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 auditor; 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 auditor;

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

7. to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have an effective systems. 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 risk management and 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 risk management and 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 Corporate Governance 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	13.8
Non-audit services (Tax, compliance and advisory services)	6.3
Total	20.1

Risk management and Internal control

It is the responsibility of the Board to ensure that the Group maintains sound and effective risk management and Internal control systems to safeguard the shareholders' investment and the Group's assets and to provide reasonable, though not absolute, assurance against material misstatement or loss and to manage rather than eliminate the risk of failure to achieve business objectives.

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;

- A 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 Strategy and Operations Department, Business Development Department and International Division 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, financing, 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 Strategy and Operations Department and Board of Directors and Legal Department. Exposure to risks of the Group's financing, guarantee, taxation and use of funds is monitored by the Group's officer in charge of financial management together with the Finance Department 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 Strategy and Operations Department, Group Marketing and Commercial Department, Engineering and Information Technology Department, Safety Production Management Committee Office 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 Engineering and Information Technology 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 Inside Information is established, setting out the guiding principles, procedures and internal controls for the handling and dissemination of inside 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

- The Audit Committee reviews the annual audit report, including the management letter, submitted by the external auditor to the management of the Group, and the internal audit report, the risk management assessment report, the internal control assessment report submitted by the officer(s) in charge of internal control and audit. The scope of functions of Internal Control and Audit Department encompasses monitoring the authenticity and compliance of economic activities (e.g. finance, operation and investment), leading and organizing risk management and self-assessment of internal control, and ensuring all operational management activities are under control by assessing, tracking and preventing material risks, as well as establishing risk management and Internal control systems that is scientific and effective.

The Board and the Audit Committee assess the effectiveness of the Group's risk management and internal control systems 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 Internal Control and Audit Department conducts independent reviews of risks associated with and controls over various operations and activities. Significant findings on internal controls, assessment on risk management and self-assessment on internal control system are reported regularly to the Audit Committee each year.

The Board considers that the Group's risk management and Internal control systems are effective and adequate.

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, Deputy Chief Legal Counsel and 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. Circulars which set out relevant information of the proposed resolutions are distributed to all shareholders at least 10 clear business days before the extraordinary general meeting and at least 20 clear business days before the annual general meeting.

At the 2016 annual general meeting held on 3 June 2016 and the extraordinary general meeting held on 28 November 2016, the Chairman of the meeting demanded that all resolutions proposed at the meeting to be voted 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 general meetings held in 2016 is set out as follows:

Name of Director	Number of general meeting attended in 2016
Li Jianhong	*1 1/1
Li Xiaopeng	1/2
Hu Jianhua	1/2
Su Xingang	*1 1/1
Fu Gangfeng	0/2
Yu Liming	0/2
Wang Hong	1/2
Hua Li	*2 N/A
Deng Renjie	1/2
Bai Jingtao	2/2
Wang Zhixian	0/1
Zheng Shaoping	2/2
Shi Wei	*2 N/A
Kut Ying Hay	2/2
Lee Yip Wah Peter	2/2
Li Kwok Heem John	1/2
Li Ka Fai David	2/2
Bong Shu Ying Francis	2/2

*1 Mr. Li Jianhong and Mr. Su Xingang resigned as Executive Director and Chairman of the Board and Executive Director of the Company on 18 February 2016

*2 Mr. Hua Li and Ms. Shi Wei were appointed as Executive Directors of the Company on 29 November 2016 and there were no general meetings held during the year since their appointment

Pursuant to sections 566 to 568 of the Companies Ordinance, shareholder(s) representing at least 5 per cent of the total voting rights of all the shareholders of the Company having a right to vote at general meetings can make a requisition to convene a general meeting. Such requisition must state the general nature of the business to be dealt with at the meeting, and must be authenticated by the person or persons making it and sent to the Company either in hard copy form or in electronic form. Besides, pursuant to sections 615 to 616 of the Companies Ordinance, shareholder(s) of the Company can request the Company to give notice of a resolution and move such resolution at an annual general meeting, provided that such a request is made by (i) shareholder(s) of the Company representing at least 2.5 per cent of the total voting rights of all the shareholders who have a right to vote on the resolution at the annual general meeting to which the request relates or (ii) at least 50 shareholders who have a right to vote on the resolution at the annual general meeting to which the request relates. Such a request must identify the resolution of which notice is to be given, be either in hard copy form or in electronic form and authenticated by the person or persons making it, and be received by the Company not later than six weeks before the annual general meeting to which the request relates or, if received by the Company later than the time as stated above, the time at which notice is given of that meeting. Procedures for shareholders to propose a person for election as a director have 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.

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 Port Holdings 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 2017 annual general meeting of the Company will be held at 9:30 a.m. on Friday, 2 June 2017 at Island Ballroom, Level 5, Island Shangri-La, Hong Kong, Two Pacific Place, Supreme Court Road, Central, Hong Kong.

Environmental, Social and Governance Report

ABOUT US

Corporate Profile

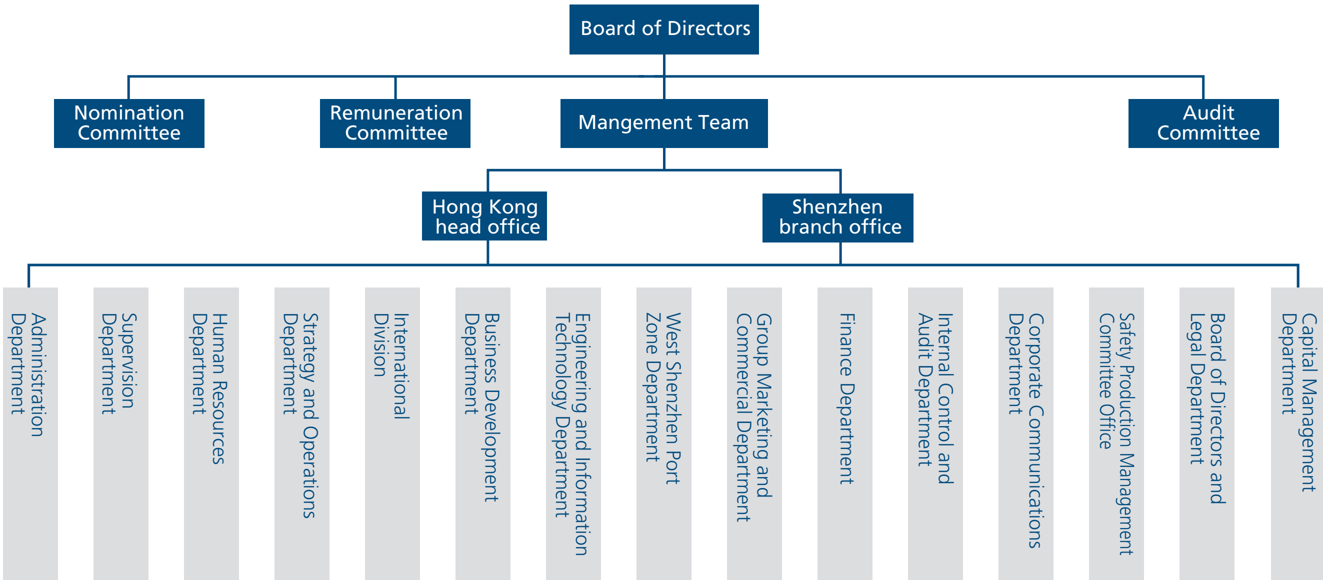
Renowned for its remarkable history as well as strategic vision and foresight, the Group has established an unrivalled position in the ports industry in both the PRC and worldwide. We are the flagship company of CMG Group, the longest standing and the most renowned shipping company in the PRC. The ports and logistics operation of CMG Group had expanded across the PRC as far back as in the 19th century. The Group is now the largest and a global leading port developer, investor and operator in the PRC, with a comprehensive ports network at the hub locations along coastal China. The terminals the Group invested in or those the Group invested in and owned its management right are located in container hub locations across Hong Kong, Shenzhen, Ningbo, Shanghai, Qingdao, Tianjin, Dalian, Xiamen and Zhanjiang, as well as at ports in South Asia, Africa and others. As at 2016, the Group has invested 28 ports and 188 container berths (including six berths under constrution) with container throughput handled exceeded 95.77 million TEUs. The Group has earned itself reputation across the industry, leveraging the professional management experience accumulated for years, its self-developed global leading ports operating system and integrated logistics platform for import and export, its extensive maritime logistics support system, the modern and all-rounded integrated logistics solutions it offers, its quality engineering management, and the outstanding and reliable services it provides. The Group's vision is "to be a world's leading comprehensive port service provider". Through implementation of domestic, international and innovation strategies, the Company strives to achieve "world-class" level on various fronts, including global container throughput, market share, income from integrated port services, operational management capabilities, resource utilisation, labor productivity, social contribution and brand name.

The Group has prepared this report covering the financial year ended 31 December 2016 according to and in compliance with the provisions of the ESG Reporting Guide in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Corporate Governance

Governance Structure

The Group has established standardised, transparent, open and efficient corporate governance structure and corporate governance rules in accordance with the prevailing laws, regulations and relevant requirements and with reference to its own production and operational practices. The duties and authorities regarding various aspects, including decision, execution and supervision, are clearly defined, thus forming a mechanism with highly effective division of responsibilities as well as checks and balances, thereby achieving sound and sustainable development of the Group as a whole towards becoming a more professional, regulated and transparent corporation.



Members of the Board

Executive Directors

Li Xiaopeng
(Chairman)

Hu Jianhua
(Vice Chairman)

Wang Hong

Hua Li

Bai Jingtao

Wang Zhixian

Zheng Shaoping

Shi Wei

Independent Non-executive Directors

Kut Ying Hay

Lee Yip Wah Peter

Li Kwok Heem John

Li Ka Fai David

Bong Shu Ying
Francis

Responsibility Management

Effective social responsibility management is important safeguard for an enterprise's business sustainability. With a focus on strengthening the ability of achieving sustainable development, the Group continues to reinforce responsibility management in coordination with relevant rules, regulations and systems, while facilitating the integration of social responsibility into functional departments and business process. The Group also takes responsibility to its stakeholders, including shareholders, the government, customers, staff and business partners. At the same time, it actively participates in social environmental protection campaigns initiated by the nation as well as relief work and donations to developing countries at an international level, with an aim to promote sustainable development of both the entity and the society.

Culture of responsibility

The culture of responsibility of the Group is an inheritance from a century of business practice of China Merchants, comprising both historical heritage and contemporary character. It is the connection, vitality and origin of China Merchants' 100-year development history.

Promotion of responsibility

The Group has developed plans with the development strategies of the new era for pushing forward work in relation to social responsibility in a regulated, institutional, systematic and normalised manner.

Corporate Goal

WE CONNECT THE WORLD
(天涯若比鄰)

Corporate Vision

To be a world's leading
comprehensive port service provider
(成為世界一流的港口綜合服務商)

Core Value

To achieve mutual benefits through
self-improvement and collaboration
(勵新自強　融合共贏)

Codes of Conduct

Three principles
Service-oriented with a focus on integrity and stability
(唯誠唯穩服務至上)
Efficient execution through collaborative efforts
(齊心協力高效執行)
Integration of theory and practice with
strong commitment (知行合一說到做到)

Eight reminders

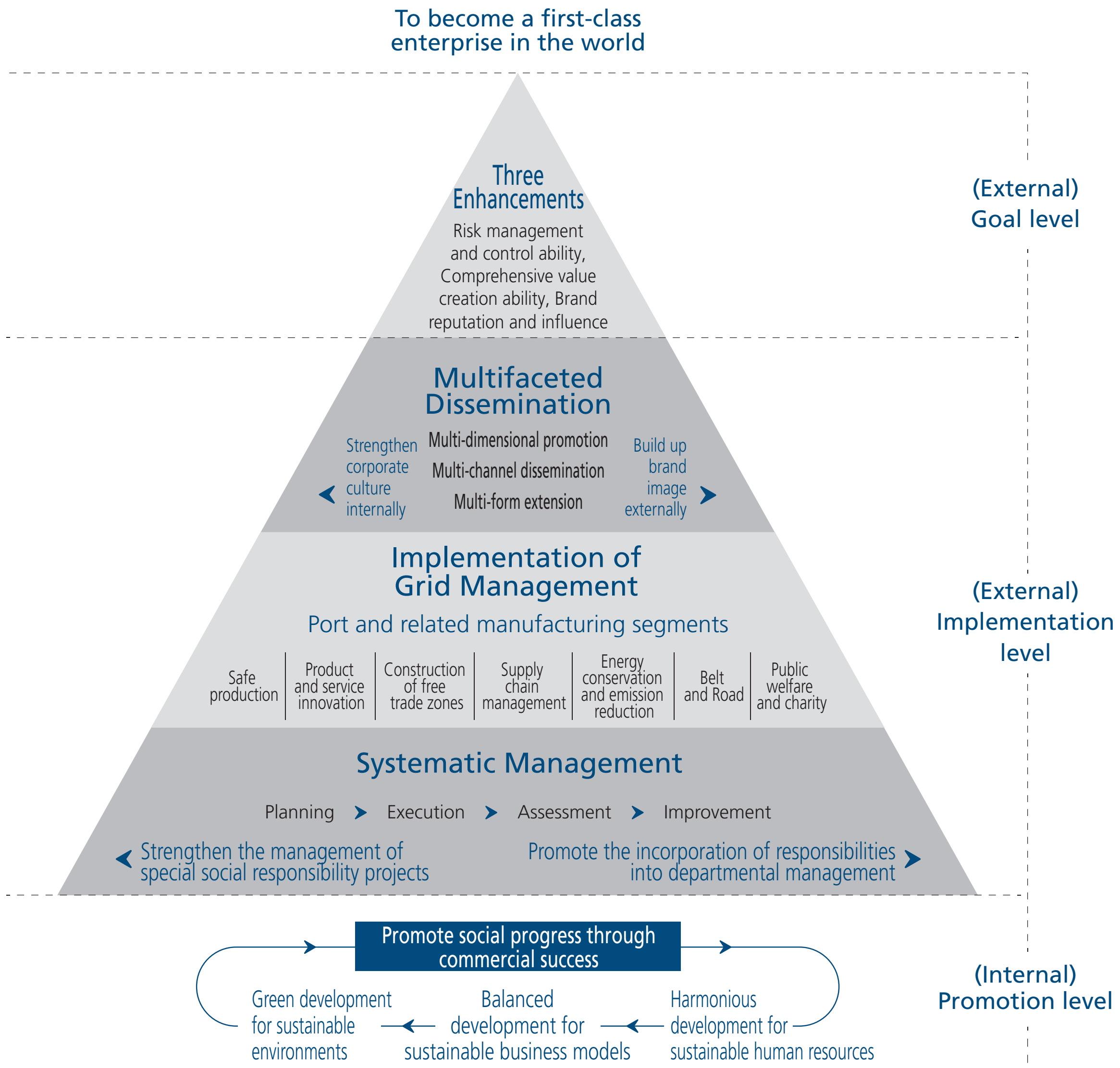
Being attentive at work (在崗在位在狀態)
Being responsible (盡職盡責有擔當)
Being eager to learn (善學善做善進取)
Being innovative (求新求變勇超越)
Being obedient and value effectiveness
(遵規遵矩重實效)
Being self-respectful and self-disciplined
(自重自律風節高)
Being collaborative in seeking development
(群策群力謀發展)
Being united in seeking self-improvement
(同心同德圖自強)

Social Responsibility Management System

The Group has established a working network regarding social responsibility that involves deep engagement of the management, horizontal collaboration of professional departments and vertical communication of staff at different levels, with a view to apply the requirements of social responsibility management onto every functional departments, thus laying a foundation for the promotion of social responsibility systematically.

Social Responsibility Promotion Model

The Group's "mission-oriented" social responsibility promotion model consisted of three levels as a whole, namely "promotion level", "implementation level" and "goal level". The "promotion level" is the internal level that represents the Group's internal driving force for pushing forward social responsibility tasks. Our corporate mission of "promoting social progress through commercial success" acted as the main core of the driving force, while the three developments and three sustainabilities served as general requirements. The "implementation level" is the lower external level that aims at effective implementation of social responsibilities by incorporating social responsibilities into functional management and business processes via three pathways, namely, management, implementation and dissemination. The "goal level" is the upper external level that aims at enabling the Group to achieve the ultimate goal of "to be a world's leading comprehensive port service provider" by enhancing its risk management and control ability, comprehensive value creation ability, brand reputation and influence.



"Mission-oriented" social responsibility promotion model of the Group

Communications between Stakeholders

The Group placed great emphasis on establishing regular communication mechanisms with the stakeholders. Through multi-channel and multi-form of communication activities, the Group has gained understanding of the requirements, expectations and suggestions of different stakeholders, which are all important reference for formulating sustainable development strategies and action plans, as well as putting responsibility into practice and disclosing information to the public.

Stakeholders	Communication channels and methods	Expectations on the Group	Corresponding measures taken by the Group
Shareholders and investors	• Information disclosure • General meetings • Work meetings • Exchanges and visits	• Transparent financial information disclosure • Strengthened risk management and control • Create economic values • Maintain and increase the values of state-owned assets	• Refine corporate governance and management of investor relations • Maintain growth of business and profitability, and continue to enhance its position in the industry • Enhance operational transparency
Government and regulatory authorities	• Daily reporting and communication • Meetings and exchange activities	• Compliance operation and tax payment in accordance with the laws • Support local development • Protect local environment	• Implement monitoring policies and pay tax in accordance with the laws • Actively take up social responsibilities by leveraging its professional strengths
Customers	• Information disclosure • Hotlines and activities • Customer surveys	• Offer high cost-performance services and products • Enhance service standards • Reliable privacy protection	• Strengthen quality management and control in all aspects • Lay stress on customer information protection • Follow the development trend of "Internet+" to innovate the form and content of its services
Partners	• Project cooperation • Work meetings • Daily communication	• Transparent cooperation with integrity • Mutual support and win-win development	• Establish responsibility supply chain • Achieve win-win situation through joint cooperation
Employees	• Regular meetings • Standardised trainings • Exchange activities	• Secure basic rights • Smooth career development path • Work-life balance	• Provide market competitive salaries and benefits, as well as learning and development opportunities • Establish sound working environment
Environment	• Environmental information disclosure • Forums and exchange activities	• Reduce environmental impacts caused by operating activities • Lead the industry to enhance its green development capability	• Commence green operation • Strengthen cooperation in the field of green ecology • Promote the development of green industries
Society	• Charitable events • Volunteering services • Information disclosure	• Promote local development and enhance community values • Support social public welfare	• Push forward professional and strategic charitable activities and actively engage in assistance programs for designated areas and post-disaster reconstruction • Encourage staff to participate in volunteering activities

SPECIAL REPORT ON RESPONSIBILITY

Build, Create and Share with Joint Efforts Starting a New Chapter of "Belt and Road"

Innovation, integration, openness and sharing have become the new theme of the development in this era. In 2013, General Secretary Xi Jinping proposed the "Belt and Road" initiative, aiming to build a community of interest, destiny and responsibility with countries along "Belt and Road" in the principle of political mutual trust, economic integration and cultural inclusion. As Chinese enterprises with global network in earlier times, the enterprises uphold the core value of "sharing destiny with the State, achieving development with the times" and integrates corporate development into national strategy. We have established the leading group of "Belt and Road" initiative to enhance top-level design, improve operational system and push forward the implementation of significant projects under the "Belt and Road" initiative.

Innovative Sustainable Development Model under the "Belt and Road" Initiative

Only innovative business model that are able to satisfy the policy needs of the State, the own needs of the enterprise and the development needs of the place of operation can truly realise the benign interaction and mutual benefit between the enterprise and the place where it operates. During the course of implementation of the "Belt and Road" initiative, the CMG Group adheres to the philosophy of "taking root in the local market, targeting long-term operation, adapting to local conditions, promoting comprehensive development" whilst taking advantage of the mature resources and successful experience, thereby forming a comprehensive development model with "Checkpoints along the Silk Road" as the main carrier.

The comprehensive development model of "Checkpoints along the Silk Road" takes ports as the first and entry points, and port-vicinity industrial parks as the core and carriers. Through building integrated service platform for international trade and platform for international capacity cooperation, the weak links on the software and hardware front that restrain industrial transfer was addressed systematically. In pushing forward the strategy, the CMG Group identifies the common ground of the economic development in regions along "Belt and Road", replicates the sustainable development model of "Port-Zone-City" into overseas markets while building up global gateway alliance platform and fully integrated business ecosystem so as to achieve mutual development with regions along "Belt and Road". Meanwhile, the CMG Group gradually promotes the formulation of new rules on global trade in the PRC, enabling more small and medium enterprises to "go global" and facilitating the output of productivity advantages of the PRC and trade globalisation.

Through the realisation model of "Port-Zone-City", the "Checkpoints along the Silk Road" builds up an integrated platform of trading, finance and production in the forefront of the market, and gathers the three elements to form an ecosystem closely linking the countries along "Belt and Road" to promote the "Belt and Road" initiative.

Port	Zone	City
Leveraging the advantage of global port network and relying on trade big data to build a large port dispatching system along "Belt and Road", which realizes the integration of multiple links in various areas including transport, loading and unloading, handling, distribution processing and delivery, and promotes barrier-free, efficient, convenient circulation of Chinese goods across countries along "Belt and Road".	Building O2O experience trading center on both online and offline platforms on the basis of port informationisation; maintaining close cooperation with ports to achieve end-to-end logistics distribution; while reducing costs, breaking tariff barriers and delivering capacity through the construction of factories in bonded logistics parks.	Driving enhancement of living standards and population growth in surrounding areas, thereby boosting residential and commercial demands with the development of ports and parks; building city functions around ports and parks; while enhancing value of industrial parks and ports through urbanization.

Comprehensive deployment of "Belt and Road" by building on existing strengths

After years of overseas expansion, the CMG Group has developed a comprehensive network of ports, logistics and industrial parks, covering Southeast Asia, South Asia, Africa, Europe, Oceania and others. Of which, the port network covers 16 countries with most of them located at important ports in countries along "Belt and Road". The CMG Group has integrated the national strategies with innovation and transformation by leveraging its own comprehensive strengths. With a focus on the participation in constructing logistic corridors and joint overseas expansion with state-owned enterprises, the CMG Group will accelerate the layout of new markets and new locations along "Belt and Road" with a view to proactively promote optimisation of resources allocation and mutual development in the region.

❶ ***Kumport Port in Turkey***

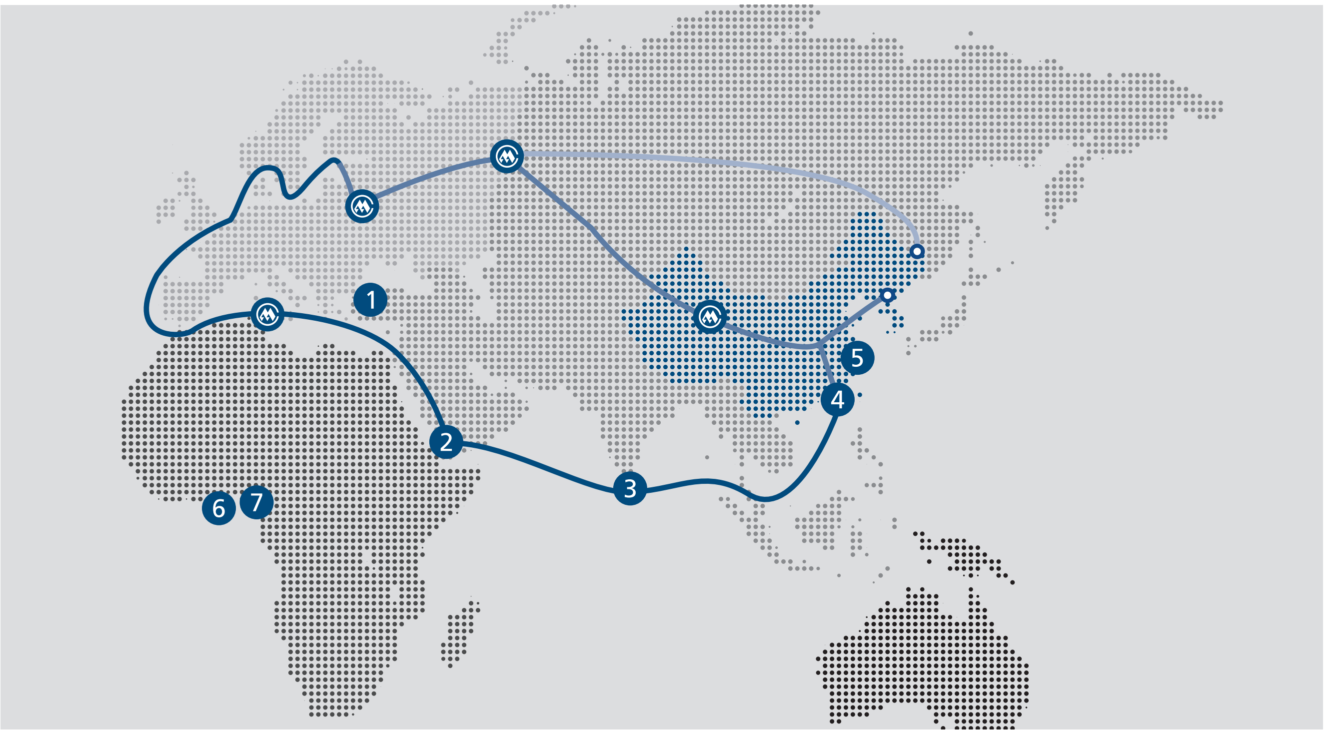
The completion agreement of Kumport Port Project in Turkey was signed in November 2015 and the designed annual throughput capacity of the port is 3.5 million TEUs

❷ ***Djibouti, a checkpoint along the Silk Road***

Djibouti is the first pilot location of "Checkpoints along the Silk Road", which takes port-vicinity free trade zones as the main vehicles. By developing the hardware including ports, port-vicinity industrial parks and commercial service facilities as well as perfecting software including customs clearance, settlement, payment and big data, the enterprises of the park will have no fear in pursuing further development

Djibouti Port

It was invested and constructed in February 2013. The designed annual throughput capacity of the multi-purpose port in Djibouti is 6 million tonnes and the designed annual throughput capacity of the container terminal at Doraleh in Djibouti is 1.5 million TEUs



❸ ***Colombo International Container Terminals***

It is currently the only terminal which can receive and unload from ultra-large vessels at the Port of Colombo with a designed annual throughput capacity of 2.4 million TEUs. It was ranked first in terms of the growth of container throughput in 2014 among 30 big ports in the world

❹ ***West Shenzhen Port Zone and Qianhai-Shekou Free Trade Zone***

They have been constructed aiming at being important strategic intersections along "Belt and Road" as well as the hub ports, the initial stops and the bases of the Maritime Silk Road in the 21th century

❺ ***The Logistics Corridor between China and Europe***

The Logistics Corridor between China and Europe will be opened through the establishment of "Tianjin-Xinjiang-Europe Railway" in the Bohai Coastal Area, "Guangzhou-Xinjiang-Europe Railway" in South China connecting Europe across five countries of Central Asia and the "Shanghai-Xinjiang-Europe Railway" from the Yangtze River Delta area to Europe, with a view to fully leverage its advantages of connectivity regarding "Belt and Road"

❻ ***Lomé Container Terminal in Togo***

It was invested and constructed in August 2012 with a designed annual throughput capacity of 2.2 million TEUs

❼ ***Tin-Can International Container Terminal in Nigeria***

It was invested and constructed in November 2010 with a designed annual throughput capacity of 0.5 million TEUs

Balanced development to create shareholders' value

Profit attributable to equity holders of the Company
5,494
HK$ million

Return on Equity
8.1%

Total assets
103,113
HK$ million

REINFORCE MANAGEMENT AND CONTROL, INNOVATION-DRIVEN DEVELOPMENT, ESTABLISH ECOSYSTEMS FOR DIFFERENT INDUSTRIES

Gravitating upon the strategic vision of "to be a world's leading comprehensive port service provider", the Group will reinforce the management and control to consolidate the foundation for sustainability with integrity, steady development approach, high efficiency and transparency. It will also speed up the process of implementing strategies regarding innovation-driven development on the basis of "seeking for changes while maintaining stability, seeking to promote innovation among changes, and seeking to progress on the back of innovation", with a view to achieve new leap by capitalizing on the advantages in terms of capital, brand, management and location.

Enhancing Risk Management and Control Capacity

The Group insisted on pursuing progress while maintaining stability and continued to optimise its comprehensive risk management system. The Group solidly promoted the

Risk Management and Response System

Organisation Structure

Vertical Risk Management and Control				
	Decision-making Level for Risk-related Matters	Board		
		Audit Committee		
	Risk Management and Control Level	Business Functional Department	Risk Control Functional Department	Audit and Monitoring Functional Department
	Risk Operation and Management Level		Subordinate Units	
		First Line of Defence Implementation and Maintenance of system	Second Line of Defence Formulation, Coordination and Management	Third Line of Defence Independent Monitoring, Evaluation and Audit
		Horizontal Risk Management and Control		

Operational Mechanism

Risk Management and Internal Control System

Risk Identification	Risk Assessment	Response, Tracking and Evaluation of Risk
To formulate checklists regarding annual core risks based on information such as analysis on macroeconomic environment and operations, annual evaluation of internal control, special audit, internal monitoring and risk alerts, etc.	To obtain annual risk evaluation results through risk evaluation survey, analysis on interviews with senior management and material risk, evaluation of risk preference and tolerance	To continuously optimise response strategies for material risks, including formulation and implementation of tackling measures, tracking and monitoring, evaluation and rectification, etc.

Management Tools

• Operation analysis and thematic meetings • Special audit and inspection reports • Risk alert indicator system	• Risk survey and evaluation models • Special interviews with senior management • Risk alert indicator system	• Statistic showing current status of risk response • Rectification and tracking of internal deficiencies • Special research reports

Security and Support

- Building risk management teams
- Evaluation mechanism for risk management
- Promoting risk management culture
- Information platform for risk management and internal control

Legal audit rate of material operational decisions

100%

Legal audit rate of business contracts

100%

Legal audit rate of regulatory system

100%

establishment of a "standardised, compliant and incorrupt" enterprise by voluntarily subject itself to supervision of respective stakeholders. In 2016, the Group has no material risk incidents or loss on assets during the year.

Anti-corruption and Advocating Integrity

In 2016, taking "Two Studies, One Act (兩學一做)" as a pivot, the Group has further straightened out "Four Undesirable Working Styles (四風)" to consolidate and build on the results of educational activities in relation to "Three Stricts and Three Steadies (三嚴三實)" and consolidated the rectification results of the Central Inspection Team and National Audit Office. In compliance with the requirements from higher authorities, the Group focused on transforming itself towards knowledge-based functions, cooperative approach and pragmatic working style with reference to the actual circumstance. Such measures have attained excellent performance in terms of enhancing integrity. First of all, both the Group and its subordinate companies placed more emphasis on enhancing corporate integrity and all of its staff have increased their understanding of and protection for integrity and put it into daily practice. Secondly, according to the anonymous evaluation conducted by each of the subordinate company regarding integrity, 80% of the personnel considered that cadre of their units is a forerunner and role model in this aspect, while 60% of them was of the view that the integrity level within the unit has enhanced significantly. During the year, a total of 17 political theory training were organised with 1,368 participants attended. Among which, four were group training for leading cadre with 23 participants; 10 were distribution of self-learning materials (including by way of books or network) involving 1,173 participants; three were tutorial training with 172 participants. In addition, the Group has conducted 31 inspections, all of which have records of rectification, follow-up and implementation. Moreover, the Group has set up complaint box for staff to report any unethical or non-compliance behavior secretly or anonymously. The regulatory department and relevant departments will take full charge of the investigation and corresponding follow-up actions.

In short, the Group strives to promote corporate governance and operational model that upholds a high ethical standard and strictly prohibits any act involving corruption. It has also complied with the relevant laws and regulation in respect of the prevention of bribery, blackmail, fraud and money-laundering.

Convening work meeting for anti-corruption

Convening work meeting for anti-corruption

Enhancing Core Competitiveness of the Industry

In 2016, adhering to its working philosophy of "enhancing capability, quality and efficiency to achieve mutual benefits through self-improvement and collaboration", the Group will capitalise on the opportunities brought by various policies. Leveraging on the establishment of "port ecosystem", the Group will continue to increase the scale and enhance the strengths of its core port operation and accelerate its transformation towards an integrated services provider, with an aim to achieve new breakthroughs in aspects such as homebase ports construction, ports consolidation, overseas ports network as well as innovative development and thus advancing towards its strategic goal "to be a world's leading comprehensive port service provider".

Quality Products

Based on different industry features and customer needs, the Group continuously promoted its subordinate companies in establishing a comprehensive and quality customer service mechanism. To this end, continuous efforts have been made to obtain certification for its environmental management system and produce quality goods so as to increase the level of customer satisfaction and recognition on a continuous basis.

Since 2008, the Group has officially commenced the external auditing for ISO standards. At that time, there were serious illegal immigration problem at ports, which arouse great attention to the handling procedures of dangerous goods. In order to avoid such risks, the Group decided to improve and prevent incidents of the same kind by engaging third party expertise. On the other hand, shipping companies required ports to take relevant preventive measures and obtain certificates for meeting standards to ensure port safety and compliance as well as avoid any losses of benefits of the shipping companies. In view of abovementioned market needs, the Group has officially implemented its ISO projects in 2008 and Bureauveritas, an internationally renowned standard evaluation company, was selected as the external ISO auditor of the Group.

Management System Cerification


BUREAU VERITAS Certification
CHINA MERCHANTS HOLDINGS (INTERNATIONAL) CO., LTD
ISO 14001:2004
MANAGEMENT AND SUPERVISION OF CONTAINER TERMINAL BUSINESS

Environmental Management System ISO14000


BUREAU VERITAS Certification
CHINA MERCHANTS HOLDINGS (INTERNATIONAL) CO., LTD
ISO 28000:2007
MANAGEMENT AND SUPERVISION OF CONTAINER TERMINAL BUSINESS

Security Management System for Supply Chain ISO28000

Low-carbon growth to create a green future for all

GREEN MANAGEMENT, GREEN OPERATION, GREEN ECOSYSTEM

The Group embeds environmental elements into corporate development. During the whole life cycle of projects, the Group adheres to green ecological development philosophy and practice and continuously pursues sustainable development in economic, environmental and social aspects as a whole by leveraging innovative green development models, strengthening development and application of energy conservation technology, optimising green industry network and promoting the green culture among its staff. Meanwhile, the Group strives to develop a green accountability chain and a green ecosystem with joint efforts of the community. With the concerted efforts of various parties, the Group will be able to develop innovative solutions for sustainable environmental development and play its part in pushing forward eco-civilisation.

Green Management

The Group has integrated environmental accountability into all stages of its operational activities by establishing environmental management system, which has continuously arouse the environmental awareness and enhance the capabilities of members along the value chain and thus putting the environmental philosophy into practice and achieving sustainable development in economic, environmental and social aspects as a whole.

Environmental Management System

Adhering the development plan of energy conservation and emission reduction, the Group has established and improved its multi-level organisational system for energy conservation and emission reduction from headquarter to various levels. The levels were closely related to each other and each with different focuses. This not only can ensure consistency of management philosophy, methods and measures in relation to energy conservation and emission reduction within the Group and but can also fully exhibit the particular requirements of various businesses of the Group, thereby promoting the systematic management of the Group's work in relation to energy conservation, emission reduction and environmental protection.

Energy Conservation, Emission Reduction and Environmental Management System

Goal	To become a world leading energy-saving, environmentally-friendly enterprise		
Strategies	Planning for energy conservation and emission reduction	Technical indicators for energy conservation and emission reduction	Statistic monitoring system for energy conservation and emission reduction
Organisational System	**Management Level** Headquarter of the Group will be responsible for formulating environmental protection principles, planning system, evaluation methods and standards.	**Organisational Level** The Group will take its subordinate companies as key points of management and control. Leading groups or organisational institutions were established to formulate plans for energy conservation and emission reduction, whereas such plans will be included in daily operational management and control mechanism.	**Implementation Level** Companies of all levels will have management personnel with energy conservation and emission reduction capabilities to execute the relevant work, draw up statistics, conduct analysis and carry out monitoring and inspection.
Security System	• Environmental performance is linked to annual appraisal, so as to gradually develop a sound appraisal system with reward and punishment. • A comprehensive monitoring and information reporting system for energy conservation and emission reduction was built.		

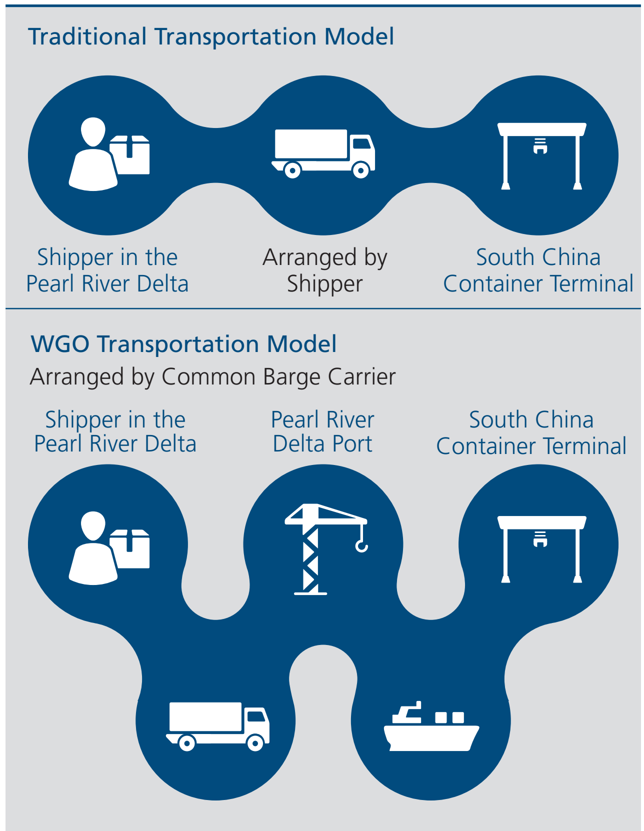
Green Supply Chain Management

The Group actively encourages its suppliers to fulfill their environmental protection responsibilities and integrates their sustainable development requirements into the entire procurement process of the Group and its subordinate companies, including supplier certification, product selection, performance management, procurement implementation and supplier withdrawal, etc., with an aim to promoting suppliers to continuously improve their level of responsibility and gradually convey the environmental protection requirements to downstream suppliers.

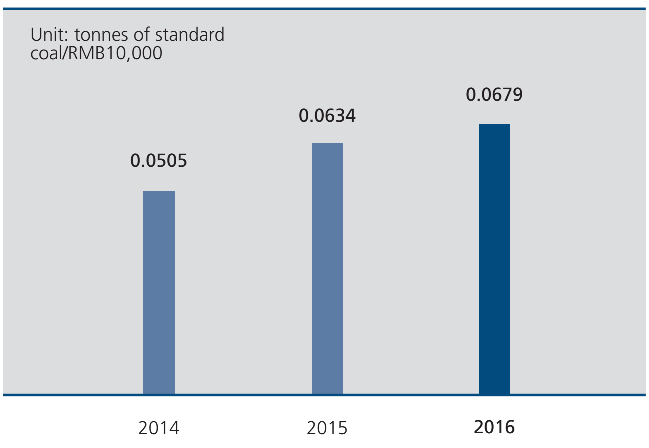
Green Operation

The Group integrates the green development philosophy and practice into the entire production and operation process. Through replicating and promoting the green development mode and continuous innovation of green technology, the Group further enhanced its competitiveness and influence in the low-carbon field and thus enabling it to explore potential business opportunities and lever into new growth aiming at building up its strengths to achieve efficient and low-carbon development.

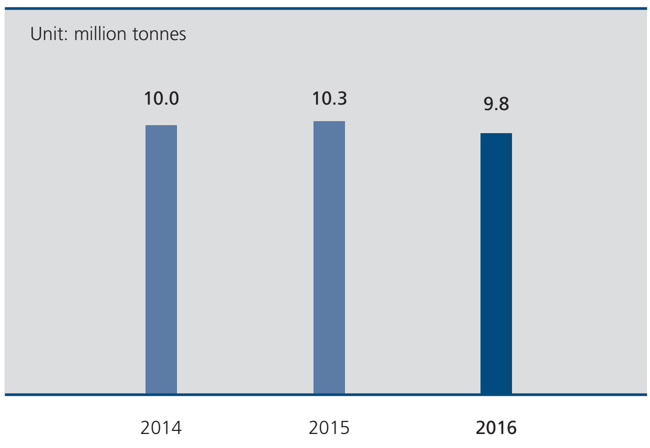
"Land-to-sea" Logistics Service Model



Comprehensive energy consumption per RMB10,000 added value (based on comparable prices) Note 1



Carbon dioxide emissions



Note 1: Comprehensive energy consumption per RMB10,000 added value represents the ratio of corporate comprehensive energy consumption (e.g. electricity, gas, oil, etc.) to total production value of the energy-consuming unit (total comprehensive energy consumption (10,000 tonnes of standard coal)/added value (RMB10,000)) during the Reporting Period. In addition, water is not a major energy consuming unit or measuring indicator as it is only used for purposes such as office cleaning, sanitary equipment or as drinking water.

Low-carbon transportation system

The Group has conducted in-depth study of the potential of carbon emission reduction, seeking to explore the best solution with upstream and downstream value chains with the concept of creation and sharing with joint efforts. The Group also developed innovative port logistics service model and improved the "land-to-sea" barge transportation service network. Implementation of "land-to-sea" transportation and distribution project in the Pearl River Delta have significant influence in various aspects, including the acceleration of construction of the integrated transportation system in the Pearl River Delta, development of resource conservation and environmentally-friendly green transportation as well as facilitation of transportation industry transformation and upgrade and modernisation of transportation system within the Pearl River Delta region. The project also served as a reference with guiding value for other regions promoting the "land-to-sea" model. The Group proactively put the concept of low-carbon environmental protection into practice during the course of "land-to-sea" project and spared no efforts in the harmonious development of environment, society and enterprises, exhibiting its corporate social responsibility in developing green shipping.

Development and Application of Energy Conservation Technology

The Group has actively developed and promoted new technology and process, eliminated outdated high-consuming technology and equipment with an aim to continuous enhancing the results of energy conservation and consumption reduction. In 2016, the Group invested over RMB3,500 in technological upgrade for energy-saving and emission-reduction. The Group's West Shenzhen Port Zone adhered to low-carbon sustainable development principle and initiated demonstration projects such as "substation of fuel-powered equipment with electricity-powered equipment (油改電)" and "shore-powered supply for vessels (船舶岸基供電)" while environmental projects including "LNG domestic tow-trucks (LNG內運拖車)" and "pure electric vehicles (純電動車)" attracted attention from the industry and competent government departments. Among which, "substation of fuel-powered equipment with electricity-powered equipment" and "shore-powered supply for vessels" projects were selected as demonstration cases by the competent government departments. After years of efforts in constructing low-carbon green port, West Shenzhen Port Zone has its energy structure underwent a fundamental change with dependence rate of diesel fuel dropped from 72% last year to 24% in 2016, carbon emission per TEU decreased by over 50% and annual carbon dioxide reduction of over 30,000 tonnes. According to the monitoring report on Shekou Container Terminals Ltd. of the Environmental Monitoring Center under the Human Settlements and Environment Commission of Shenzhen Municipality, the atmospheric environment obtained Level 2 in "Ambient Air Quality Standards" with satisfactory air quality level.

Promoting Optimisation of Energy Structure

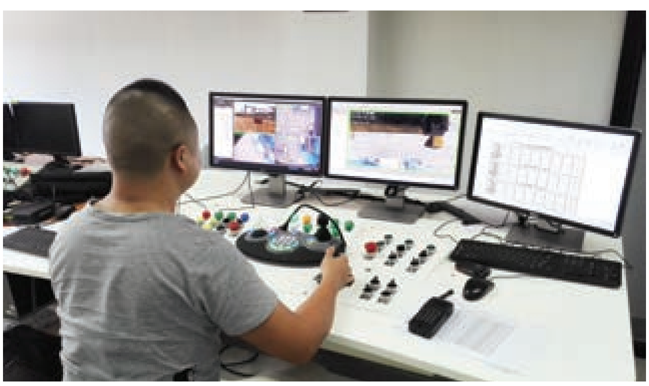
Through workflow optimisation and improvement in energy consumption structure, the Group has gradually phased out high-consuming technology, equipment and operation mode. For instance, the Group has substituted fuel-driven operation with clean electricity with low-carbon emission, reduced transportation service's reliance on fossil energy, which has facilitated the "low-carbon" transformation in the production, application and maintenance of transportation vehicles and logistic facilities.

- The Group has established Ningbo Daxie Intelligent Green Port Technology Center which applies advanced visual technology and 5G wireless communication technology. Currently, the Center has successfully completed the transformation of four RTG remote semi-automated vehicles that can reduce labour costs significantly. It is the first solution based on mechanical visual technology in the industry both in the PRC and overseas.

- Automatic identification project of OCR shore container numbers was based on OCR automatic identification system, integrated with practical application of Chiwan Container Terminal. It is designed as a solution for container number identification during lifting. Such solution applied unique installation method that placed a HD camera under extension arm of the spreader to detect the vertical distance between spreader and container via highly-sensitive radar. Top views of both sides of containers were captured by interval value, collected and delivered to backstage system via network to identify numbers of respective containers with various sizes, such as 20', double 20', 40' and 45', etc. Remote tallying management for multiple projects (monitoring/operating multiple work-flows by one personnel at the same time) was also achieved with the use of 2.4G wireless network. The project was completed in July 2016 with four container cranes officially in use and phase two is expected to be completed by 2017 with 37 container cranes.

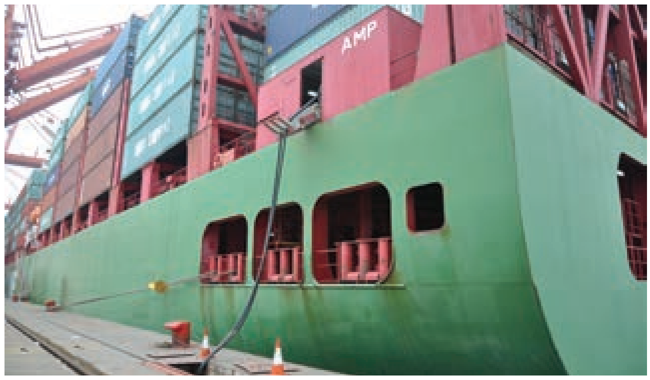
Building a Low-carbon Green Port by Actively Promoting "Substitution of fuel-powered equipment with electricity-powered equipment"

In response to environmental challenges brought by rapid development of global port and shipping logistic industries such as emissions of greenhouse gas and solid particulate matters, the Group adhered to the low-carbon development concept and initiated a number of environmental projects,



Shore-powered supply for vessels

including the replacement of traditional fuel by "electricity-powered" tyre type gantry crane, "shore-powered supply for vessels", LNG domestic tow-trucks and buses, energy-saving transformation of LED lighting, all of which has effectively changed the energy consumption pattern at ports.



Shore-powered supply for vessels

Transformation of RTG Remote Semi-autonomous Vehicle

Replacement of Traditional Fuel by "Electricity-powered" Tyre Type Gantry Crane

Reducing diesel fuel by **11,000** tonnes/year
Reducing carbon dioxide emission by **28,000** tonnes/year
Reducing sulphur dioxide emission by **123** tonnes/year
Reducing nitrogen oxide emission by **1,100** tonnes/year

Reducing Pollutant Emission

The Group prevents ecological pollution induced by waste discharge during operation process of enterprise with its best endeavours. During project planning, design and operation, the Group always adheres to environmental protection principle and stringently observed relevant laws and regulations so as to minimise the environmental impact posed by production and operation. The Group has no environmental pollution incident during the year.

"Zero" discharge of oil-polluted water

To avoid water pollution caused by oil-polluted water and initial oil-bearing rainwater in the port area, the Group has innovatively set up a professional wastewater treatment facility with "oil separation + biochemical + filtration" functions in the machinery cleaning area. This not only ensured efficient treatment of oil-contained wastewater from daily cleaning, but also facilitated the collection and isolation treatment of initial oil-bearing rainwater. Since the commencement of operation, both oil-polluted water and oil-bearing rainwater have been treated in oil separation tank located in wastewater treatment station. After testing and approval, the treated water was then discharged to the municipal sewage treatment plant. Water samples from the discharge ports conformed with the emission standards of Guangdong Province, signifying that the facility has realised the target of "Zero" discharge of oil-polluted water and thus effectively protected our water resources.

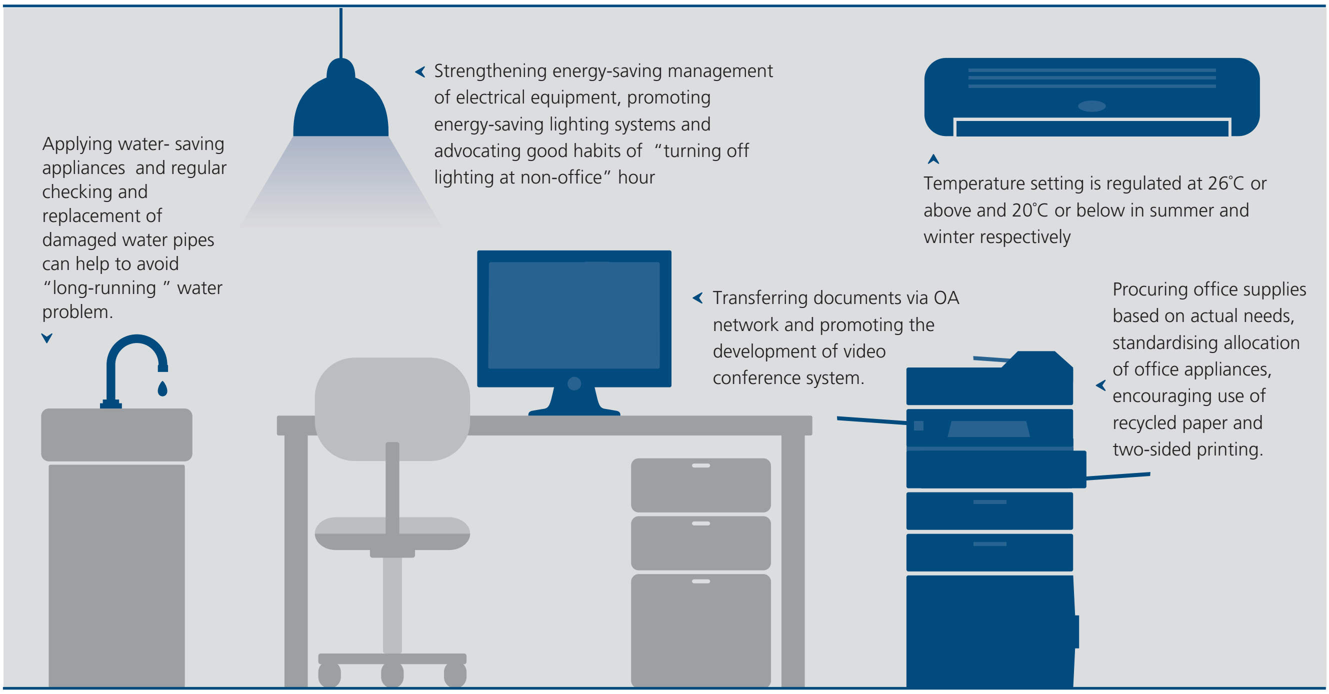
Minimise Waste Pollution

Strict waste classification system has been implemented in port zone, under which hazardous wastes were required to meet the classification requirements of the unified road cargo manifest so as to ensure consistency in product description and quantity. In addition, qualified professional environmental protection companies were appointed for proper handling while all general wastes were disposed in a reasonable manner in compliance with requirements of relevant regulations.

Green Office

The Group fully integrated the concept of energy conservation and emission reduction into daily operation and encouraged employees to start from themselves by saving electricity, water, paper or office supplies.

Graph of Green Office



The Thematic Project Relating to the Establishment of Low-carbon Green Port in West Shenzhen Homebase Port was evaluated and approved by the Ministry of Transport

Being the only state-sponsored demonstration low-carbon green port in South China since 2013, the Group's West Shenzhen Port Zone has been working actively to promote and implement the thematic pilot project relating to the establishment of low-carbon green port, focusing on 13 key supporting projects in four major areas, including the transformation of infrastructure, upgrading of loading and transportation equipment, optimisation of energy consumption structure and application of intelligent operations. For the first phase, nine key supporting projects were evaluated and approved by the expert team of the Ministry of Transport in May, among which, three projects including transformation of LED lighting in achieving energy conservation and emission reduction have reduced standard coal of 1,213 tonnes in total. While another two projects including transformation of LNG tow-trucks of Shekou Container Terminals Limited ("SCT1") have reduced standard oil of 1,221 tonnes in total. With investment in energy-saving as incentive, four projects including intelligent technology optimisation project of SCT production have attracted investment in energy conservation and emission reduction of RMB43.56 million in total.

Ministry of Transport evaluated and approved the pilot project relating to the establishment of low-carbon green ports in West Shenzhen homebase port

SCT1 was awarded "Golden Award for Green Low-carbon Emission in Container Terminal (集裝箱碼頭綠色低碳金獎)"

In January 2016, the "12th China Freight Industry Awards" ceremony, organised by China Shipping Gazette (中國航務週刊), was cordially held in Shanghai. SCT, a subsidiary of the Group, was awarded "Golded Award for Green Low-carbon Emission in Container Terminal".

SCT1 was awarded "Golded Award for Green Low-carbon Emission in Container Terminal"

People-oriented policy to promote staff development

Investment in safety production

69.363

RMB million

Coverage of trainings for staff at headquarter

100%

Percentage of female senior management

12%

EMPLOYEE RIGHTS AND INTERESTS, STAFF DEVELOPMENT, CARE FOR STAFF, SAFETY AND HEALTH

The Group has a "people-oriented" culture and adhered to the philosophy of "making the best use of people and their abilities". It strives to safeguard the rights and interests of its employees and supports staff development. Priorities have been given to humane care, safeguarding staff's safety and health, providing them with a broad platform to improve their living standard, enhancing their spiritual and cultural satisfaction and realising the value of life. This would in turn encourage the staff to unleash their energy and create values and thus enable co-development of the staff and the Company.

Employee Rights and Interests

The Group has established a unified labour management system, under which it will strictly observe the relevant national and regional laws and regulations, including ordinances that prohibit the employment of child labour and forced labour, respect and safeguard all the legal rights and interests of its staff and proactively build up and maintain a harmonious and stable labour relationship.

Equal Employment and Diversification

The Group remains strongly committed to the principle of equal employment that ensures fairness and openness of recruitment and stands against discrimination due to any differences in gender, age, ethnicity and religion of the staff, so that more talents can work together in building new brilliance of the Group.

Remuneration and Benefits

The Group has established multifaceted remuneration policy characterised by "prioritising efficiency while giving consideration to fairness", "stratified management with diversified rewards" and "satisfying industry standard and surpassing market performance", and provided its staff with

Number of staff in service of the Group

242

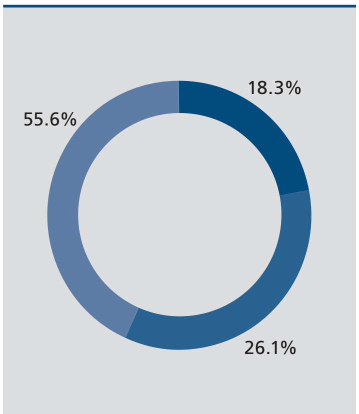
Labour contract signing rate

100%

Coverage of social insurance

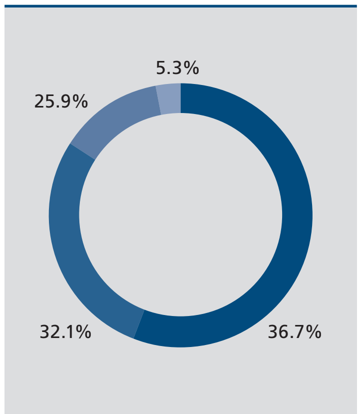
100%

Human resources



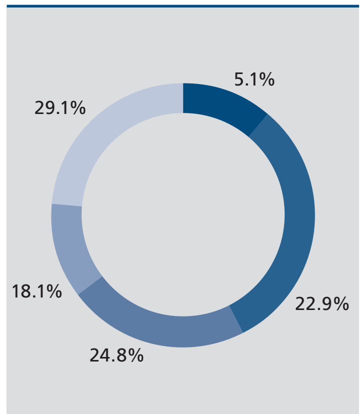
- Operation and management talents
- Talents with professional skills
- Skilled talents

Age of staff



- Aged 35 and below
- Aged between 36 and 45
- Aged between 46 and 54
- Aged 55 and above

Education background of staff



- Master's degree and above
- Bachelor's degree
- Tertiary education
- Diploma
- High school and below

comprehensive benefits. Meanwhile, the Group continued to standardise the management of remuneration and benefits at all levels in the company and improve its remuneration and benefits system, striving to provide remuneration and benefits with market competitiveness to its staff.

Comprehensive benefits

- Accidental injury insurance for staff
- Statutory social benefits protections
- Paid annual leave system
- Compliant allowance and subsidy
- Regular body check
- Complementary medical insurance
- Enterprise annuity scheme

Democratic Management

The Group attaches great importance to the development of a democratic management platform and endeavours to further improve the democratic management system which is basically manifested in the form of staff representative meeting. The Group also makes sure that there are good communication channels in place and takes practical actions to safeguard the staff's right to be informed, participate, express opinions and supervise, with a view to fully develop the staff's sense of ownership and continue to enhance the standard of democratic management and quality of democratic supervision.

Diversify Democratic Communication Channels

In order to diversify the communication channels with the staff and understand how the staff feel, the Group has established various platforms for communication, such as opening Wechat account, making corporate affairs public, organising group activities, holding staff seminars and setting up staff suggestion box. Through these communication platforms, grassroots workers can communicate with the management team directly, which will enhance the integration of the grassroots workers and the management and thus significantly increase the staff's participation in the operation and development of the Company.

Staff Development

The Group highly values the growth and development of the staff as it regards staff development as the foundation of corporate development. By arranging multi-level staff trainings, establishing multi-channel career development paths and formulating multi-form of assessment and incentive measures, the Group seeks to maximise the creativity of different talents and establish a stronger and broader platform for the career development of the staff.

Staff Training

The Group encourages the staff to participate in various trainings and learning programmes organised by the Company, at the same time encourages them to actively take part in the social and career trainings that are related to their current positions and future development. It is hoped that the staff will be motivated to learn new knowledge, master new skillset, reflect on new problems and equip themselves with new ability during the trainings, which will bring new vitality into their future career.

With the Company's strategic goals as directives and in accordance with the principle of development by grading and grouping and focus on key areas, a multi-level and multi-channel training system that integrates departments and regions at different levels has been established. In 2016, the Group tailor-made a series of special training programs were tailor-made for the senior management, young cadres and management trainees, including the "Training Course for Senior Management (高管培訓班)", the "3rd Training Course for Young Cadres (青年骨幹計劃第三期班)" and "2016MT" in a view to promoting innovative thinking of the senior management on international strategy, broadening the horizon of the reserve young cadres and enhancing the comprehensive quality and operational capability of the management trainees with high potential.

In order to support and facilitate the implementation of the Company's overseas strategy, the Group has made several meaningful attempts in an effort to establish a team of talents with international exposure. The launch of projects such as Management Trainee Programme (管培生計劃), Young Cadres Training Project (青幹班培訓項目), Talents Nurturing Programme for Overseas Projects (海外項目人才孵化器), Global Manager Trainee Programme (全球見習經理人計劃) and foreign language trainings over the last few years have significantly accelerated the import of talents with international exposure.

Under the "Belt and Road" development initiative of China, the Group adhered to the goal of "sharing knowledge and values" and actively undertook its corporate social responsibility by promoting the "Shaping Blue Dreams Together - C Blue Training Programme (共鑄藍色夢想— 海上絲綢之路優才計劃)". The programme was sponsored by China Merchants Charitable Foundation and organised by the Group with an aim to nurturing more quality leaders for the ports and shipping industry in the countries along the Maritime Silk Road. The project was completed successfully during 5 to 29 September 2016. A total of 30 trainees have been recruited from seven countries including Sri Lanka, Djibouti, Togo, Tanzania, Ethiopia, South Africa and Kenya. The four-week course fully covered various aspects such as ports, logistics and free trade zones. The trainees may also gain experience through diversified site visits and cultural activities, so that they can acquire extensive professional knowledge and explore traditional Chinese culture at the same time, which will deepen mutual understanding of different cultures and countries and facilitate the exchange of thoughts.

Career Development

The Company formulates personal career plans for its staff based on positioning of functional departments and actual practice of various professions with reference to the actual circumstances. Multiple measures such as job rotation, exchange, off-the-job training and on-job training were adopted with an aim to providing the staff with better development platform and motivate them to inject their vitality into the company and create values. Meanwhile, the Company also establishes career development paths covering various aspects of management and professions to provide its staff with multi-channel careers development pathways featuring "bidirectional vertical movement and horizontal exchange" so as to meet the career development needs of staff at all levels.

Care for Staff

Among the nine Staff Centers scheduled to be constructed in 2016, apart from the delayed construction of the Shuntak Project due to non-delivery of office building, the construction of all other eight Staff Centers have been completed and have passed the inspection and review organised by the Group. So far, the Group has completed the construction of 28 Staff Centers in total, which are all well-received by the grassroots workers and have a positive impact on the promotion of our corporate culture and better corporate cohesion.

SCT1 Staff Center

SCT1 Staff Center

SCT1 Staff Center

Mr. Li Jianhong, the CMG Group Chairman, hosted the unveiling ceremony for CMPort first Staff Center overseas (Djibouti)

Staff Center in Sri Lanka

Work-life Balance

The Group highly values the work-life balance of its staff. We organised events such as the unique "Corporate Day (公司日)" and diversified cultural and sports activities for our staff with an aim of creating a joyful, positive and harmonious working environment, helping them to release work pressure and achieving happy work and healthy life at the same time.

Unique "Corporate Day".

In order to further enhance the cohesiveness within the Group, the Group has organised the "Corporate Day" event under the theme of "Collaboration and Mutual Benefits". Subordinate units of the Group nationwide also launched their own "Corporate Day" special events. The diversified "Corporate Day" events fully demonstrated and enhanced the aggressive and can-do spirit of China Merchants staff, the warmth of the China Merchants family was also crystallised and communicated, effectively inheriting and carrying forward the fine culture and tradition of China Merchants.

Corporate Day Event

Fun Sports Day organised by China Merchants International Terminal (Qingdao) Co., Ltd ("CMITQ")

Corporate Day canteen family activity organised by Zhangzhou China Merchants Port Co., Ltd ("ZCMP")

Corporate Day event organized by China Merchants Container Services Limited ("CMCS")

Soccer and photography club family activity organised by South China Container Terminal

"Blue Ocean" environmental charity event organised by China Merchants Port Services (Shenzhen) Company Limited ("SCMPS")

Diversified cultural and sports activities.

The Group organised various forms of cultural and sports activities to help its staff release work pressure and enrich after-work personal life. This not only can satisfy our staff's spiritual and cultural needs, but also provide a stage for our staff to demonstrate their talents and personality, thereby creating a united, friendly and positive working sentiment.

"Happy Businesswomen Lesson" learning activity organized by Shenzhen Chiwan Wharf Holdings Limited ("Shenzhen Chiwan")

Hiking and photography activity organized by CMCS

Walking activity organised by CMPort

Care for Staff

Staff are the most important assets of a company. The Group always show care to its staff, especially the frontline workers at the grassroots level. During the hot summer, each of the units distribute herbal tea to the frontline staff. South China Container Terminal improved and expanded the scale of its existing herbal tea kiosk and distributed herbal tea to the frontline workers and drivers of trailers to prevent them from suffering heatstroke in the hot summer. The management team of Ningbo Daxie and ZCMP paid visits to the grassroots workers, sending frontline staff their warm regards on the summer day.

Management team of Ningbo Daxie China Merchants International Terminal Co., Ltd ("Ningbo Daxie") extended their regards to the frontline staff working under high temperature

Safety and Health

The Group views safety production management as a key part of its operation. Under the directive of "instilling a comprehensive safety concept and making China Merchants a safe workplace" and with a focus on the "Five Rights" (5R) measures for the management and control of safety production, the Group utilises information technology to optimise its safety production management system on a continuous basis, and to implement various safety production measures with a view to protect the safety and health of the staff.

Number of staff who have received safety trainings

Over **175,000**

Number of staff whose non-compliance behaviour have been rectified

Over **1,800**

Safety Management

According to the safety production management principle of "people first, safety foremost, emphasis on prevention and integrated governance" and with reference to the positioning of various functional departments at headquarter, the Group has established an organisational structure for safety production and standardised the safety production system to push forward the standardisation of safety production.

Organisational structure for safety production

The Group has established the Safety Production Management Committee (hereinafter referred to as the "Safety Committee"), which is responsible for guiding and administering the work in relation to safety management. The members of the Safety Committee includes the management team of the Group, the persons in charge of the relevant functional departments at headquarter and the persons in charge of its subordinate units. Under the unified leadership of the Safety Committee, all of the units have set up their own safety production management committee to take up the safety production management work of its own and its subordinate units. There is an office under the Safety Committee to handle specific daily work within the scope of responsibilities of the Safety Committee.

Safety production management system

In accordance with the Production Safety Law of the PRC, Interim Provisions on the Supervision and Management of Work Safety at Central Enterprises and Regulations on Safety Production Management of CMG Group (《招商局集團安全生產管理規定》), the Group has formulated the Regulations on Safety Production Management of CMPort (《招商局港口安全生產管理規定》). The regulations provides institutional protection for various works, such as strengthen the Group's management on safety production, clearly define the responsibility of safety production management, regulate the behaviours of safety production, enhance all staff's awareness of safety prevention and supervision, further extend its scope of management over the safety of outsourced business, as well as prevent and control the occurrence of production safety-related incidents.

Safety Operation

The Group studied and adhered to the new Production Safety Law. With a focus on solving the current major problems and taking the implementation of safety management measures for frontline staff as the entry point, the Group has pushed forward the in-depth development of safety production in all aspects and ensured that the safety production can be maintained steadily. No fatal accident that involves responsibilities of safety production of the Group has occurred in 2016.

Arranging safety production trainings and special inspection

Adhering to the philosophy of "people first and ensure safety production", the Group organised various safety trainings that cover extensive topics, such as trainings on rules and systems of safety production and safety management trainings in relation to storage and transportation of dangerous chemicals, thereby cultivating an environment upholding a culture of sound safety production that "cares for life and pays attention to safety". The Group insisted on adopting the issues-focused approach and took specific actions targeting at different areas within the Group with reference to the actual situation of each unit, such as checking and handling the hidden hazards in respect of safety production, "looking back" self-review of safety production (安全生產"回頭看") and emergency drills. All these measures have helped rectify the hidden safety hazards, consolidate rectification results, improve the efficiency of handling emergency situation and effectively prevent and resolutely curb the occurrence of significant incidents.

Enhancing the supervision of occupational health

Pursuing the fundamental objective to protect the life, health and safety of the staff and subject to the basic requirement of implementing various prevention and control measures according to laws and regulation, the Group continued to strengthen its occupational health management system, established occupational disease prevention system and strictly prevent all occupational diseases. The Group safeguards the occupational health of all its staff by arranging medical examination on occupational diseases for the frontline staff who are exposed to hazards that can lead to occupational diseases and setting up occupational health monitoring files.

The management team of the Group inspected the safety production work in CMITQ

Fire drill arranged by Ningbo Daxie

Fire drill arranged by Ningbo Daxie

SCMPS held special seminar for exchanging ideas on fire safety of properties

Strengthening its safety management over contractors

The Group has stepped up its control over the safety management of contractors by extending the scope of safety management to the entire production process of contractors. The Group has also strengthened its management and control over the safety management-related activities of contractors and enhanced the contractors' awareness of safety by increasing the importance of safety in the assessment of contractors' performance and arranging safety trainings for contractors.

No complaint about occupational diseases was received in 2016

Case Study: Exploring Ways to Achieve "5R" Management and Control

With a view to improving the safety culture and system and raising the staff's awareness of safety production, the Group, under the guidance of "comprehensive safety concept" of China Merchants Group, has put "5R" into practice in respect of the management and control of safety production, i.e. "upholding the right attitude", "adopting the right system", "utilising the right equipment", "assigning the right person" and "handling at the right time". The Group has further promoted the safety culture and concept in every procedure of safety management and enhanced all staff's awareness of safety based on the "5R" management and control method for safety production.

CMPort held a symposium on safety production work

Responsibility inheritance to create a harmonious community

PROMOTE REGIONAL DEVELOPMENT, COMMIT TO VOLUNTEERING SERVICES, CULTURAL INHERITANCE AND DEVELOPMENT

The Group is always committed to take on historical missions and has a strong sense of social responsibilities. During our journey of growth and development, we never steer away from the original goal. We take the lead to address social problems, continue to seek for the matching point for mutual development with the society and explore appropriate models for conducting charitable business that meets the needs of the current generation. By leveraging our core strengths to launch professional charitable activities, support regional development and preserve fine cultures, we will incorporate social development needs into our daily operation activities and joint hands with even more partners to create a harmonious society and promote social progress.

Promote Regional Development

As a responsible enterprise, the Group leverages its professional strengths to participate in charitable activities such as urban renewal, targeted poverty alleviation and reconstruction assistance to disaster-stricken areas, with an aim to promoting urban and rural economic development and improving people's living standards. We also actively participate in various social organisations and political parties and strengthen our communication with the government and the industries to make use of our well-earned influence.

"Shaping Blue Dreams Together — Summer Camp for Caring of Left-behind Children" (共鑄藍色夢想—關愛留守兒童夏令營) Charitable Event

Organised by the Group and held by the South China Container Terminal, "Shaping Blue Dreams Together — Summer Camp for Caring of Left-behind Children" charitable event invited the left-behind children of the port's frontline staff to reunite with their parents in Shenzhen and participate in a summer camp. A total of 50 families of the constructors

Photos from "Shaping Blue Dreams Together — Summer Camp for Caring of Left-behind Children"

Caring volunteers

stationed in Shenzhen had joined the event. The 50 families attended the summer camp opening ceremony along with the management of the Company, management of the Charitable Foundation, charity ambassadors and management of various units in Shenzhen and volunteers. China Merchants Charitable Foundation donated RMB350,000 to this event. During the two-day event, the children had visited the China Merchants Museum of History (招商局歷史博物館), Shenzhen University, the port company, etc. The diversified activities allow the children, whom cannot get much time to stay with their parents, to feel the warmth of being with the family, as well as the passion of Shenzhen and the affection of the China Merchants staff. The event was widely covered by the media and was featured on Shekou Television Station, Shekou News, Shenzhen Special Zone Daily and Shenzhen Economic Daily, while other major network media had also republished the news on their platforms. The event not only obtained positive feedback from the society, but also effectively enhanced the Company's reputation.

"Shaping Blue Dreams Together — 21st Century C Blue Training Programme" (共鑄藍色夢想—21 世紀海上絲綢之路優才計劃), the charitable activity of port and shipping talent advanced training course in 2016

Targeting at trainees from the countries along the 21st Century Maritime Silk Road, the programme had successfully recruited 30 trainees from seven countries, including Sri Lanka, Djibouti, Tanzania, Kenya, Togo, Ethiopia and South Africa in 2016. In this programme, the trainees were tutored by the management of the Group and distinguished industrial experts in China. The scope of the courses covered various aspects such as logistics management, port management, free trade

Shaping Blue Dreams Together — 21st Century C Blue Training Programme

Group photo of trainees in folk costumes in the "Shaping Blue Dreams Together — 21st Century C Blue Training Programme" zone and tariff-free zone business. Through the four-week trainings and exchanges in Shanghai and Shenzhen, the Group successfully extended the benefits of the programme to most of its cooperating countries in Asia and Africa, establishing an excellent overseas platform for the Group to realise knowledge and value sharing.

Tutoring of trainees in the "21st Century C Blue Training Programme"

In-class discussion of trainees in the "21st Century C Blue Training Programme"

Display of graduation certificates in the "21st Century C Blue Training Programme"

Group photo of graduation ceremony in the "21st Century C Blue Training Programme"

Group photo of the management of The Group and trainees in the "21st Century C Blue Training Programme"

Relief Aid for Natural Disaster Victims

In the event of natural disasters, the Group will work closely with China Merchants Charitable Foundation and the frontline teams of the Company to promptly offer funding and resources to help victims in the affected areas get through the hard times. In 2016, the Company together with China Merchants Charitable Foundation offered US$30,000 of emergency supplies to the flooding areas in Sri Lanka and US$50,000 of emergency aid to the earthquake-stricken area in Tanzania.

Donation for Sri Lanka floods relief

A 5.7 magnitude earthquake occurred in Kagera of Northwestern Tanzania, which caused many casualties, thousands of houses collapsed and road damaged

Majaliwa, the prime minister of Tanzania, received a donation of US$50,000 (approximately 100 million Tanzanian Shilling) from the CMG Group on behalf of the government

Directors and Senior Management

Directors

Mr. Li Xiaopeng

aged 57, is the Chairman of the Company, and the Group President and Vice Chairman of China Merchants Group Limited. He graduated from the doctorate program of Wuhan University, majoring in finance and holds a Ph.D. in economics. He is a Senior Economist. Mr. Li is a vice chairman 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 also concurrently acting as vice chairman of China Urban Financial Society, vice chairman of China Rural Financial Society and vice chairman of China Tourism Association. Mr. Li previously served as vice president of China Huarong Asset Management Corporation, assistant to the president and head of Beijing branch of Industrial and Commercial Bank of China (now known as Industrial and Commercial Bank of China Limited, "ICBC", shares of which are listed on both the Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited), vice president of ICBC, executive director and vice president of ICBC, and chairman of the board of supervisors of China Investment Corporation. He also once served concurrently as chairman of ICBC International Holdings Ltd., chairman of ICBC Financial Leasing Co., Ltd., and chairman of ICBC Credit Suisse Asset Management Co., Ltd., and chairman of China Merchants Energy Shipping Company Limited, shares of which are listed on the Shanghai Stock Exchange. He was appointed to the Board of Directors as Executive Director and Vice Chairman on 25 August 2014. Mr. Li was appointed as the Chairman of the Company on 18 February 2016.

Mr. Hu Jianhua

aged 54, is the Vice Chairman of the Company and the Executive Vice 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 is the Professorial Senior Engineer conferred by Ministry of Transport of China, a fellow member of the Hong Kong Institution of Engineers (FHKIE) and also a fellow member of Institution of Civil Engineering Surveyors of the United Kingdom (FlnstCES) respectively. Prior to joining the Company, he was the Managing Director of Hong Kong Zhen Hua Engineering Co., Ltd., Deputy Chief Economist cum General Manager of Overseas Division of China Harbor Engineering Company Group and Managing Director of China Harbor Engineering Company Limited. Having rich working experience in overseas, he has extended the business to over 50 countries and regions in the investment, development, construction and operation management of large infrastructure projects such as ports, portside industrial park, free trade zones and international shipping centres. With experiences as corporate executive, he was the Chairman of China Merchants Logistics Group, and is currently Chairman of Silk Road E-Merchants Company Limited, Chairman of China Nanshan Develoment (Group) Incorporation, the Vice Chairman of COFCO & CM (Shenzhen) Grain Electronic Trading Centre Co., Ltd. and holds the post of executive director in several companies in China and overseas. He was appointed to the Board of Directors as Executive Director on 25 May 2007. He was appointed and had retired as the Managing Director of the Company on 26 March 2010 and 16 April 2015 respectively. Mr. Hu was appointed as the Vice Chairman of the Company on 18 February 2016.

Mr. Wang Hong

aged 54, is the Executive Vice President of China Merchants Group Limited. He is also a Chairman of China International Marine Containers (Group) Co., Ltd., shares of which are listed on both the Shenzhen Stock Exchange and The Stock Exchange of Hong Kong Limited. He graduated from Dalian Maritime University in the PRC in Marine Engineering in 1982, and is a holder of Master in Business Administration from Graduate School of Beijing University of Science and Technology and a holder of PhD in Management from Graduate School of China Academy of Social Science. Mr. Wang successively served as 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, Strategic and Research Department and Strategic Planning Department and Chief Economist of China Merchants Group Limited, and the Chairman of the Supervisory Committee of China Merchants Energy Shipping Company Limited, shares of which are listed on the Shanghai Stock Exchange. 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, the Chairman of China Merchants Holdings (Pacific) Limited, shares of which are listed on Singapore Exchange Limited, and a Director of China Merchants Property Development Company Limited, shares of which are listed on the Shenzhen Stock Exchange. Mr. Wang has extensive experience in shipping industry, international trading, financing and accounting and human resources management. He was appointed to the Board of Directors as Executive Director on 11 May 2005.

Mr. Hua Li

aged 45, is the General Manager of Finance Department of China Merchants Group Limited. He graduated from Shanghai Maritime University with a Bachelor Degree of Accounting. He then obtained a Master Degree of Accounting from The Chinese University of Hong Kong and a Master Degree of Business Administration from The Hong Kong University of Science and Technology. He is a (non-practising) Certified Public Accountant of PRC. Mr. Hua has extensive management experience in Financial Management. He has been with the Group over 20 years, working successively as the Deputy Manager, Deputy Director and Director of Finance Department of China Merchants Group Limited, Manager of Finance Department of China Merchants Transportation Holdings Company Limited, Chief Finance Officer of China Merchants Shekou Industrial Zone Company Limited (now known as China Merchants Shekou Industrial Zone Holdings Co., Ltd.). He is also currently Director of China Merchants Energy Shipping Co., Ltd, shares of which are listed on the Shanghai Stock Exchange, a Non-executive Director of China Merchants Securities Co., Ltd., shares of which are listed on The Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange. He was appointed to the Board of Director as Executive Director on 29 November 2016.

Mr. Bai Jingtao

aged 51, is a professor level senior engineer and Managing Director of the Company. He graduated from Tianjin University in Department of Hydraulics with a Bachelor Degree of Port and Channel Engineering in 1986, then studied at Graduate School of Wuhan University of Technology and Graduate School of Shanghai Maritime University and obtained a Master Degree of Management Sciences and Engineering and a Doctorate in Transport and Communications Planning and Management, respectively. Prior to his appointment as General Manager of the Company in April 2015, Mr. Bai successively served as an Assistant Engineer in Planning and Design Institute of the Ministry of Communications of the PRC, an Officer in Department of Engineering Management and Department of Infrastructure Management of the Ministry of Communications, Deputy Director and Director in Department of Infrastructure Management and Department of Water Transport of the Ministry of Communications, Deputy General Manager of China Merchants Zhangzhou Development Zone, Director of Zhangzhou Port Service Authority, Deputy Director of Xiamen Port Authority, Deputy General Director of Construction headquarters of Haicang Free Trade Port Area, Deputy General Manager of the Company, Party Secretary and Deputy Director of Zhangzhou China Merchants Economic and Technological Development Zone and Party Secretary and General Manager of China Merchants Zhangzhou Development Zone. Mr. Bai has extensive experience in port management, engineering construction, planning and management of water transport. He is also the Chairman of CMH International (China) Investment Co., Ltd., Chairman of Shekou Container Terminals Ltd., Chairman of Chiwan Container Terminal Co., Ltd., and Vice Chairman and Non-executive Director of Dalian Port (PDA) Company Limited, share of which are listed on both The Stock Exchange of Hong Kong Limited and Shanghai Stock Exchange. He was appointed as the Managing Director of the Board of Directors on 1 June 2015.

Mr. Wang Zhixian

aged 51, joined the Company in July 1992 and is the Executive Director and Deputy General Manager of the Company. He is also a Non-excutive Director of China International Marine Containers (Group) Co., Ltd., shares of which are listed on both the Shenzhen Stock Exchange and The Stock Exchange of Hong Kong Limited. 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.. He was appointed to the Board of Directors as Executive Director on 18 February 2016.

Mr. Zheng Shaoping

aged 53, is the Executive Director and Deputy General Manager of the Company. He is also a Non-executive Director of Dalian Port (PDA) Company Limited, share of which are listed on both The Stock Exchange of Hong Kong Limited and Shanghai 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 and successively served as the Vice Chairman of China Merchants Bonded Logistics Co., Ltd., the Chairman of Shekou Container Terminals Ltd., the General Manager and Chairman 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 Chairman of Shenzhen Chiwan Wharf Holdings Limited, shares of which are listed on the Shenzhen Stock Exchange. He was appointed to the Board of Directors as Executive Director on 10 February 2012.

Ms. Shi Wei

aged 53, is the the Executive Director and Deputy General Manager of the Company. She graduated from Anhui University with a Master Degree of International Economics Law, and obtained a Master Degree of Executive Master of Business Management of Cheung Kong Graduate School of Business. Ms. Shi has over 20 years' experience in the field of maritime and port and transportation management and she successively held the post of Head of Legal Section of Transport Management Bureau of Shenzhen Municipality, Vice Commissioner of Shenzhen Highway Management Bureau, the Commissioner of Western Transportation of Transport Commission of Shenzhen Municipality, Deputy Inspector of Transport Commission of Shenzhen Municipality. She is currently as the Chairman of Shenzhen Chiwan Wharf Holdings Limited, share of which are listed on the Shenzhen Stock Exchange, the Chairman of Shenzhen Haixing Harbor Development Company Ltd. and the Chairman of China Merchants Port Service (Shenzhen) Co., Ltd.. She was appointed to the Board of Director as Executive Director on 29 November 2016.

Mr. Kut Ying Hay

aged 61, is a solicitor and a notary public in Hong Kong and had been in practice in the name of Kut & Co. for more than 25 years. He was also a solicitor of the Supreme Court of England and Wales, the Supreme Court of Victoria, Australia, and the Supreme Court of Singapore, and was 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. Mr. Kut was formerly an Independent Non-executive Director of publicly-listed China Merchants China Direct Investments Limited from June 1993 to 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 74, is a retired solicitor. He is also an Independent Non-executive Director of SHK Hong Kong Industries Limited and an Independent Non-executive Director of Sinotrans Shipping Limited, shares of the above two 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 61, was a partner at PricewaterhouseCoopers, Certified Public Accountants. He graduated from the Imperial College of the University of London with a Bachelor of Science degree and also obtained a Master of Business Administration degree from the Wharton School of Business of the University of Pennsylvania. He is a Fellow of The Institute of Chartered Accountants in England and Wales. Mr. Li is the immediate past Chairman of the United Christian Medical Service and the United Christian Hospital, a member of the Board of the Hospital Governing Committee of Pamela Youde Nethersole Eastern Hospital and Alice Ho Mui Ling Nethersole Hospital, and a member of the Board of Trustees of Chung Chi College, The Chinese University of Hong Kong. He was appointed to the Board of Directors as Independent Non-executive Director on 8 October 2004.

Mr. Li Ka Fai David

aged 61, 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, The Institute of Chartered Secretaries and Administrators, UK as well as The Institute of Chartered Accountants in England and Wales. He is an Independent Non-executive Director and Chairman of audit committee, member of remuneration committee and member of nomination committee of China-Hongkong Photo Products Holdings Limited, an Independent Non-executive Director, Chairman of audit committee, member of remuneration committee and member of nomination 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, an Independent Non-executive Director, member of audit committee and member of remuneration committee of AVIC International Holding (HK) Limited, and an Independent Non-executive Director and Chairman of audit committee of Wai Yuen Tong Medicine Holdings Limited, shares of the above six 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 1 June 2007.

Mr. Bong Shu Ying Francis

aged 74, OBE, JP, is currently a Non-executive Director of Cosmopolitan International Holdings Limited, shares of which are 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 was the Chairman of the Hong Kong University Engineering Advisory Committee. He is a former President of the Hong Kong Institution of Engineers, a former President of Hong Kong Academy of Engineering Sciences, 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. Mr. Bong was a former Director of AECOM Technology Corporation, a company listed on the New York Stock Exchange. He was appointed to the Board of Directors as Independent Non-executive Director on 14 July 2010.

Senior Management

Mr. Liu Yunshu

aged 51, joined the Company in 2004 and is Overseas Operation Officer of the Company. He obtained his Master of Business Administration at Roosevelt University of America. Mr. Liu has vast experience in ports and logistics industries. Before joining the Company, he was a Director and Deputy General Manager of Shenzhen Shekou China Merchants Port Services Co., Ltd., Vice Chairman and General Manager of Shenzhen Shekou Anda Industry Co. Ltd. and a Director and Executive Deputy General Manager of China Merchants Logistics Group Co., Ltd. He previously served as a Deputy General Manager of the Company and Chief Executive Officer of Colombo International Container Terminals Limited. He was an Executive Director of the Company for the period from 3 June 2009 to 10 February 2012.

Mr. Hang Tian

aged 52, joined the Company in February 2011 and is the Deputy General Manager of the Company. He was the former Chief Executive Officer of China Merchants Americold and Deputy General Manger of China Merchants Food Supply Chain Management Company Limited. 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. Lu Shengzhou

aged 52, joined the Company in 2015 and is the Chief Financial Officer of the Company. He graduated from Zhongnan University of Finance and Economics with a Master Degree of National Economics. Mr. Lu has over 20 years' experience in Financial management and he successively held the post of Head of Finance Department of China Merchants Shekou Industrial Zone Holdings Co., Ltd., Assistant to General Manager and Officer of Finance Department of China Merchants Group Limited, Chief Financial Officer of Hong Kong Ming Wah Shipping Co., Ltd., Deputy General Manager of Finance Department of China Merchants Group Limited.

Mr. Yim Kong

aged 44, joined the Company in 2006 and currently serves as deputy general manager of the Company. Having obtained an undergraduate degree in International Trade at Xiamen University, he went on to complete a Master of Business Administration co-created by the Maastricht School of Management (Maastricht, the Netherlands) and Shanghai Maritime University. Mr. Yim has rich managerial experience in the port and logistics industries. Prior to joining the Company, he had worked for senior logictics management positions in Neptune Orient Lines (NOL) of Singapore and Swire Group of Hong Kong; and was Deputy General Manager, Deputy Executive Manager, and General Manager of Shekou Container Terminals Limited, one of the Company's subsidiaries; and Chief Business Officer of the Company from May to November of 2016.

Mr. Lu Yongxin

aged 46, joined the Company in 2007 and currently serves as deputy general manager of the Company. He obtained a master's degree in Project Management at the Curtin University of Technology (Perth, Western Australia). Mr. Lu has gathered rich managerial experience in the international portfolio expansion activities of port companies. Prior to joining the Company, he had served as Assistant General Manager of Zhen Hua Engineering Co., Ltd. and Deputy General Manager in charge of the General Manager's Office at China Harbor Engineering Co. Ltd. (Beijing). He was Deputy General Manager of the Research & Development Division, General Manager of the International Division, and Assisant General Manager of the Company. Between May, 2014 and January, 2016, Mr. Lu was accredited to France as Chief Financial Officer and Senior Vice Executive of Terminal Link.

Mr. Li Yubin

aged 44, joined the Company in 2007 and currently serves as deputy general manager of the Company as well as General Manager of China Merchants Bonded Logistics Co. Ltd. Having earned a master's degree in International Project Management at Tianjin University, he went on to obtain a doctorate degree in Real Estate and Construction at The University of Hong Kong. Mr. Li has rich managerial and strategic experience in the port and logistics industries. Prior to joining the Company, he had served as Accredited Deputy General Manager of the Road & Bridge Project at China Harbor Engineering Co.'s Bangladeshi Office and Project Director at the International Division of China Harbor Engineering Co. Ltd. After joining the Company, he was Assistant General Manager of the Group Marketing and Commercial Department, General Manager of the Strategy and Operations Department, Deputy Chief Economist and General Manager of the Strategy and Operations Department, Deputy Chief Economist and General Manager of China Merchants bonded Logistics 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 2016. All references in this section "Report of the Directors" to other sections in this Annual Report form part of this section.

Principal activities and geographical analysis of operations

The Company is an investment holding company. The principal activities of its subsidiaries, associates and joint ventures are set out in notes 42 to 44 to the consolidated 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 consolidated financial statements.

Results and appropriations

The results of the Group for the year are set out in the consolidated statement of profit or loss on page 105.

The Board had declared an interim dividend of 22 HK cents per share, totaling HK$575 million, which was paid on 16 November 2016.

The Directors have resolved to recommend the payment of a final scrip dividend of 65 HK cents per share, totaling HK$1,707 million for the year ended 31 December 2016 by way of an issue of new shares with an alternative to the shareholders of the Company (the "**Shareholders**") to elect to receive the final dividend (or part thereof) in cash in lieu of such allotment (2015: scrip dividend of 55 HK cents per share by way of issue of new shares equivalent with cash alternative), payable on or around 18 July 2017 to the shareholders whose names appear on the register of members of the Company (the "**Register of Members**") on 9 June 2017 (the "**Scrip Dividend Scheme**").

Subject to the approval by the Shareholders at the annual general meeting of the Company to be held on 2 June 2017, a circular containing details of the Scrip Dividend Scheme together with the relevant election form will be sent to shareholders on or around 14 June 2017. The Scrip Dividend Scheme is conditional upon the granting by the Listing Committee of 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 18 July 2017.

Business review

A review of the business of the Group during the year and a discussion on the Group's prospects are provided in the Chairman's Statement and the Management Discussion and Analysis on pages 6 to 11 and pages 12 to 25 of this Annual Report respectively. Description of key risk factors and uncertainties that the Group is facing is provided in the Management Discussion and Analysis on pages 12 to 25 of this Annual Report while the financial risk management of the Group can be found in note 3 to the consolidated financial statements. An analysis of the Group's performance during the year using financial key performance indicators is provided in Financial Highlights on inside front cover of this Annual Report. In addition, discussions on the Group's compliance with relevant laws and regulations which have a significant impact on the Group, relationships with its key stakeholders and environmental policy are contained in the Management Discussion and Analysis and Corporate Governance Report on pages 12 to 25 and pages 28 to 39 of this Annual Report respectively.

Principal subsidiaries

The particulars of the principal subsidiaries of the Company are set out from pages 192 to 194 of this Annual Report.

Charitable donations

HK$6.80 million donation was made by the Group during the year (2015: HK$3.23 million).

Reserves

Details of the movements in reserves of the Group and the Company during the year are set out in notes 30 and 45 to the consolidated financial statements respectively.

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 consolidated financial statements.

Shares issued

Details of the movements in the issued shares of the Company are set out in note 28 to the consolidated financial statements.

Distributable reserves

Distributable reserves of the Company as at 31 December 2016 amounted to HK$3,257 million (2015: HK$3,967 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 from page 26 to 27 of this Annual Report.

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 2016 and up to the date of this report were:

Executive Directors:

Mr. Li Jianhong *(Chairman)* (resigned on 18 February 2016)
Mr. Li Xiaopeng *(Chairman)*
(appointed as Chairman on 18 February 2016)
Mr. Hu Jianhua *(Vice Chairman)*
(appointed as Vice Chairman on 18 February 2016)
Mr. Su Xingang (resigned on 18 February 2016)
Mr. Fu Gangfeng (resigned on 29 November 2016)
Mr. Yu Liming (resigned on 29 November 2016)
Mr. Wang Hong
Mr. Hua Li (appointed on 29 November 2016)
Mr. Deng Renjie (resigned on 29 November 2016)
Mr. Bai Jingtao *(Managing Director)*
Mr. Wang Zhixian (appointed on 18 February 2016)
Mr. Zheng Shaoping
Ms. Shi Wei (appointed on 29 November 2016)

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

Biographical details of each Director and member of senior management of the Company are set out in the Directors and Senior Management on pages 75 to 81 of this Annual Report.

Each of Mr. Li Jianhong and Mr. Su Xingang resigned as Executive Director and Chairman of the Board and Executive Director with effect from 18 February 2016, respectively as they need to devote more time to focus on the affairs of China Merchants Group. Besides, each of Mr. Fu Gangfeng, Mr. Yu Liming and Mr. Deng Renjie resigned as Executive Directors with effect form 29 November 2016 due to change of job assignment.

In accordance with Article 89 of the Articles of Association, Mr. Li Xiaopeng, Mr. Wang Hong, Mr. Wang Zhixian, Mr. Zheng Shaopang 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. Pursuant to Article 95 of the Articles of Association, Mr. Hua Li and Ms. Shi Wei shall retire from office at the forthcoming annual general meeting and shall be eligible and offer themselves for re-election.

Each of the Directors has entered into an appointment letter with the Company for a term of three years. One Executive Director's appointment commenced on 25 August 2014, three Executive Directors' appointments commenced on 29 March 2015, and one Executive Director's appointment commenced on 1 June 2015; one Executive Director's appointment commenced on 18 February 2016; two Executive Directors' appointment commenced on 29 November 2016; three Independent Non-executive Directors' appointments commenced on 22 March 2017 and two Independent Non-executive Directors' appointments commenced on 1 June 2016 and 14 July 2016 respectively. The appointment of each of the Directors is subject to retirement by rotation in accordance with the Articles of Association.

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 of Subsidiaries

The name of persons who have served on the board of the subsidiaries of the Company during the year and up to the date of this report are Mr. Hu Jianhua, Mr. Bai Jingtao, Mr. Wang Zhixian, Mr. Zheng Shaoping and Ms. Shi Wei.

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 transactions, arrangements or contracts

No transactions, arrangements or 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 or his connected entities 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 2016, 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 (Chapter 571 of the laws of Hong Kong) (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 shares as at 31 December 2016
Mr. Wang Hong	Beneficial owner	Personal interest	356,474	—	0.0136%
Mr. Lee Yip Wah Peter	Beneficial owner	Personal interest	181,308	—	0.0069%
Mr. Li Kwok Heem John	Interest of spouse	Family interest	1,760,047	—	0.0670%
			2,297,829	—	0.0875%

Save as disclosed above and based on the register maintained by the Company under section 352 of the SFO, as at 31 December 2016, 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, to be notified to the Company and the Stock Exchange.

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

Pension scheme

Details of the pension scheme, maintained by the Group, contributions made and forfeiture utilised during the year are set out on page 135 of this Annual Report.

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 its 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 Persons.

(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 (the "**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 5 trading days immediately preceding the date of grant; and (iii) the nominal value of the shares.

(vii) The remaining life of the Share Option Scheme

The life of the Share Option Scheme is 10 years commencing on the Adoption Date and ending on 8 December 2021.

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

As at 29 March 2017, no shares may be issued pursuant to the exercise of options granted under the Terminated Schemes.

As at 29 March 2017, the total number of shares available for issue under the Terminated Schemes and the Share Option Scheme was 247,441,123 shares, which represent approximately 9.42% of the total issued shares of the Company as at the same date.

Details of the share options outstanding at 31 December 2016 which have been granted under the Terminated Scheme are as follows:

Name	Date of grant	Exercise price HK$	Options held as at 1 January 2016	Options granted during the year	Options exercised during the year	Options lapsed/ cancelled during the year	Other changes during the year	Options held as at 31 December 2016
Directors								
Mr. Su Xingang Note 5	25 May 2006	23.03	150,000	—	—	—	(150,000)	—
Mr. Fu Gangfeng	25 May 2006	23.03	280,000	—	—	(280,000)	—	—
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. Bai Jingtao Note 5	25 May 2006	23.03	180,000	—	—	(180,000)	—	—
Mr. Wang Zhixian Note 6	25 May 2006	23.03	—	—	—	(200,000)	200,000	—
Mr. Zheng Shaoping	25 May 2006	23.03	300,000	—	—	(300,000)	—	—
			1,560,000	—	—	(1,610,000)	50,000	—
Continuous contract employees – The Group and the CMHK Group								
	25 May 2006	23.03	11,352,000	—	(70,000)	(11,232,000)	(50,000)	—
			12,912,000	—	(70,000)	(12,842,000)	—	—

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. According to the Terminated Scheme, the Share options granted on 25 May 2006 has expired on 25 May 2016 (the "**Expired Date**")
3. During the year, the weighted average closing market price per share immediately before the date on which the 70,000 share options were exercised was HK$24.14. And the closing market price per share on the trading day before the Expired Date of outstanding share options was HK$21.15.
4. No share options were granted under the Terminated Schemes and the Share Option Scheme during the year.
5. Mr. Su Xingang resigned as Executive Director on 18 February 2016 and remain as continuous contract employees of the CMHK Group. Upon his resignation, the 150,000 outstanding share options held by Mr. Su Xingang has been re-categorised under "Continuous contract employees".
6. Mr. Wang Zhixian was appointed as Executive Director on 18 February 2016 and held 200,000 outstanding share options at the time of his appointment.
7. Other changes during the period include the re-categorisation of share options from "Directors" to "Continuous contract employees" and vice versa following the resignation and appointment of certain directors as mentioned in notes 4 and 5 above.
8. Totalling of 12,842,000 outstanding share options held by all Eligible Persons of the Company lapsed under the Terminated Scheme on 25 May 2016.

Substantial shareholders

As at 31 December 2016, 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	Shares/underlying shares held	Percentage to total issued shares
China Merchants Group Limited	Interest of Controlled Corporation	1,941,121,828(1,2,3)	73.93%
China Merchants Steam Navigation Company Limited	Interest of Controlled Corporation	1,937,521,828(2)	73.79%
China Merchants Holdings (Hong Kong) Company Limited	Interest of Controlled Corporation	1,937,521,828(2)	73.79%
China Merchants Union (BVI) Limited	Beneficial Owner	911,410,193(2)	34.71%
China Merchants Investment Development Company Limited	Beneficial Owner	1,004,171,877(2)	38.24%
Pagoda Tree Investment Company Limited	Interest of Controlled Corporation	914,134,878(4)	34.81%
Compass Investment Company Limited	Interest of Controlled Corporation	914,134,878(4)	34.81%
GUOXIN International Investment Corporation Limited	Interest of Controlled Corporation	911,410,193(5)	34.71%
Verise Holdings Company Limited	Interest of Controlled Corporation	911,410,193(5)	34.71%

Notes:

1. Each of China Merchants Steam Navigation Company Limited ("**CMSN**") and China Merchants Shekou Industrial Zone Company Limited ("**CMSIZ**") is a subsidiary of China Merchants Group Limited ("**CMG**"). CMG is deemed to be interested in 1,941,121,828 shares (of which 502,676,197 shares represents interest of underlying shares of equity derivatives), which represents the aggregate of 1,937,521,828 shares deemed to be interested by CMSN (see Note 2 below) and 3,600,000 shares deemed to be interested by CMSIZ (see Note 3 below).

2. China Merchants Holdings (Hong Kong) Company Limited ("**CMHK**") is wholly-owned by CMSN. Each of China Merchants Investment Development Company Limited ("**CMID**") and China Merchants International Finance Company Limited ("**CMIF**") is in turn wholly-owned by CMHK and China Merchants Union (BVI) Limited ("**CMU**") is 50%-owned by CMHK.

   CMSN is deemed to be interested in 1,937,521,828 shares which are deemed to be interested by CMHK. Such shares represent the aggregate of 911,410,193 shares beneficially held by CMU, 1,004,171,877 shares beneficially held by CMID and 21,939,758 shares deemed to be interested by CMIF.

   As Best Winner Investment Limited is wholly-owned by CMIF, CMIF is deemed to be interested in the 21,939,758 shares beneficially held by Best Winner Investment Limited.

3. Top Chief Company Limited ("**Top Chief**") is wholly-owned by CMSIZ and Orienture Holdings Company Limited ("**Orienture**") is in turn wholly-owned by Top Chief. CMSIZ is deemed to be interested in the 3,600,000 shares which are deemed to be interested by Top Chief. Such shares represent the 3,600,000 shares beneficially held by Orienture.

4. According to the disclosure of interests form submitted by Pagoda Tree Investment Company Limited ("**Pagoda Tree**") on 21 May 2014, 50% interest in CMU is owned by Verise Holdings Company Limited ("**Verise Holdings**"), which is wholly-owned by GUOXIN International Investment Corporation Limited ("**GUOXIN International**"), which is in turn 90%-owned by Compass Investment Company Limited ("**Compass Investment**"), which is in turn wholly-owned by Pagoda Tree. Therefore, each of Verise Holdings, GUOXIN International, Compass Investment and Pagoda Tree is deemed to be interested in the 914,134,878 shares beneficially held by CMU.

5. According to the disclosure of interests form submitted by GUOXIN International on 12 June 2014, 50% interest in CMU is owned by Verise Holdings, which is wholly-owned by GUOXIN International. Therefore, each of Verise Holdings and GUOXIN International is deemed to be interested in the 911,410,193 shares beneficially held by CMU.

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.

Directors' rights to acquire shares or debentures

Save as disclosed in this Annual Report, at no time during the year was the Company, its parent company, or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Permitted Indemnity Provision

The Articles of Association of the Company provides that subject to the provisions of the Companies Ordinance, but without prejudice to any indemnity to which a Director may otherwise be entitled, every Director of the Company shall be indemnified out of the assets of the Company against any liability, loss or expenditure incurred by him in defending any proceedings, whether civil or criminal, which relate to anything done or omitted to be done by him as Director of the Company and in which judgment is given in his favour or in which he is acquitted, or incurred in connection with any application in which relief is granted to him by the court from liability in respect of any such act or omission.

The Company has taken out insurance against the liabilities and costs associated with defending any proceedings which may be brought against the Directors of the Company.

Equity-Linked Agreements

Details of the Share Option Scheme and mandatory convertible securities are set out in this report and notes 28 and 29 to the consolidated financial statements respectively.

Save as disclosed above, no equity-linked agreements were entered into during the year or subsisted at the end of the year.

Connected transactions

During the year ended 31 December 2016, 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 July 2016, Antongjie Port and Warehouse Services (Shenzhen) Company Limited (安通捷碼頭倉儲服務(深圳)有限公司) ("**Antongjie**"), an indirect wholly-owned subsidiary of the Company, entered into a set of articles of association (the "**Articles**") with CMSIZ (招商局蛇口工業區控股股份有限公司) (formerly known as "China Merchants Shekou Industrial Zone Company Limited (招商局蛇口工業區有限公司)") and China Merchants Logistics Holdings Co., Ltd. (招商局物流集團有限公司) ("**CMLH**") in relation to the formation of a joint venture company in the PRC. The purpose of the formation of the joint venture company is to coordinate and manage the various interest in land in Qianhai, Shenzhen, the PRC currently held by China Merchants Group Limited ("**CMG**") and its subsidiaries (the "**CMG Group**") and to jointly develop the Qianhai-Shekou Free Trade Zone with a third party through the establishment of another joint venture company. The total amount of capital to be contributed by Antongjie to the joint venture company pursuant to the Articles is RMB72,800,000 (equivalent to approximately HK$84,337,349). Upon the establishment of the joint venture company, CMSIZ, Antongjie and CMLH will hold 82.5%, 14% and 3.5% of the equity interest in the joint venture company. As CMSIZ and CMLH are both subsidiaries of CMG, the ultimate holding company of the Company, accordingly, CMSIZ and CMLH are connected persons of the Company and the formation of the joint venture company contemplated under the Articles constitutes a connected transaction of the Company.

(b) On 14 October 2016, China Merchants Port Development (Shenzhen) Company Limited (招商局港口發展 (深圳) 有限公司) ("**CMPDS**") (an indirect wholly-owned subsidiary of the Company), CMSIZ, Shenzhen China Merchants Venture Company Limited (深圳市招商創業有限公司) ("**CMV**"), Shenzhen Qianhai Pingfangyuanqu Development Company Limited (深圳市前海平方園區開發有限公司) ("**PFYD**") and Shenzhen China Merchants Qianhaiwan Property Company Limited (深圳市招商前海灣置業有限公司) ("**Qianhaiwan Property**") entered into an equity transfer agreement pursuant to which, CMPDS agreed to acquire 49% and 51% of the equity interest in Qianhaiwan Property from CMV and PFYD, respectively (the "**Qianhaiwan Equity Transfer Agreement**"). The total consideration for the acquisition of the equity interest in Qianhaiwan Property payable by CMPDS under the agreement is RMB2,528,472,800 (equivalent to approximately HK$2,936,669,918.70). In addition, on the date of payment of the first instalment, CMPDS shall pay to Qianhaiwan Property an amount equal to all the outstanding amounts advanced by CMSIZ, CMV and PFYD to Qianhaiwan Property as at the date of payment. Upon completion of the transfer under the Qianhaiwan Equity Transfer Agreement, Qianhaiwan Property will become an indirect wholly-owned subsidiary of the Company. The principal asset of Qianhaiwan Property is a parcel of land situated at the junction of Zhenhai Road and Gangcheng Road, Qianhai District, Shenzhen, the PRC and the completed property development project, namely the Qianhaiwan Garden, located at the same address. The Qianhaiwan Garden is in a strategic location in the Qianhai Special Economic Zone. Given its location, acquisition of the Qianhaiwan Garden (through the acquisition of the entire interest in Qianhaiwan Property) will support the overall development of the ports business of the Group in the West Shenzhen Ports Zone.

On 14 October 2016, Shekou Container Terminals Limited (蛇口集裝箱碼頭有限公司) ("**SCT1**") (a 80%-owned subsidiary of the Company) and CMSIZ entered into a land use rights confirmation contract (the "**Land Use Rights Confirmation Contract**") pursuant to which CMSIZ agreed to sell and SCT1 agreed to purchase a parcel of land situated at Jetty III Shekou Container Terminal with a total area of 204,027.68 sq.m (the "**Jetty III Land**"). The consideration for the acquisition of the land use rights of the land under the Land Use Rights Confirmation Contract is RMB552,287,800 (equivalent to approximately HK$641,449,245.06). The Jetty III Land has been leased by SCT1 since 1989 and is a crucial asset to SCT1 as all its port facilities and equipment are currently affixed to it. The acquisition of the Jetty III Land will therefore enable the Group to own such crucial asset directly and does not need to rely on any further leasing arrangement with CMSIZ (which might or might not be extended by CMSIZ on commercial favourable terms).

Each of CMV, PFYD, Qianhaiwan Property and CMSIZ is a subsidiary of CMG. Accordingly, each of CMV, PFYD, Qianhaiwan Property and CMSIZ is a connected person of the Company and the transactions contemplated under the Qianhaiwan Equity Transfer Agreement and the Land Use Rights Confirmation Contract constitute connected transactions of the Company. Furthermore, in accordance with the Listing Rules, the transactions contemplated under the Qianhaiwan Equity Transfer Agreement and the Land Use Rights Confirmation Contract have been aggregated and treated as if they were one transaction.

(c) Details of the continuing connected transactions of the Group for the year ended 31 December 2016 that are subject to the reporting and annual review requirements under the Listing Rules are set out below:

Name of party	Nature of transaction	Note	Annual Caps HK$' million
Euroasia Dockyard Enterprise and Development Limited ("Euroasia")	Rental of a piece of land at Tsing Yi Terminal charged to the Group	(i)	(15.0)
CMSIZ	Rental of 16 parcels of land in Shekou charged to the Group	(ii)	(28.2)*
CMSIZ	Rental of certain property assets charged to the Group	(iii)	(25.3)*
China Merchants Shekou Industrial Zone Property Company Limited ("CMSIZ1")	Rental of a piece of land in Shekou charged to the Group	(iv)	(8.3)*
Various associates of CMG	Rental of properties charged by the Group	(v)	20.0
Yiu Lian Dockyard Limited ("Yiu Lian")	Provisions of ship berthing services for bringing ships into and from the Tsing Yi terminal charged to the Group	(vi)	(12.0)
Sinotrans & CSC Holdings Co., Ltd. (中國外運長航集團有限公司) ("Sinotrans & CSC")	Provision of port-related services	(vii)	71.2*
Sinotrans & CSC	Provision of agency services	(vii)	(5.9)*
China Merchants Bank Co., Ltd. ("CMB")	Placing of deposits	(viii)	2,500
China Merchants Loscam (China) Investment Holding Co., Ltd. (招商路凱 (中國) 投資控股有限公司) ("Loscam China"), Zhangzhou China Merchants Port Co., Ltd. (漳州招商局碼頭有限公司) ("ZCMP"), Shenzhen Xunlong Shipping Co., Ltd. (深圳訊隆船務有限公司) ("Xunlong") and China Ocean Shipping Agency Shenzhen (中國深圳外輪代理有限公司) ("Penavico SZ")	Provision of technology services	(ix)	12.7*
China Merchants Property Management Company Limited (招商局物業管理有限公司) ("CMPM")	Provision of property services	(x)	(9.2)*
Sinotrans & CSC Finance Company Limited (中國外運長航財務有限公司) ("Sinotrans Finance")	Placing of deposits	(xi)	50

* 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) China Merchants Container Services Limited ("**CMCS**"), an indirect wholly-owned subsidiary of the Company and Euroasia entered into a cooperation agreement on 18 December 2015 to renew the lease of the piece of land in Tsing Yi. The cooperation agreement has a term of two years commencing on 1 January 2016 and ending on 31 December 2017. The annual rental payable by CMCS to Euroasia under the new cooperation agreement is HK$14,922,732 for each the year ended 31 December 2016 and the year ending 31 December 2017. In additional to rental, CMCS is also responsible for any additional government rates and land premium payable to the Government of Hong Kong in respect of the leased land. On 18 December 2015, the Directors resolved that the annual cap in respect of the rental to be paid by CMCS to Euroasia under cooperation agreement shall be HK$15,000,000. The annual rental paid by CMCS to Euroasia under the cooperation agreement for the year ended 31 December 2016 is HK$14,922,732. 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.

(ii) China Merchants Port Services (Shenzhen) Company Limited ("**SCMPS**") and CMSIZ entered into a lease agreement on 18 December 2015 to renew the lease of 16 parcels of land in Shekou Industrial Park for a term of 18 months commencing on 1 January 2016 and ending on 30 June 2017. The maximum annual rental payable by SCMPS to CMSIZ under the new lease agreement is approximately RMB22,300,000 (equivalent to approximately HK$28,200,000). The total rental paid by SCMPS to CMSIZ under the lease agreement for the year ended 31 December 2016 was approximately RMB11,200,000 (equivalent to approximately HK$13,100,000). The Directors are of the view that the transactions contemplated under the lease agreement are in line with the Group's strategy to expand in port and port-related business. CMSIZ is an indirect subsidiary of CMG and accordingly, CMSIZ is a connected person of the Company.

(iii) SCMPS and CMSIZ entered into a lease agreement on 18 December 2015 to continue to lease certain property assets from CMSIZ for a term of two years commencing on 1 January 2016 and ending on 31 December 2017. The maximum annual total rental payable by SCMPS to CMSIZ under the lease agreement shall not exceed RMB20,000,000 (equivalent to approximately HK$25,300,000) for each of the year ended 31 December 2016 and the year ending 31 December 2017. The total rental payable by SCMPS to CMSIZ under the lease agreement for the year ended 31 December 2016 was approximately RMB3,500,000 (equivalent to approximately HK$4,100,000). CMSIZ is an indirect subsidiary of CMG and accordingly, CMSIZ is a connected person of the Company.

(iv) On 20 May 1989, SCT1 entered into a lease agreement with CMSIZ1 for a term of 30 years to lease a piece of land in Shekou. On 18 December 2015, the Directors resolved to set the annual cap in respect of the lease to HK$8,320,000 for the year ended 31 December 2016 and the total annual rental paid by SCT1 under the lease agreement for the year ended 31 December 2016 was RMB6,900,000 (equivalent to approximately HK$8,100,000). 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. CMSIZ1 is an indirect subsidiary of CMG and accordingly, CMSIZ1 is a connected person of the Company.

(v) Members of the Group and other associates of the CMG Group have entered into various lease agreements requiring the payment of rental by associates of the CMG Group to members of the Group which individually are de minimis continuing connected transaction pursuant to Rule 14A.76(1) of the Listing Rules. However, given these lease agreements are of a similar nature or otherwise connected, these lease agreements will need to be aggregated as if they were one transaction. On 18 December 2015, the Directors resolved that the annual cap for the rental receivable by the Group from CMG and its associates for the year ended 31 December 2016 shall be HK$20,000,000. The aggregate rental received by the Group under these lease agreements for the year ended 31 December 2016 was HK$7,300,000.

(vi) On 18 December 2015, CMCS and Yiu Lian entered into a ship berthing services agreement, pursuant to which Yiu Lian agreed to provide barges for bringing ships into and from the Tsing Yi Terminal for a term of one year commencing on 1 January 2016 and ending on 31 December 2016 at a rate of HK$3,050 per barge and CMCS shall be responsible for the payment of fuel oil surcharge of HK$300 per barge for each time the barge has brought ships into and from the Tsing Yi terminal. On the same day, the Directors resolved that the annual cap in respect of the ship berthing fees payable under the ship berthing services agreement for the year ended 31 December 2016 at HK$12,000,000 and the aggregate ship berthing fees paid by CMCS to Yiu Lian under the ship berthing services agreement for the year ended 31 December 2016 was HK$11,200,000. On 23 December 2016, in view of the expiry of the ship berthing services agreement, CMCS and Yiu Lian entered into a new ship berthing services agreement for the year ending 31 December 2017, pursuant to which Yiu Lian agreed to continue to provide barges at a rate of HK$3,050 per barge, and CMCS shall be responsible for the payment of fuel oil surcharge of HK$300 per barge for each time the barge has brought ships into and from the Tsing Yi terminal. The aggregate ship berthing fees payable by CMCS under the ship berthing services agreement for the year ending 31 December 2017 is estimated to be HK$14,500,000. The Directors are of the view that the provision of ship berthing services by Yiu Lian will enhance the efficiency of the business operation of the company and the ship berthing rate is at a relatively lower fee as compared to market fee, which is beneficial to the Group as it will result in cost savings. Yiu Lian is an indirect wholly-owned subsidiary of CMG and accordingly, a connected person of the Company.

(vii) On 15 June 2016, the Company and Sinotrans & CSC entered into a comprehensive services framework agreement which sets out a framework for (a) the provision of port-related services by members of the Group to members of the Sinotrans & CSC group, and (b) the provision of agency services by members of the Sinotrans & CSC group to members of the Group. The agreement is valid until 31 December 2018 and provides that the provision of port-related services by members of the Group to members of the Sinotrans & CSC group, and the provision of agency services by members of the Sinotrans & CSC group to members of the Group shall be at prices that are fair and reasonable and shall be at terms not less favourable than those provided to independent third parties. Further specific agreements will be entered into between the relevant members of the Group and relevant members of the Sinotrans & CSC group in respect of each transaction within the scope of the framework agreement and the Company and Sinotrans & CSC shall procure their respective subsidiaries to ensure that the terms of the specific agreements are entered into in accordance with the principles set out in the framework agreement. The specific price for each transaction shall be negotiated at arm's length by the relevant member of the Group and the relevant member of the Sinotrans & CSC group at the time when the transaction is entered into. With respect to the provision of port-related services, the price to be charged will be based on the then prevailing standard fee schedule applicable to the relevant port and calculated with reference to the type of vessel and the weight of cargo to be handled. With respect to the receipt of agency services, the relevant member of the Group will, prior to the entering into of the specific agreement, solicit at least two other offers from independent third parties to ensure that the price quoted by the relevant member of the Sinotrans & CSC group complies with the relevant provisions under the framework agreement. On the same day, the Directors resolved that the annual caps in respect of the provision of the port-related services and agency services for the year ended 31 December 2016 shall be RMB60 million (equivalent to approximately HK$71.2 million) and RMB5.0 million (equivalent to approximately HK$5.9 million), respectively. The aggregate service fee received by the Group for port-related services and the service fee paid by the Group for agency services for the year ended 31 December 2016 was RMB12,400,000 (equivalent to approximately HK$14,500,000) and RMB3,700,000 (equivalent to approximately HK$4,300,000), respectively. The core business of the Group includes port and port-related business. Sinotrans & CSC group is one of the biggest comprehensive logistics service supplier in China with world-wide businesses in integrated logistics, shipping and shipbuilding industry. The provision of port-related services to, and the receipt of agency services from, Sinotrans & CSC group will further strengthen the business relationship between the two groups and the Directors are of the view that this is beneficial to the Group. Sinotrans & CSC is a wholly-owned subsidiary of CMG and is therefore a connected person of the Company.

(viii) The Group has from time to time placed money deposits with, and CMB has accepted such deposits in the ordinary and usual course of its business from the Group and in accordance with its applicable standard client terms. The interest rates provided by CMB on these deposits are currently within the range of 1.3% and 3.9% and are determined with reference to rates published by the People's Bank of China and no less than the interest rate offered by CMB to other independent third parties for the same type of deposits. This was conducted on a regular and continuing basis and in the ordinary and usual course of business of the Group. On 15 June 2016, the Directors resolved to set the annual cap in respect of the monthly closing balance of deposits placed by the Group with CMB at HK$2,500 million. The closing balance of deposits placed by the Group with CMB as at year ended 31 December 2016 was HK$982 million. The Group maintains an appropriate treasury management policy to ensure that its surplus funds are invested under a range of suitable options, including by deposit with various financial institutions. CMB is a company incorporated in the PRC and its principal activities are provision of corporate and personal banking services, conducting treasury business, provision of asset management and trustee services and other financial services. It is also one of the most established banks in Greater China Region, which offers a competitive deposit rate. The Directors considered that the deposit rate offered by CMB to the Group was on normal commercial terms and reflected the then prevailing deposit rate offered by CMB to third parties. The Directors believe that maintaining deposits with CMB will enable the Group to meet its anticipated day-to-day working capital requirements, while also enjoying a competitive deposit rate, which is in the interests of the Group. CMB is an associate of CMG and is therefore a connected person of the Company.

(ix) China Merchants Holdings (International) Information Technology Co., Ltd (招商局國際信息技術有限公司) ("**CMHIT**"), a wholly-owned subsidiary of the Company, had entered into various service agreements with various associates of CMG (namely Loscam China, ZCMP, Xunlong and Penavico SZ) in relation to the provision of certain technology services (including system and software development, upgrade, maintenance, technical support, data processing and related training). The term of these service agreements ranges from six months to three years. On 28 July 2016, the Directors resolved to set an aggregate annual cap of RMB11,000,000 (equivalent to approximately HK$12,700,000) in respect of the annual aggregate service fees payable by associates of CMG to the Group for technology services for each of the three years ending 31 December 2016, 2017 and 2018. The aggregate service fees paid by the associates of CMG was RMB5,200,000 (equivalent to approximately HK$6,100,000) for the year ended 31 December 2016. CMHIT is an information technology solution provider specialising in port, terminal and logistics industry as well as improvement of logistics customs clearance. The provision of technology services by CMHIT to certain associates of CMG will enhance the business operation efficiency and generate more revenue for the Group. Each of Loscam China, ZCMP, Xunlong and Penavico SZ is an associate of CMG, and therefore a connected person of the Company.

(x) On 11 October 2016, Shenzhen Jinyu Rongtai Investment Development Company Limited (深圳金域融泰投資發展有限公司) ("**Shenzhen Jinyu**"), a wholly-owned subsidiary of the Company, and CMPM entered into a supplemental property services agreement to amend certain payment terms under a previous property services agreement, which is in relation to the provision of certain property services (such as cleaning, repair and maintenance, security and other daily management services) by CMPM for a property. Following the amendments under the supplemental property services agreement, the service fees payable by Shenzhen Jinyu to CMPM are as follow:

- with respect to the office tower portion of the property: 12% of the actual property management fees received from owners and tenants; and
- with respect to the commercial portion of the property: RMB50,000 per month (equivalent to approximately HK$58,072).

The term of the property services agreement (as amended by the supplemental property services agreement) is three years from the date of completion of construction of the property, which is 11 March 2016. On 11 October 2016, the Directors resolved to set the annual cap in respect of the fees payable to CMPM under the agreement at RMB7,900,000 (equivalent to approximately HK$9,175,000) for the year ended 31 December 2016 and aggregate amount of fees payable by Shenzhen Jinyu for the year ended 31 December 2016 was RMB6,700,000 (equivalent to approximately HK$7,900,000). CMPM is an indirect subsidiary of CMG and accordingly, a connected person of the Company.

(xi) On 23 December 2016, the Company and Sinotrans Finance entered into a financial services agreement for a term of three years commencing from the date of completion of the proposed merger between CMG and Sinotrans & CSC to set out the framework for future transactions in relation to, inter alia, the depositing of money by the Group with Sinotrans Finance at rates no less than those offered by major domestic commercial banks. On the same day, the Directors resolved to set the cap in respect of the aggregate amount of deposit that may be placed by the Group with Sinotrans Finance at any point of time during the term of the financial services agreement at HK$50,000,000. The Directors are of the view that since the terms of the financial services agreement provide that the various fees and charges to be paid to Sinotrans Finance will be no higher than those offered by similar financial institutions and the other terms and rates offered shall also be no less favourable than those offered by other similar financial institutions, therefore the agreement will offer alternatives for financial services and will improve the overall efficiency of the Group's use of funds and lower the Group's financing costs. Sinotrans Finance is a subsidiary of Sinotrans & CSC (a wholly-owned subsidiary of CMG) and accordingly, 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 Euroasia to CMCS of a piece of land at Tsing Yi Terminal, details of which are set out in note (i) to paragraph (c) of this section, the aggregate rental has not exceeded HK$15,000,000, the annual cap for the year ended 31 December 2016;

(ii) in respect of the lease by CMSIZ to SCMPS of 16 parcels of land in Shekou, details of which are set out in note (ii) to paragraph (c) of this section, the aggregate rental has not exceeded RMB22,300,000, the annual cap for the year ended 31 December 2016;

(iii) in respect of the lease by CMSIZ to SCMPS of certain property assets, details of which are set out in note (iii) to paragraph (c) of this section, the aggregate rental has not exceeded RMB20,000,000, the annual cap for the year ended 31 December 2016;

(iv) in respect of the lease by CMSIZ1 to SCT1, details of which are set out in note (iv) to paragraph (c) of this section, the aggregate rental has not exceeded HK$8,320,000, the annual cap for the year ended 31 December 2016;

(v) the lease agreements set out in notes (i) to (iv) to paragraph (c) of this section are of a similar nature or otherwise connected, and thus will need to be aggregated as if they were one transaction. In addition, members of the Group and other associates of the CMG Group have also entered into other lease agreements and management agreements requiring the payment of rental or management service fees by members of the Group to the corresponding associates of the CMG Group which individually, are de minimis continuing connected transaction pursuant to Rule 14A.76(1) of the Listing Rules. However, given these are also of a similar nature or otherwise connected among themselves or with the lease agreement set out in notes (i) to (iv) to paragraph (c) of this section, these will also need to be aggregated as if they were one transaction. The aggregate rental and management service fees paid by the Group under these lease agreements and management agreements has not exceeded RMB120,870,000, the aggregate annual cap for the year ended 31 December 2016;

(vi) in respect of the leases between members of the Group and CMG and its associates, details of which are set out in note (v) to paragraph (c) of this section, the aggregate rental received by the Group under these lease agreements has not exceeded HK$20,000,000, the aggregate annual cap for the year ended 31 December 2016;

(vii) in respect of the provision of ship berthing services by Yiu Lian to CMCS, details of which are set out in note (vi) to paragraph (c) of this section, the aggregate ship berthing service fees paid has not exceed HK$12,000,000, the annual cap for the year ended 31 December 2016;

(viii) in respect of the provision of port-related services to, and receipt of agency services from, members of the Sinotrans & CSC group, details of which are set out in note (vii) to paragraph (c) of this section, the aggregate service fees received and the aggregate agency fees paid have not exceeded RMB60,000,000 and RMB5,000,000, being the respective aggregate annual cap for the services fees and agency fees for the year ended 31 December 2016;

(ix) in respect of the placing of deposits with CMB, details of which are set out in note (viii) to paragraph (c) of this section, the closing balance of the aggregate amount of deposits placed with CMG has not exceeded HK$2,500 million, the cap in respect of the monthly closing balance of deposits for the year ended 31 December 2016;

(x) in respect of the provision of technology services to Loscam China, ZCMP, Xunlong and Penavico SZ, details of which are set out in note (ix) to paragraph (c) of this section, the aggregate service fees received has not exceeded RMB11,000,000, the annual cap for the year ended 31 December 2016;

(xi) in respect of the provision of property services to CMPM, details of which are set out in note (x) to paragraph (c) of this section, the property service fees paid has not exceeded RMB7,900,000, the annual cap for the year ended 31 December 2016; and

(xii) in respect of the placing of deposits with Sinotrans Finance, details of which are set out in note (xi) to paragraph (c) of this section, as deposit has been made by the Group with Sinotrans Finance at any point of time during the year ended 31 December 2016, and thus did, the cap for the year ended 31 December 2016 which is HK$50,000,000 was not exceeds.

The Company has followed the pricing terms and policies set out in respect of each of the continuing connected transaction listed in paragraph (c) of this section. Save as disclosed above and in the section headed"Related Party Transactions" in note 41 to the consolidated financial statements, there are no other contract, of significance between the Company or any of its subsidiaries, and a controlling shareholders or any of its subsidiaries submitted, at the end of the year or at any time during the year.

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 pages 90 to 95 of the Annual Report in accordance with Rule 14A.56 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 2016, respectively. The Group has strived to maintain a good relationship with its major customers and suppliers.

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

Employees

The Group's key relationships with its employees are set out in the Management Discussion and Analysis on pages 12 to 25 of this Annual Report.

Public float

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

Auditor

The financial statements have been audited by 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
Li Xiaopeng
Chairman
Hong Kong, 29 March 2017

Independent Auditor's Report

Deloitte. 德勤

TO THE MEMBERS OF
CHINA MERCHANTS PORT HOLDINGS COMPANY LIMITED
招商局港口控股有限公司
(FORMERLY KNOWN AS CHINA MERCHANTS HOLDINGS (INTERNATIONAL) COMPANY LIMITED)
(incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of China Merchants Port Holdings Company Limited (formerly known as China Merchants Holdings (International) Company Limited) (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 105 to 199, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Accounting for the Group's interests in associates and joint ventures	
We identified the accounting for the Group's interests in associates and joint ventures as a key audit matter due to the significance of these investments to the Group's consolidated financial statements as a whole. The Group invested in a number of associates and joint ventures whose principal activities include ports operation, bonded logistics operation, port-related manufacturing operation and other operations. The Group's share of profits less losses of its associates and joint ventures for the year ended 31 December 2016 was HK$3,686 million in aggregate, representing approximately 60% of the profit for the year of the Group as disclosed in the consolidated statement of profit or loss and the Group's interests in its associates and joint ventures was HK$51,929 million in aggregate as at 31 December 2016, representing approximately 70% of the net assets of the Group.	Our procedures in relation to the accounting for the Group's interests in associates and joint ventures included: • Obtaining an understanding of the Group's major associates and joint ventures by reading their financial information and discussing with their respective management about the financial performance, significant events occurred in the year and the key areas of judgement made in preparing their financial information to identify and assess the risks that are significant to the audit of the Group's consolidated financial statements; • Meeting with the respective component auditors of the Group's major associates and joint ventures to discuss their assessment of risks and identification of areas of audit focus to evaluate the appropriateness of their work; • Evaluate the sufficiency and appropriateness of audit evidence obtained from work performed by component auditors of the major associates and joint ventures of the Group by reviewing their audit documentation where we considered necessary; and • Evaluating the appropriateness of consolidation adjustments made by the management of the Group to conform the accounting policies of the major associates and/or joint ventures of the Group for like transactions and events in similar circumstances.

Key audit matter	How our audit addressed the key audit matter

Impairment assessment of goodwill allocated to ports operation in Pearl River Delta excluding Hong Kong ("PRD excluding HK")

We identified the impairment assessment of goodwill allocated to the Group's ports operation in PRD excluding HK as a key audit matter due to the involvement of significant management judgement and assumptions in this assessment.

As disclosed in note 16 to the consolidated financial statements, the carrying amount of goodwill allocated to the Group's ports operation in PRD excluding HK amounted to HK$2,729 million as at 31 December 2016. For the purpose of assessing impairment, the recoverable amounts of this business unit have been determined by the management of the Group based on value in use calculations using financial budgets based on past performance and expectation for market development, where the key assumptions include the growth rates and discount rates used in the value in use calculation.

Based on the management's assessment, there is no impairment of goodwill allocated to the Group's ports operation in PRD excluding HK as at 31 December 2016 based on the value in use of this business unit.

Our procedures in relation to the impairment assessment of goodwill of the Group's ports operation in PRD excluding HK included:

- Assessing the appropriateness of basis of the value in use calculations prepared by the management;
- Evaluating the reasonableness of the Group management's estimate of growth rates with reference to the historical performance and the latest budgets of the Group and market data based on our knowledge of the business and ports industry;
- Assessing the reasonableness of the discount rates used by the management in determining the value in use, based on our knowledge of the business and industry with reference to the current market risk-free rate of interest and the industry specific risk factor; and
- Evaluating the appropriateness of the Group's disclosures of impairment assessment in the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Recoverability of amounts due from trade debtors	
We identified the recoverability of amounts due from trade debtors as a key audit matter due to the management judgement involved in determining the provision for impairment of amounts due from trade debtors in view of the recent performance of the shipping market. As disclosed in note 26 to the consolidated financial statements, amounts due from trade debtors as at 31 December 2016 was HK$810 million, net of provision for impairment of amounts due from trade debtors of HK$58 million made with reference to their financial positions. As set out in note 4 to the consolidated financial statement, the management of the Group reviewed the credit profile and ageing reports of amounts due from trade debtors to determine the amount of provision for impairment.	Our procedures in relation to the recoverability of amounts due from trade debtors included: • Obtaining an understanding of how the management assesses the credit profile of the trade debtors, in particular those debtors whose balances were past due but not impaired; • Checking accuracy of the ageing report of the amounts due from trade debtors on a sample basis by agreeing the ageing date to proof of service; and • Evaluating the appropriateness of provision for impairment of trade debtors, in particular those with balances which were past due but not impaired, and customers which are in financial difficulties with reference to the trade debtor's credit profile including default or delay in payment, settlement records, ageing analysis and subsequent settlement of the amounts.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Chung Chi Man.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

29 March 2017

Consolidated Statement of Profit or Loss

For the Year Ended 31 December 2016

	Note	**2016 HK$'million**	2015 HK$'million
Revenue	5	**7,976**	8,233
Cost of sales		**(4,621)**	(4,602)
Gross profit		**3,355**	3,631
Other income and other gains, net	8	**1,561**	339
Administrative expenses		**(1,019)**	(989)
Operating profit		**3,897**	2,981
Finance income	12	**60**	158
Finance costs	12	**(960)**	(858)
Finance costs, net	12	**(900)**	(700)
Share of profits less losses of			
Associates		**3,389**	3,890
Joint ventures		**297**	144
		3,686	4,034
Profit before taxation		**6,683**	6,315
Taxation	13	**(477)**	(790)
Profit for the year	7	**6,206**	5,525
Attributable to:			
Equity holders of the Company		**5,494**	4,808
Non-controlling interests		**712**	717
Profit for the year		**6,206**	5,525
Dividends	14	**2,282**	1,998
Earnings per share for profit attributable to			
equity holders of the Company	15		
Basic (HK cents)		**175.58**	155.07
Diluted (HK cents)		**175.58**	154.91

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31 December 2016

	Note	**2016 HK$'million**	2015 HK$'million
Profit for the year		**6,206**	5,525
Other comprehensive (expense)/income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences from retranslation of investments in subsidiaries, associates and joint ventures		**(4,187)**	(3,522)
Release of reserves upon disposal of a subsidiary	37	**—**	(35)
(Decrease)/increase in fair value of available-for-sale financial assets, net of deferred taxation		**(1,616)**	1,522
Share of investment revaluation reserve of associates		**(495)**	(72)
Release of reserve upon disposal of an available-for-sale financial asset, net of deferred taxation		**(461)**	—
Items that will not be reclassified subsequently to profit or loss:			
Share of other reserves of associates		**38**	223
Share of net actuarial loss on defined benefit plans of associates and a joint venture		**(28)**	(38)
Total other comprehensive expense for the year, net of tax		**(6,749)**	(1,922)
Total comprehensive (expense)/income for the year		**(543)**	3,603
Total comprehensive (expense)/income attributable to:			
Equity holders of the Company		**(738)**	3,324
Non-controlling interests		**195**	279
		(543)	3,603

Consolidated Statement of Financial Position

As at 31 December 2016

	Note	**2016 HK$'million**	2015 HK$'million
ASSETS			
Non-current assets			
Goodwill	16	**2,791**	2,973
Intangible assets	16	**5,407**	5,660
Property, plant and equipment	17	**18,459**	19,570
Investment properties	18	**7,455**	287
Land use rights	19	**7,265**	7,545
Interests in associates	21	**43,020**	37,953
Interests in joint ventures	22	**8,909**	9,041
Other financial assets	23	**3,350**	5,883
Other non-current assets	24	**395**	1,110
Deferred tax assets	34	**49**	41
		97,100	90,063
Current assets			
Inventories	25	**77**	77
Debtors, deposits and prepayments	26	**2,296**	1,916
Taxation recoverable		**3**	—
Cash and bank balances	27	**3,637**	10,293
		6,013	12,286
Total assets		**103,113**	102,349

As at 31 December 2016

	Note	**2016 HK$'million**	2015 HK$'million
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	28	**19,548**	18,994
Mandatory convertible securities	29	**15,219**	15,224
Reserves		**29,434**	33,181
Proposed dividend	14	**1,707**	1,429
		65,908	68,828
Non-controlling interests		**7,830**	7,821
Total equity		**73,738**	76,649
LIABILITIES			
Non-current liabilities			
Loans from shareholders	31	**279**	664
Other financial liabilities	32	**16,793**	16,681
Other non-current liabilities	33	**1,186**	1,234
Deferred tax liabilities	34	**1,973**	2,333
		20,231	20,912
Current liabilities			
Creditors and accruals	35	**3,497**	2,582
Loans from shareholders	31	**399**	311
Other financial liabilities	32	**4,963**	1,489
Taxation payable		**285**	406
		9,144	4,788
Total liabilities		**29,375**	25,700
Total equity and liabilities		**103,113**	102,349
Net current (liabilities)/assets		**(3,131)**	7,498
Total assets less current liabilities		**93,969**	97,561

The consolidated financial statements on pages 105 to 199 were approved and authorised for issue by the Board of Directors on 29 March 2017 and are signed on its behalf by:

Mr. Li Xiaopeng

DIRECTOR

Mr. Bai Jingtao

DIRECTOR

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2016

	Note	Attributable to equity holders of the Company					Non-controlling interests	Total
		Share capital HK$'million	Mandatory convertible securities HK$'million	Other reserves HK$'million (note 30)	Retained earnings HK$'million	Total HK$'million	HK$'million	HK$'million
As at 1 January 2016		18,994	15,224	8,185	26,425	68,828	7,821	76,649
COMPREHENSIVE INCOME								
Profit for the year		—	—	—	5,494	5,494	712	6,206
Other comprehensive expense								
Exchange differences from retranslation of investments in subsidiaries, associates and joint ventures		—	—	(3,670)	—	(3,670)	(517)	(4,187)
Decrease in fair value of available-for-sale financial assets, net of deferred taxation		—	—	(1,616)	—	(1,616)	—	(1,616)
Share of reserves of associates		—	—	(457)	—	(457)	—	(457)
Share of net actuarial loss on defined benefit plans of associates and a joint venture		—	—	—	(28)	(28)	—	(28)
Release of reserve upon disposal of an available-for-sale financial asset, net of deferred taxation		—	—	(461)	—	(461)	—	(461)
Total other comprehensive expense for the year, net of tax		—	—	(6,204)	(28)	(6,232)	(517)	(6,749)
Total comprehensive (expense)/income for the year		—	—	(6,204)	5,466	(738)	195	(543)
TRANSACTIONS WITH OWNERS								
Issue of shares on exercise of share options, net of share issue expenses	28	2	—	—	—	2	—	2
Issue of shares in lieu of dividends	28	547	—	—	—	547	—	547
Issue of shares upon conversion of mandatory convertible securities	28	5	(5)	—	—	—	—	—
Transfer upon lapse of share options		—	—	(48)	48	—	—	—
Transfer to reserves		—	—	138	(132)	6	—	6
Repayment of capital contribution to a non-controlling equity holder		—	—	—	—	—	(17)	(17)
Capital contribution to subsidiaries		—	—	28	—	28	165	193
Dividends		—	—	—	(2,004)	(2,004)	(334)	(2,338)
Distribution to mandatory convertible securities holders	29	—	—	—	(761)	(761)	—	(761)
Total transactions with owners for the year		554	(5)	118	(2,849)	(2,182)	(186)	(2,368)
As at 31 December 2016		19,548	15,219	2,099	29,042	65,908	7,830	73,738

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2016

	Note	Attributable to equity holders of the Company					Non-controlling interests	Total
		Share capital HK$'million	Mandatory convertible securities HK$'million	Other reserves HK$'million (note 30)	Retained earnings HK$'million	Total HK$'million	HK$'million	HK$'million
As at 1 January 2015		17,918	15,280	9,373	24,859	67,430	7,716	75,146
COMPREHENSIVE INCOME								
Profit for the year		—	—	—	4,808	4,808	717	5,525
Other comprehensive income/(expense)								
Exchange differences from retranslation of investments in subsidiaries, associates and joint ventures		—	—	(3,083)	—	(3,083)	(439)	(3,522)
Increase in fair value of available-for-sale financial assets, net of deferred taxation		—	—	1,521	—	1,521	1	1,522
Release of reserves upon disposal of subsidiaries		—	—	(35)	—	(35)	—	(35)
Share of reserves of associates		—	—	151	—	151	—	151
Share of net actuarial loss on defined benefit plans of associates		—	—	—	(38)	(38)	—	(38)
Total other comprehensive expense for the year, net of tax		—	—	(1,446)	(38)	(1,484)	(438)	(1,922)
Total comprehensive (expense)/income for the year		—	—	(1,446)	4,770	3,324	279	3,603
TRANSACTIONS WITH OWNERS								
Issue of shares on exercise of share options, net of share issue expenses	28	172	—	—	—	172	—	172
Issue of shares in lieu of dividends	28	820	—	—	—	820	—	820
Issue of shares upon conversion of mandatory convertible securities	28	56	(56)	—	—	—	—	—
Transfer upon exercise of share options		28	—	(28)	—	—	—	—
Transfer to reserves		—	—	154	(154)	—	—	—
Repayment of capital contribution to a non-controlling equity holder		—	—	—	—	—	(38)	(38)
Disposal of subsidiaries	37	—	—	—	—	—	(221)	(221)
Disposal of interests in subsidiaries to a non-controlling equity holder without losing control therein		—	—	132	—	132	444	576
Acquisition of a subsidiary	39	—	—	—	—	—	66	66
Capital contribution to a subsidiary		—	—	—	—	—	67	67
Dividends		—	—	—	(1,983)	(1,983)	(492)	(2,475)
Distribution to mandatory convertible securities holders	29	—	—	—	(1,067)	(1,067)	—	(1,067)
Total transactions with owners for the year		1,076	(56)	258	(3,204)	(1,926)	(174)	(2,100)
As at 31 December 2015		18,994	15,224	8,185	26,425	68,828	7,821	76,649

Consolidated Statement of Cash Flows

For the Year Ended 31 December 2016

	Note	**2016 HK$'million**	2015 HK$'million
Cash flows from operating activities			
Net cash inflow from operations	36	**4,093**	4,219
Hong Kong Profits Tax (paid)/refund		**(6)**	2
PRC corporate income tax paid		**(400)**	(429)
Withholding tax paid on dividends received		**(277)**	(312)
Dividends received from associates and joint ventures		**2,142**	3,204
Net cash generated from operating activities		**5,552**	6,684
Cash flows used in investing activities			
Proceed from disposal of an available-for-sale financial asset		**706**	—
Proceeds from disposal of property, plant and equipment		**13**	258
Proceeds from disposal of an associate and a joint venture		**2**	140
Proceeds from disposal of subsidiaries, net of cash and bank balances disposed of	37	**—**	2,163
Repayment from a joint venture		**—**	247
(Advance to)/repayment from associates		**(97)**	250
Interest income received		**47**	244
Investments in associates and joint ventures		**(6,472)**	(3,016)
Acquisitions of assets through acquisitions of subsidiaries (net of deposit previously paid and cash and cash equivalent acquired)	38	**(3,848)**	—
Purchase of property, plant and equipment, land use rights and port operating rights		**(1,207)**	(1,696)
Deposit paid for acquisition of a subsidiary		**—**	(617)
Acquisition of available-for-sale financial assets		**—**	(2)
Acquisition of a subsidiary	39	**—**	46
Net cash used in investing activities		**(10,856)**	(1,983)
Net cash (outflow)/inflow before financing activities carried forward		**(5,304)**	4,701

	2016 HK$'million	2015 HK$'million
Net cash (outflow)/inflow before financing activities brought forward	**(5,304)**	4,701
Cash flows used in financing activities		
Net proceeds from exercise of share options	**2**	172
Proceeds from bank loans	**5,262**	4,884
Net proceeds on issue of notes payable	**2,670**	6,030
Loans from non-controlling equity holders	**45**	42
Loans from shareholders	**58**	519
Capital contributions from non-controlling equity holders of subsidiaries	**193**	67
Proceed from partial disposal of a subsidiary	—	15
Purchase of additional interest in a subsidiary	**(9)**	(9)
Dividends paid to ordinary shareholders	**(1,457)**	(1,163)
Dividends paid to non-controlling equity holders of subsidiaries	**(497)**	(659)
Distribution to mandatory convertible securities holders	**(761)**	(1,067)
Interests paid	**(964)**	(858)
Repayment of bank loans	**(3,588)**	(5,063)
Repayment of notes payable	**(1,519)**	(4,986)
Repayment of loans from shareholders	**(561)**	(1,668)
Repayment of capital contribution to non-controlling equity holder	**(17)**	(38)
Net cash used in financing activities	**(1,143)**	(3,782)
(Decrease)/increase in cash and cash equivalents	**(6,447)**	919
Cash and cash equivalents at 1 January	**10,293**	9,501
Effect of foreign exchange rate changes	**(209)**	(127)
Cash and cash equivalents at 31 December, represented by cash and bank balances	**3,637**	10,293

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION

China Merchants Port Holdings Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in ports operation, bonded logistics operation and property 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 2016, China Merchants Group Limited ("CMG"), directly and indirectly, including through China Merchants Union (BVI) Limited ("CMU"), a company incorporated in British Virgin Islands held as to 50% by CMG, held an effective interest of 43.88% of the issued share capital of the Company. Pursuant to an entrustment agreement entered into between CMG and CMU, CMG has the power to direct the voting right over the approximately 21.81% of the total issued share capital of the Company held by CMU. CMG, directly and indirectly, including through CMU, has the power to direct voting right over approximately 54.78% of the total issued share capital of the Company. Accordingly, the Directors regard CMG, a state-owned enterprise registered in the People's Republic of China ("PRC"), as being the ultimate holding company. CMG is regulated and directly managed by the State-owned Assets Supervision and Administration Commission of the State Council, the PRC government.

Pursuant to a special resolution passed at the annual general meeting of the Company held on 3 June 2016, the name of the Company was changed from China Merchants Holdings (International) Company Limited (招商局國際有限公司) to China Merchants Port Holdings Company Limited (招商局港口控股有限公司) with effect from 10 August 2016.

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 below 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") and the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the HKSE (the "Listing Rules").

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties and available-for-sale financial assets, which are carried at fair value.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristic of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In addition, for financial reporting purpose, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(i) Amendments to existing standards that are mandatorily effective for the current year

Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 - 2014 Cycle

Amendments to HKAS 16 and HKAS 38 "Clarification of Acceptable Methods of Depreciation and Amortisation"

The Group has applied the amendments to HKAS 16 and HKAS 38 "Clarification of Acceptable Methods of Depreciation and Amortisation" for the first time in the current year. The amendments to HKAS 16 "Property, Plant and Equipment" prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 "Intangible Assets" introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) when the intangible asset is expressed as a measure of revenue, or

b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

In addition, the amendments also clarify that in choosing an appropriate amortisation method an entity could determine the predominant limiting factor that is inherent in the intangible asset.

The Group's accounting policies on depreciation and amortisation method for items of property, plant and equipment and intangible assets are not a revenue-based depreciation or amortisation method and the application of the amendments to HKAS 16 and HKAS 38 has not resulted in any material impact on the financial performance or financial position of the Group in these consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(ii) New standards and amendments to existing standards which have been issued but are not yet effective for the financial year beginning 1 January 2016 and have not been early adopted by the Group

		Effective for annual periods beginning on or after (Note (a))
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 15	Revenue from Contracts with Customers and the Related Amendments	1 January 2018
HKFRS 16	Leases	1 January 2019
Amendments to HKAS 7	Disclosure Initiative	1 January 2017
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts	1 January 2018
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	(Note (b))
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014 - 2016 Cycle	1 January 2017 or 1 January 2018 (Note (c))

Notes:

(a) Early application permitted for these new standards or amendments to existing standards.

(b) Effective for annual periods beginning on or after a date to be determined.

(c) Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate.

The Group is assessing the impact of these new standards and amendments. The Group will apply these new standards and amendments, when they become effective in respective annual periods.

Except for described below, the directors of the Company do not expect that the application of the new standards and amendments have material impact to the consolidated financial statements in future.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(ii) New standards and amendments to existing standards which have been issued but are not yet effective for the financial year beginning 1 January 2016 and have not been early adopted by the Group (Continued)

HKFRS 9 "Financial Instruments"

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be 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. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods with subsequent changes in fair value recognised in profit or loss. 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 profit or loss.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2016, application of HKFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The Group's available-for-sale financial assets will either be measured as fair value through profit or loss or be designated as fair value through other comprehensive income (subject to fulfillment of the designation criteria). In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(ii) New standards and amendments to existing standards which have been issued but are not yet effective for the financial year beginning 1 January 2016 and have not been early adopted by the Group (Continued)

HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersedes the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specially, HKFRS 15 introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added to HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(ii) New standards and amendments to existing standards which have been issued but are not yet effective for the financial year beginning 1 January 2016 and have not been early adopted by the Group (Continued)

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be both presented as financing cash flows.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group as lessee has non-cancellable operating lease commitments of HK$2,159 million as disclosed in note 40. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors complete a detailed review.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(ii) New standards, amendments to existing standards and interpretation which have been issued but are not yet effective for the financial year beginning 1 January 2016 and have not been early adopted by the Group (Continued)

Amendments to HKAS 7 "Disclosure Initiative"

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specially, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The application of the amendments will result in additional disclosures on the Group's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

2.2 Consolidation

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

(i) Subsidiaries

Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its investment with the investee; and
- has the ability to use its power to affect the returns of the investee.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(i) Subsidiaries (Continued)

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it the power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated in full.

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 statement of profit or loss and the consolidated statement of profit or loss and other 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 aggregate fair value 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. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(i) Subsidiaries (Continued)

(a) Business combinations (Continued)

At the acquisition date, identifiable assets acquired and liabilities and contingent liabilities assumed are initially recognised at their fair values, 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 2.20 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.

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 the consolidated statement of profit or loss.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(i) Subsidiaries (Continued)

(a) Business combinations (Continued)

If the business combination is achieved in stages, the acquirer's previously held interest in the acquiree is remeasured to fair value at the latest acquisition date in the consolidated statement of profit or loss.

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 as at acquisition date. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the consolidated statement of profit or loss after reassessment of all identifiable assets and liabilities.

(b) Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to the financial assets and financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

(c) Changes in ownership interests in existing subsidiaries without change of control

Transactions with non-controlling interests that do not result in change of control are accounted for as equity transactions - that is, as transactions with the owners in their capacity as owners. The carrying amounts of the Group's relevant components of equity including reserve and the non-controlling interests are adjusted to reflect the changes in their relative interest in the subsidiary. The difference between fair value of any consideration paid/received and the relevant share of the carrying value of net assets of the subsidiary acquired/disposed, as adjusted by the re-attribution of the relevant equity components, is recorded in equity and attributed to owners of the Company.

(d) 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. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, a joint venture or a financial asset. Difference between the total fair value of the consideration and retained interest and the carrying amount of the net assets of the subsidiary attributable to the owners of the Company is recognised in the consolidated statement of profit or loss. 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 the consolidated statement of profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(ii) Associates and joint ventures

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.

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 party has unilateral control over the economic activity.

The financial statements of associates and joint ventures 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 and joint ventures 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 accounting policies of the associates and/or the joint ventures to those of the Group. Under the equity method, the investment is initially recognised at cost from the date on which the investee becomes an associate or a joint venture, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss and other comprehensive income of the investee after the date of acquisition. The Group's interests in associates and joint ventures include goodwill identified on acquisition.

The Group's share of profits or losses of associates and joint ventures is recognised in the consolidated statement of profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in the consolidated statement of profit or loss and other 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 or joint venture equals or exceeds its interest in that associate or joint venture, 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 or joint venture.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value pursuant to the requirements of HKAS 39 with respect to the Group's investment in the associate or joint venture. 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 statement of profit or loss. 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 associates or joint ventures are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates or joint ventures. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(ii) Associates and joint ventures (Continued)

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Group retain an interest of the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKAS 39. The difference between the previous carrying amount of the associate or joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate or joint venture and recognised in profit or loss. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to the consolidated statement of profit or loss 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 the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

If the ownership interest in an associate or a joint venture is reduced but the Group continues to use the equity method, the difference between the carrying amount of the underlying assets and liabilities attributable to the interests disposed of and the consideration received, if any, is credited or charged to the profit or loss as gain/loss on disposal of interest in associates and/or joint ventures. In addition, the proportionate share of the amounts relating to that reduction in ownership interest previously recognised in other comprehensive income is reclassified to profit or loss if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

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 Group's presentation currency.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Foreign currency translation (Continued)

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in consolidated statement of profit or loss, except for exchange differences on foreign currency borrowing relating to assets under construction for future productive use, which are included in the cost of those assets and are regarded as an adjustment to interest costs on those foreign currency borrowings.

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

Translation differences on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are included in other comprehensive income.

(iii) Group companies

The results and financial position of all group entities (none of which has the currency of a hyperinflationary 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 statement of profit or loss 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 and partial disposal of foreign operation

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 joint venture 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 the consolidated statement of profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Foreign currency translation (Continued)

(iv) Disposal and partial disposal of foreign operation (Continued)

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 the consolidated statement of profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to the consolidated statement of profit or loss.

2.5 Property, plant and equipment

Property, plant and equipment comprise mainly land and buildings, harbour works, buildings and dockyard, plant, machinery, furniture and equipment, vessels and ships, 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 to the consolidated statement of profit or loss during the 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Property, plant and equipment (Continued)

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 income and other gains, net" in the consolidated statement of profit or loss.

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 (including the relevant prepaid lease payment) 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.

2.6 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 statement of profit or loss as part of a valuation gain or loss in "other income and other gains, net".

An investment property is transferred to property, plant and equipment at the fair value when there is a change of use, as evidenced by commencement of owner-occupation of the relevant properties.

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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Goodwill and intangible assets (Continued)

(i) Goodwill (Continued)

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

(ii) 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 is 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. When the pattern of consumption of future economic benefits of the asset cannot be determined reliably, the straight-line method over the period in which the Group operates the relevant terminals is used. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

(iii) Other intangible assets

Other intangible assets acquired are recognised at fair value at the acquisition date, have a finite useful life and are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method over the expected life of other intangible assets of 5 to 50 years.

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. 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 intangible assets are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of profit or loss in the period when the asset is derecognised.

2.8 Impairment of non-financial assets

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). In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. 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: loans and receivables 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) 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 those expected to be realised more than 12 months after the end of the reporting period, not intends for sell or consume in its normal operating cycle, or not primarily for trading purposes, and are classified as non-current assets. The Group's loans and receivables comprise debtors (included in "debtors, deposits and prepayments") and "cash and bank balances" in the consolidated statement of financial position.

(b) 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 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 are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

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. 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 "investment 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 statement of profit or loss as "other income and other gains, net".

Dividends on available-for-sale equity instruments are recognised in the consolidated statement of profit or loss as part of "other income and other gains, net" 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.

For loans and receivables category, the amount of impairment 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 loss is recognised in the consolidated statement of profit or loss. If a loan 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Impairment of financial assets (Continued)

(i) Assets carried at amortised cost (Continued)

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 statement of profit or loss.

(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 the consolidated statement of profit or loss - is removed from equity and recognised in the consolidated statement of profit or loss. Impairment losses recognised in the consolidated statement of profit or loss on equity instruments are not reversed through the consolidated statement of profit or loss. 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 statement of profit or loss, the impairment loss is reversed through the consolidated statement of profit or loss.

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 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.

2.13 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.14 Share capital and mandatory convertible securities ("MCS")

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

2.15 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), is held primarily for trading, or the Group has no unconditional right to defer the settlement for at least 12 months after the end of the reporting period. 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.

2.16 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 statement of profit or loss using effective interest method over the period of such other financial liabilities.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

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.

2.17 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Borrowing costs (Continued)

All other borrowing costs are recognised in the consolidated statement of profit or loss in the period in which they are incurred.

2.18 Current and deferred income tax

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

(i) Current income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statement of profit or loss 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 joint ventures 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Current and deferred income tax (Continued)

(ii) Deferred income tax (Continued)

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).

Deferred income tax is provided on temporary differences arising on interests in subsidiaries, associates and joint ventures, 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.

2.19 Employee benefits

(i) Pension obligations

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

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 Hong Kong. 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 specified maximum amount ("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)

2.19 Employee benefits (Continued)

(ii) Other post-employment obligations

The Group also participates in the employee retirement benefits plan of the respective governments in various jurisdiction 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.

2.20 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 Company. 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 statement of profit or loss, with a corresponding adjustment to equity (share-based compensation reserve).

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Provisions

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

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

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

2.22 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of sales 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; when it is probable that future economic benefits will flow to the entity and when 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 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.

(iii) Rental income

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 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.

2.24 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).

2.25 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 (including the cost of acquiring land held under operating leases net of any incentives received from the lessor) are charged to the consolidated statement of profit or loss 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 statement of profit or loss 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Leases (Continued)

(ii) Leasehold land and building (Continued)

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.

2.26 Dividend distribution

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

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

2.27 Distribution for MCS

Distribution to the Company's MCS holders is recognised as a liability in the Group's consolidated financial statements in the period in which the distributions are authorised by the Company.

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 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, United States dollar and Euro.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(i) Market risk (Continued)

(a) Foreign exchange risk (Continued)

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.

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.

60% (2015: 71%) of the Group's borrowings (including loans from shareholders) as at 31 December 2016 are denominated in Hong Kong dollar and United States dollar, 30% (2015: 16%) are denominated in Renminbi and 10% (2015: 13%) 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 also utilised its United States dollar and Renminbi denominated notes payable to finance its capital investments and working capital.

At 31 December 2016, if Renminbi had strengthened/weakened against the other currencies by 3% (2015: 3%) with all other variables held constant, profit for the year would have been approximately HK$92 million higher/lower (2015: HK$146 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 2016, no significant change on profit for the respective years as a result of the 0.1% (2015: 0.1%) strengthened/weakened of United States dollar against Hong Kong dollar.

(b) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group that are classified on the consolidated statement of financial position as available-for-sale financial assets. At 31 December 2016, if there had been a 10% (2015: 10%) increase/decrease in the listed share prices with all other variables held constant, the Group's available-for-sale financial assets would have increased/decreased by approximately HK$335 million (2015: HK$588 million). 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.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(i) Market risk (Continued)

(c) Fair value interest rate risk and cash flow interest rate risk

The Group's interest rate risk mainly arises from interest-bearing borrowings. Financial assets and financial liabilities 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.

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 2016, 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 2016, if interest rates on borrowings had been 100 basis points (2015: 100 basis points) higher/lower with all other variables held constant, post-tax profit for the year would have been HK$75 million (2015: HK$56 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(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 manageable credit risk. Management assesses, reviews and updates credit profile of the Group's debtors by considering its financial position, past experience and other relevant factors, in order to identify if any are of higher risks of default. For trade debtors spotted as of higher credit risks, management of the Group also implemented measures such as tightened credit terms and closer monitoring of the settlement patterns. 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.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(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 and the Company's business. Currently, the Group and the Company finances the working capital requirements through a combination of funds generated from operations and borrowings.

The rolling forecasts of the Group's liquidity reserve comprise undrawn bank loan facilities (note 32(e)) and cash and bank balances (note 27) on the basis of expected cash flow. The Group aims to maintain flexibility in funding while minimising its overall costs by keeping a mix of committed and uncommitted credit lines available.

The table below analyses the Group's financial liabilities 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		More than 5 years		Total	
	2016 HK$'million	2015 HK$'million	**2016 HK$'million**	2015 HK$'million	**2016 HK$'million**	2015 HK$'million	**2016 HK$'million**	2015 HK$'million	**2016 HK$'million**	2015 HK$'million
Interest-bearing debts	**6,261**	2,595	**3,022**	2,124	**6,097**	7,168	**11,330**	12,684	**26,710**	24,571
Other financial liabilities	**3,360**	2,425	**—**	—	**—**	—	**—**	—	**3,360**	2,425
	9,621	5,020	**3,022**	2,124	**6,097**	7,168	**11,330**	12,684	**30,070**	26,996

Further, the Group's contingent liabilities arising from its interest in associates are set out in note 40(e) and will be included in the earliest time band for liquidity analysis, regardless of the probability of the risk of default.

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 debts.

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.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital risk management (Continued)

During the year, the Group's strategy was to maintain desired levels of net gearing ratios and based on which the Group's credit ratings had, inter alia, been reaffirmed at Baa1 by Moody's Asia Pacific Limited and BBB+ by Standard and Poor's. The net gearing ratios at 31 December 2016 and 2015 were as follows:

	2016 HK$'million	2015 HK$'million
Loans from shareholders (note 31)	**678**	975
Other interest-bearing financial liabilities (note 32)	**21,756**	18,170
Total interest-bearing debts	**22,434**	19,145
Less: cash and bank balances (note 27)	**(3,637)**	(10,293)
Net interest-bearing debts	**18,797**	8,852
Net gearing ratios:		
Net interest-bearing debts divided by equity attributable to the Company's equity holders	**28.5%**	12.9%
Net interest-bearing debts divided by total equity	**25.5%**	11.5%

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value on a recurring basis 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).

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The management engaged qualified external valuers to establish the appropriate valuation techniques and inputs to the models. Information about the valuation techniques and inputs used in determining the fair value of various assets are disclosed below.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

(i) Fair value of financial instruments that are measured at fair value on a recurring basis

The following tables present the Group's assets that are measured at fair value at 31 December 2016 and 2015:

	Level 1 HK$'million	Level 2 HK$'million	Level 3 HK$'million	Total HK$'million
As at 31 December 2016				
Financial assets				
Available-for-sale financial assets				
– listed equity investments	**2,772**	—	—	**2,772**
– unlisted equity investments	—	—	**578**	**578**
	2,772	—	**578**	**3,350**
As at 31 December 2015				
Financial assets				
Available-for-sale financial assets				
– listed equity investments	5,298	—	—	5,298
– unlisted equity investments	—	—	585	585
	5,298	—	585	5,883

Set out below is the information about how the fair values of the above financial instruments are determined, including the valuation techniques and inputs used:

The fair value of the freely traded listed equity instruments that are accounted for as available-for-sale financial assets is valued based on the quoted prices in active markets for the identical assets directly.

The fair value of the unlisted equity instruments of a listed entity that are accounted for as available-for-sale financial asset is valued based on the quoted price of the same listed entity in active market and adjusted for the factor of discount for lack of marketability.

The fair value of other unlisted equity instruments that are accounted for as available-for-sale financial assets is valued based on Guideline Publicly Traded Company (the "GPTC") method whereas the key inputs to the valuation models include the market multiples, share prices, volatilities and dividend yields of similar companies that are traded in a public market, discount of lack of marketability with reference to the share prices of listed enterprises in similar industries. At 31 December 2016, if any of the significant unobservable input above was 5% higher/lower while all the other variables were held constant, the changes in fair value of the unlisted equity instruments would not be significant to the Group.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

(i) Fair value of financial instruments that are measured at fair value on a recurring basis (Continued)

There were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets or any reclassification of financial assets in the year.

The following table presents the changes in level 3 instruments for the year ended 31 December 2016 and 2015:

	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 2016			
As at 1 January 2016	—	**585**	**585**
Exchange adjustments	—	**(25)**	**(25)**
Unrealised fair value gain recognised in other comprehensive income (included in other reserves)	—	**18**	**18**
As at 31 December 2016	—	**578**	**578**
Year ended 31 December 2015			
As at 1 January 2015	580	667	1,247
Exchange adjustments	—	(20)	(20)
Unrealised fair value loss recognised in other comprehensive income (included in other reserves)	—	(62)	(62)
Disposal of subsidiaries	(580)	—	(580)
As at 31 December 2015	—	585	585

(ii) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values at the end of the reporting period.

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 recoverability of amounts due from trade debtors

Management regularly reviews the recoverability of amounts from trade debtors of all business segments. Impairment of these receivables is based on management's estimation on the recoverabilities by reference to, among other evidences, the credit profile and ageing reports. A considerable amount of judgment is required in assessing the future cash flows, including the assessed creditworthiness and ability to repay of those debtors. If the actual future cash flows were less than expected, additional allowance may be required. Details of the Group's amounts due from trade debtors are set out in note 26.

(ii) 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 2.8. The recoverable amounts of CGUs have been determined based on value in use calculations, where the key input parameters include the future growth rate and discount rates. These calculations require the use of estimates. Where the actual future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a further impairment loss may arise. Details of the impairment loss calculation are set out in note 16.

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) Control over investees accounted for as subsidiaries

Certain entities are considered to be subsidiaries of the Company despite the interests therein are not more than 50% of the issued share capital of the relevant entities. Based on the contractual power pursuant to the relevant shareholders' agreement between the Group and the other shareholders, the Group has voting rights in the respective investees sufficient to give it the practical ability to direct the relevant activities of each of these investees unilaterally, and hence has control over these investees. Accordingly, those entities are accounted for as subsidiaries of the Company. Further details are set out in note 42.

5. REVENUE

The principal activities of the Group comprise ports operation, bonded logistics operation and property investment. The following is an analysis of the Group's revenue from its major services offered during the year.

	2016 HK$'million	2015 HK$'million
Ports service, transportation income, container service and container yard management income	**7,570**	7,789
Logistics services income	**405**	408
Gross rental income from investment properties	**1**	36
	7,976	8,233

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 business and geographic perspectives.

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

From a business and financial perspective, management assesses the performance of the Group's business operations including ports operation, bonded logistics and cold chain operations, port-related manufacturing operation and other operations.

(i) Ports operation includes container terminal operation, bulk and general cargo terminal operation operated by the Group and its associates and joint ventures. Ports operation is further evaluated on a geographic basis as set out below:

(a) Mainland China, Hong Kong and Taiwan

- Pearl River Delta excluding Hong Kong ("PRD excluding HK")
- Hong Kong
- Yangtze River Delta
- Others

(b) Other locations outside of Mainland China, Hong Kong and Taiwan

6. SEGMENT INFORMATION (Continued)

(ii) 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 and joint ventures.

Following the disposal of Smart Ally Holdings Limited ("SAH") and its subsidiaries during the year ended 31 December 2015 as described in note 37, the Group ceased its cold chain operation and thereafter the segment information reported to the CODM in respect of bonded logistics and cold chain operations comprises only the bonded logistics operation which includes logistic park operation, ports transportation and airport cargo handling operated by the Group and its associates and joint ventures.

(iii) Port-related manufacturing operation represents container manufacturing operated by the Group's associate.

(iv) Other operations mainly include property development and investment and construction of modular housing operated by the Group's associate, property investment operated by the Group and corporate function.

Each of the segments under ports operation include the operations of a number of ports in various locations within the geographic locations, each of which is considered as a separate operating segment by the CODM. For the purpose of segment reporting, these individual operating segments have been aggregated into reportable segments on geographic basis in order to present a more systematic and structured segment information. To give details of each of the operating segments, in the opinion of the directors of the Company, would result in particulars of excessive length.

Bonded logistics operation and other operations includes a number of different operations, each of which is considered as a separate but insignificant operating segment by the CODM. For segment reporting, these individual operating segments have been aggregated according to the natures of their operations to give rise to more meaningful presentation.

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

There was no single customer who accounted for over 10% of the Group's total revenue in any of the year ended 31 December 2016 and 2015.

The Group's revenue by geographical areas of operations and information about its non-current assets other than financial instruments and deferred tax assets presented based on the geographical areas in which the assets are located are as follows:

	Revenue		Non-current assets	
	2016 HK$'million	2015 HK$'million	**2016 HK$'million**	2015 HK$'million
Mainland China, Hong Kong and Taiwan	**6,747**	7,212	**74,650**	64,852
Other locations	**1,229**	1,021	**19,051**	19,287
	7,976	8,233	**93,701**	84,139

6. SEGMENT INFORMATION (Continued)

The amounts labelled as "Company and subsidiaries" below represent the Group's revenue. The amounts labelled as "Share of associates" and "Share of joint ventures" below represent the Group's share of revenue of associates and joint ventures respectively. An analysis of the Group's revenue by segments is as follows:

	REVENUE									
	Ports operation						Bonded logistics operation	Port-related manufacturing operation	Other operations	Total
	Mainland China, Hong Kong and Taiwan				Other locations	Sub-total			Other investments	
	PRD excluding HK HK$'million	Hong Kong HK$'million	Yangtze River Delta HK$'million	Others HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
For the year ended 31 December 2016										
Company and subsidiaries	**5,673**	**200**	**—**	**468**	**1,229**	**7,570**	**405**	**—**	**1**	**7,976**
Share of associates	**210**	**710**	**9,080**	**3,151**	**1,057**	**14,208**	**207**	**14,115**	**4,974**	**33,504**
Share of joint ventures	**7**	**5**	**368**	**2,181**	**167**	**2,728**	**—**	**—**	**13**	**2,741**
Total segment revenue	**5,890**	**915**	**9,448**	**5,800**	**2,453**	**24,506**	**612**	**14,115**	**4,988**	**44,221**
For the year ended 31 December 2015										
Company and subsidiaries	5,961	246	—	561	1,021	7,789	408	—	36	8,233
Share of associates	429	736	8,764	—	1,244	11,173	204	18,279	3,109	32,765
Share of joint ventures	11	13	380	2,122	—	2,526	1	—	—	2,527
Total segment revenue	6,401	995	9,144	2,683	2,265	21,488	613	18,279	3,145	43,525

6. SEGMENT INFORMATION (Continued)

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

	For the year ended 31 December 2016											
	Ports operation						Bonded logistics operation	Port-related manufacturing operation	Other operations			Total
	Mainland China, Hong Kong and Taiwan				Other locations	Sub-total			Other investments	Corporate function	Sub-total	
	PRD excluding HK HK$'million	Hong Kong HK$'million	Yangtze River Delta HK$'million	Others HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
Operating profit/(loss)	2,124	10	548	126	824	3,632	153	(1)	497	(384)	113	3,897
Share of profits less losses of												
- Associates	84	96	2,040	123	561	2,904	(1)	156	330	–	330	3,389
- Joint ventures	–	–	112	165	20	297	–	–	–	–	–	297
	2,208	106	2,700	414	1,405	6,833	152	155	827	(384)	443	7,583
Finance costs, net	(38)	–	–	(31)	(206)	(275)	(30)	–	(4)	(591)	(595)	(900)
Taxation	(481)	(1)	328	(32)	(104)	(290)	(21)	(14)	(150)	(2)	(152)	(477)
Profit/(loss) for the year	1,689	105	3,028	351	1,095	6,268	101	141	673	(977)	(304)	6,206
Non-controlling interests	(558)	–	–	(16)	(136)	(710)	(2)	–	–	–	–	(712)
Profit/(loss) attributable to equity holders of the Company	1,131	105	3,028	335	959	5,558	99	141	673	(977)	(304)	5,494
Other information:												
Depreciation and amortisation	810	12	–	122	388	1,332	91	–	–	15	15	1,438
Capital expenditure	597	7	–	187	206	997	80	–	6,259	296	6,555	7,632

6. SEGMENT INFORMATION (Continued)

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

	For the year ended 31 December 2015											
	Ports operation						Bonded logistics and cold chain operations	Port-related manufacturing operation	Other operations			Total
	Mainland China, Hong Kong and Taiwan				Other locations	Sub-total			Other investments	Corporate function	Sub-total	
	PRD excluding HK HK$'million	Hong Kong HK$'million	Yangtze River Delta HK$'million	Others HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
Operating profit/(loss)	2,203	29	236	206	324	2,998	214	178	13	(422)	(409)	2,981
Share of profits less losses of												
- Associates	48	314	1,975	—	572	2,909	30	621	330	—	330	3,890
- Joint ventures	—	1	115	31	(2)	145	(1)	—	—	—	—	144
	2,251	344	2,326	237	894	6,052	243	799	343	(422)	(79)	7,015
Finance costs, net	(73)	—	—	(51)	(157)	(281)	(25)	—	—	(394)	(394)	(700)
Taxation	(372)	(5)	(188)	(24)	(7)	(596)	(22)	(138)	(31)	(3)	(34)	(790)
Profit/(loss) for the year	1,806	339	2,138	162	730	5,175	196	661	312	(819)	(507)	5,525
Non-controlling interests	(611)	—	—	(26)	(76)	(713)	(4)	—	—	—	—	(717)
Profit/(loss) attributable to equity holders of the Company	1,195	339	2,138	136	654	4,462	192	661	312	(819)	(507)	4,808
Other information:												
Depreciation and amortisation	861	11	—	125	289	1,286	94	—	—	12	12	1,392
Capital expenditure	405	13	—	251	1,044	1,713	31	—	617	15	632	2,376

6. SEGMENT INFORMATION (Continued)

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

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

	As at 31 December 2016											
	Ports operation						Bonded logistics operation	Port-related manufacturing operation	Other operations			Total
	Mainland China, Hong Kong and Taiwan				Other locations	Sub-total			Other investments	Corporate function	Sub-total	
	PRD excluding HK HK$'million	Hong Kong HK$'million	Yangtze River Delta HK$'million	Others HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
ASSETS												
Segment assets (excluding interests in associates and joint ventures)	21,415	232	3,311	3,835	11,156	39,949	2,499	–	7,394	1,290	8,684	51,132
Interests in associates	1,181	1,642	18,103	4,188	5,934	31,048	388	7,864	3,720	–	3,720	43,020
Interests in joint ventures	3	4	861	4,986	3,010	8,864	–	–	45	–	45	8,909
Total segment assets	22,599	1,878	22,275	13,009	20,100	79,861	2,887	7,864	11,159	1,290	12,449	103,061
Taxation recoverable												3
Deferred tax assets												49
Total assets												103,113
LIABILITIES												
Segment liabilities	(2,420)	(34)	–	(1,315)	(6,367)	(10,136)	(1,153)	–	(3,086)	(12,742)	(15,828)	(27,117)
Taxation payable												(285)
Deferred tax liabilities												(1,973)
Total liabilities												(29,375)

6. SEGMENT INFORMATION (Continued)

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

	As at 31 December 2015											
	Ports operation						Bonded logistics operation	Port-related manufacturing operation	Other operations			Total
	Mainland China, Hong Kong and Taiwan				Other locations	Sub-total			Other investments	Corporate function	Sub-total	
	PRD excluding HK HK$'million	Hong Kong HK$'million	Yangtze River Delta HK$'million	Others HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
ASSETS												
Segment assets (excluding interests in associates and joint ventures)	23,185	237	5,144	3,943	11,018	43,527	2,760	34	838	8,155	8,993	55,314
Interests in associates	1,224	1,715	17,441	1	5,829	26,210	390	7,713	3,640	—	3,640	37,953
Interests in joint ventures	3	7	894	5,146	2,991	9,041	—	—	—	—	—	9,041
Total segment assets	24,412	1,959	23,479	9,090	19,838	78,778	3,150	7,747	4,478	8,155	12,633	102,308
Deferred tax assets												41
Total assets												102,349
LIABILITIES												
Segment liabilities	(3,319)	(42)	—	(1,421)	(6,452)	(11,234)	(684)	—	—	(11,043)	(11,043)	(22,961)
Taxation payable												(406)
Deferred tax liabilities												(2,333)
Total liabilities												(25,700)

7. PROFIT FOR THE YEAR

	2016 HK$'million	2015 HK$'million
Profit for the year has been arrived at after charging:		
Staff costs (including Directors' emoluments) (note 9)	**1,558**	1,499
Depreciation of property, plant and equipment	**1,122**	1,111
Amortisation of intangible assets and land use rights	**316**	281
Auditor's remuneration (including fees for non-audit services)	**20**	17
Operating lease rentals in respect of		
– land and buildings	**220**	250
– plant and machinery	**32**	36

8. OTHER INCOME AND OTHER GAINS, NET

	2016 HK$'million	2015 HK$'million
Dividend income from available-for-sale financial assets	**111**	121
Gain on deemed disposal of interests in associates and a joint venture	**6**	399
Gain on disposal of an available-for-sale financial asset	**512**	—
Gain on disposal of property, plant and equipment	**3**	22
Gain on disposal of subsidiaries (note 37)	—	52
Gain on partial disposal of an associate	—	2
Increase in fair value of investment properties (note 18)	**594**	3
Indemnification from related parties (Note)	**442**	—
Net exchange losses	**(204)**	(333)
Others	**97**	73
	1,561	339

Note: Amount being the indemnification from the holding companies of a non-controlling shareholder of a subsidiary in connection with the operation of the relevant subsidiary.

9. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2016 HK$'million	2015 HK$'million
Wages, salaries and bonus	**1,304**	1,254
Retirement benefit scheme contributions (Note)	**254**	245
	1,558	1,499

Note: No forfeiture was utilised for the year ended 31 December 2016 (2015: nil), leaving no available balance at the year end to reduce future contributions.

10. DIRECTORS' EMOLUMENTS

Directors' emoluments comprise payments to the following directors by the Group in connection to their service to and management of the affairs of the Group. The amount paid to each director was as follows:

Name of Director	Fees HK$'million	Salary HK$'million	Discretionary bonus HK$'million (Note (i))	Share based payment HK$'million	Employer's contribution to pension scheme HK$'million	2016 Total HK$'million	2015 Total HK$'million
Executive Directors:							
Li Jianhong (Note (ii))	—	—	—	—	—	—	—
Li Xiaopeng (Note (iii))	—	—	—	—	—	—	—
Su Xingang (Note (iv))	—	—	—	—	—	—	—
Fu Gangfeng (Note (v))	—	—	—	—	—	—	—
Yu Liming (Note (v))	—	—	—	—	—	—	—
Hu Jianhua (Note (vi))	—	—	—	—	—	—	0.70
Wang Hong	—	—	—	—	—	—	—
Deng Renjie (Note (v))	—	—	—	—	—	—	—
Bai Jingtao (Note (vii))	—	**1.46**	**0.85**	—	**0.17**	**2.48**	1.95
Zheng Shaoping	—	**1.30**	**0.76**	—	**0.12**	**2.18**	2.18
Wang Zhixian (Note (viii))	—	**1.28**	**0.76**	—	**0.12**	**2.16**	N/A
Hua Li (Note (ix))	—	—	—	—	—	—	N/A
Shi Wei (Note (ix))	—	**1.18**	**0.66**	—	**0.12**	**1.96**	N/A
Li Yinquan (Note (x))	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	—
Hu Zheng (Note (x))	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	—
Meng Xi (Note (x))	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	—
Independent non-executive Directors:							
Kut Ying Hay	**0.26**	—	—	—	—	**0.26**	0.26
Lee Yip Wah Peter	**0.26**	—	—	—	—	**0.26**	0.26
Li Kwok Heem John	**0.26**	—	—	—	—	**0.26**	0.26
Li Ka Fai David	**0.26**	—	—	—	—	**0.26**	0.26
Bong Shu Ying Francis	**0.26**	—	—	—	—	**0.26**	0.26
Total for the year ended 31 December 2016	**1.30**	**5.22**	**3.03**	—	**0.53**	**10.08**	
Total for the year ended 31 December 2015	1.30	2.36	2.22	—	0.25		6.13

10. DIRECTORS' EMOLUMENTS (Continued)

The executive directors' emoluments shown above were paid for their services in connection with the management of the affairs of the Company and the Group.

The independent non-executive directors' emoluments shown above were paid for their services as directors of the Company.

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. Li Jianhong resigned as an executive director and Chairman of the Board of Directors of the Company on 18 February 2016.

(iii) Mr. Li Xiaopeng was appointed as the Chairman of the Board of Directors of the Company on 18 February 2016.

(iv) Mr. Su Xingang resigned as an executive director of the Board of Directors of the Company on 18 February 2016.

(v) Mr. Fu Gangfeng and Mr. Deng Renjie who were appointed as executive directors on 1 June 2015, together with Mr. Yu Liming resigned as executive directors of the Board of Directors of the Company on 29 November 2016.

(vi) Mr. Hu Jianhua was appointed as Vice Chairman of the Board of Directors of the Company on 18 February 2016.

(vii) Mr. Bai Jingtao was appointed as an executive director and the Managing Director of the Board of Directors of the Company on 1 June 2015.

(viii) Mr. Wang Zhixian was appointed as an executive director of the Board of Directors of the Company on 18 February 2016.

(ix) Mr. Hua Li and Ms. Shi Wei were appointed as executive directors of the Board of Directors of the Company on 29 November 2016.

(x) Mr. Li Yinquan, Mr. Hu Zheng and Mr. Meng Xi resigned as executive directors of the Board of Directors of the Company on 13 March 2015.

(xi) No Director nor the chief executive waived any emoluments in respect of the years ended 31 December 2016 and 2015.

11. EMPLOYEES' EMOLUMENTS

(a) Emoluments of senior management

Of the ten (2015: eleven) senior management of the Company for the year ended 31 December 2016, four (2015: three) of them are directors of the Company and their remuneration has been disclosed in note 10. The total emoluments of the remaining six (2015: eight) senior management is as follows:

	2016 **HK$'million**	2015 HK$'million
Salaries, other allowances and benefit-in-kinds	**3**	5
Performance related incentive payments	**2**	4
	5	9

The emoluments fell within the following bands:

	Number of senior management	
	2016	2015
Below HK$1,500,000	**4**	4
HK$1,500,001 - HK$2,000,000	**2**	2
HK$2,000,001 - HK$2,500,000	—	2
	6	8

11. EMPLOYEES' EMOLUMENTS (Continued)

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, four (2015: one) director(s) (including the chief executive) and one (2015: three) is senior management of the Company whose emoluments are included in note 10 and 11(a), respectively.

The total emoluments of the remaining one individual for the year ended 31 December 2015 was as follows:

	HK$'million
Salaries, other allowances and benefit-in-kinds	**2**
Performance related incentive payments	**1**
	3

The emoluments fell within the band of HK$2,500,001 - HK$3,000,000 for the year ended 31 December 2015.

12. FINANCE INCOME AND COSTS

	2016 HK$'million	2015 HK$'million
Finance income from:		
Interest income from bank deposits	**43**	151
Others	**17**	7
	60	158
Interest expense on:		
Bank loans	**(303)**	(242)
Listed notes payable	**(556)**	(452)
Unlisted notes payable	**(46)**	(77)
Loans from:		
– non-controlling equity holders of subsidiaries	**(19)**	(16)
– shareholders	**(44)**	(112)
Others	**(35)**	(17)
Total borrowing costs incurred	**(1,003)**	(916)
Less: amount capitalised on qualifying assets (Note)	**43**	58
Finance costs	**(960)**	(858)
Finance costs, net	**(900)**	(700)

Note: Apart from the interest expenses incurred on borrowings specifically for the purposes of obtaining qualifying assets, those incurred from the general borrowing pool used for the purpose of obtaining qualifying assets are also capitalised in the consolidated statement of financial position. Capitalisation rate of 4.96% per annum (2015: 4.31% per annum) was applied, 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% (2015: 16.5%) on the estimated assessable profit for the year.

The Group's operations in Mainland China are subject to corporate income tax law of the PRC ("PRC corporate income tax"). The standard PRC corporate income tax rate is 25%. 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. Certain of the Group's subsidiaries enjoy the preferential tax rate of 15% upon the fulfilment of the criteria of the PRC tax laws. 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 according to PRC tax regulations if such companies are the beneficial owner of over 25% of these PRC entities.

Taxation outside of 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. Certain of the Group's overseas subsidiaries are exempted from the corporate income tax in the relevant countries.

The amount of taxation charged to the consolidated statement of profit or loss represents:

	2016 HK$'million	2015 HK$'million
Current taxation		
Hong Kong Profits Tax	**2**	20
PRC corporate income tax	**492**	345
Overseas profits Tax	**1**	—
Withholding income tax	**89**	229
Deferred taxation		
Origination and reversal of temporary differences	**207**	86
Deferred taxation on PRC withholding income tax arising from change in tax rate (Note)	**(314)**	110
	477	790

Note: Upon deemed disposal of interest in an associate during the year ended 31 December 2015, the Group's shareholding in the relevant associate decreased to below 25% and was no longer entitled to 5% preferential tax rate on its dividend receivable from the relevant associate, and accordingly, an additional amount of HK$110 million for deferred taxation was provided for the year ended 31 December 2015 for the Group's share of earnings of this investment which payment is yet to be declared.

During the year, the Group's shareholding in one of the Group's associates established in the PRC increased to over 25%, enabling the Group to enjoy the 5% preferential tax rate on its dividend receivable from the relevant associate one year following the shareholding herein be more than 25%, and, accordingly an amount of HK$314 million for deferred taxation provided in previous year was reversed for the year ended 31 December 2016 for the Group's share of earnings of this investment which payment is yet to be declared.

13. TAXATION (Continued)

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

	2016 HK$'million	2015 HK$'million
Profit before taxation (excluding share of profits less losses of associates and joint ventures)	**2,997**	2,281
Expected tax calculated at the weighted average applicable tax rate	**575**	401
Income not subject to tax	**(129)**	(228)
Expenses not deductible for tax purposes	**158**	169
Tax losses and other temporary differences not recognised	**33**	48
Utilisation of previously unrecognised tax losses	**(8)**	(24)
Withholding tax on earnings of subsidiaries, associates and joint ventures	**(152)**	424
Tax charge	**477**	790

The weighted average applicable tax rate was 19.2% (2015: 17.6%).

The amount of taxation credited to other comprehensive income represents:

	2016 HK$'million	2015 HK$'million
Deferred taxation		
Arising on income and expense recognised in other comprehensive income:		
Revaluation of available-for-sale financial assets	**(185)**	166
Release upon disposal of an available-for-sale financial asset	**(51)**	—
	(236)	166

14. DIVIDENDS

	2016 HK$'million	2015 HK$'million
Interim, paid, of 22 HK cents (2015: 22 HK cents) per ordinary share	**575**	569
Final, proposed, of 65 HK cents (2015: 55 HK cents) per ordinary share	**1,707**	1,429
	2,282	1,998

14. DIVIDENDS (Continued)

Details of scrip dividends offered in respect of the 2015 final and 2016 interim dividends are set out in note 28(b).

At a meeting held on 29 March 2017, the Board of Directors proposed a final dividend of 65 HK cents per ordinary 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 shareholders to elect to receive such final dividend (or part thereof) in cash in lieu of such allotment. This proposed dividend is not reflected as a dividend payable in these consolidated financial statements.

The amount of proposed final dividend for 2016 was based on 2,625,735,562 (2015: 2,598,715,093) shares in issue as at 29 March 2017.

15. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the equity holders of the Company is based on the following data:

	2016	2015
Basic		
Profit attributable to equity holders of the Company (HK$'million)	**5,494**	4,808
Weighted average number of ordinary shares in issue (Note (a))	**3,129,068,494**	3,099,921,253
Basic earnings per share (HK cents)	**175.58**	155.07
Diluted		
Profit attributable to equity holders of the Company (HK$'million)	**5,494**	4,808
Weighted average number of ordinary shares in issue (Note (a))	**3,129,068,494**	3,099,921,253
Effect of dilutive potential ordinary shares:		
Adjustment for share options (Note (b))	**499**	3,076,279
Weighted average number of ordinary shares for diluted earnings per share	**3,129,068,993**	3,102,997,532
Diluted earnings per share (HK cents)	**175.58**	154.91

Notes:

(a) The weighted average number of ordinary shares in issue for the purposes of basic and diluted earnings per shares included (i) the ordinary shares of the Company in issue during the year and (ii) the ordinary shares that will be issued upon conversion of the MCS (as set out in details in note 29) from the issue date as the MCS are mandatorily convertible instruments.

The directors are of the opinion, based on the best information available thereto, including the terms of the MCS and the identities of its holders, that the MCS are substantially the same as ordinary shares of the Company, and accordingly, the MCS have been taken into account in the calculation of the basic and diluted earnings per share above.

(b) Adjustment represents the additional number of ordinary shares in issue on the assumption of exercise of all outstanding share options except for those with exercise price higher than the average market price of the Company's shares for the year. Calculation 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) is 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.

16. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Intangible assets		
		Port operating rights	Others	Total
	HK$'million (Note (b))	HK$'million (Note (c))	HK$'million (Note (d))	HK$'million
Year ended 31 December 2016				
As at 1 January 2016	**2,973**	**5,514**	**146**	**5,660**
Exchange adjustments	**(182)**	**(155)**	**(9)**	**(164)**
Addition	**—**	**43**	**—**	**43**
Amortisation (Note (a))	**—**	**(129)**	**(3)**	**(132)**
As at 31 December 2016	**2,791**	**5,273**	**134**	**5,407**
As at 31 December 2016				
Cost	**2,791**	**5,502**	**140**	**5,642**
Accumulated amortisation	**—**	**(229)**	**(6)**	**(235)**
Net book value	**2,791**	**5,273**	**134**	**5,407**
Year ended 31 December 2015				
As at 1 January 2015	3,167	5,650	—	5,650
Exchange adjustments	(29)	(505)	(8)	(513)
Addition	—	463	15	478
Amortisation (Note (a))	—	(94)	(3)	(97)
Disposal of subsidiaries	(165)	—	—	—
Transfer from other non-current assets	—	—	142	142
As at 31 December 2015	2,973	5,514	146	5,660
As at 31 December 2015				
Cost	2,973	5,614	149	5,763
Accumulated amortisation	—	(100)	(3)	(103)
Net book value	2,973	5,514	146	5,660

Notes:

(a) Amortisation expenses charged for the year are included in the consolidated statement of profit or loss as follows:

	2016 HK$'million	2015 HK$'million
Cost of sales	**129**	94
Administrative expenses	**3**	3
	132	97

16. GOODWILL AND INTANGIBLE ASSETS (Continued)

Notes: (Continued)

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

	2016 HK$'million	2015 HK$'million
Ports operation		
– Mainland China, Hong Kong and Taiwan		
– PRD excluding HK	**2,729**	2,911
– Hong Kong	**52**	52
– Others	**10**	10
	2,791	2,973

The recoverable amount of a CGU is determined based on higher of fair value less cost of disposal 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 and discounted by rates specific to the relevant CGUs. Management determines the financial budgets based on past performance and its expectations for market development, including the expected economic growth in developed and emerging economies in the short-term and medium-term, China's prospective GDP growth rates, future developments of the ports, among others. 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))	
	2016	2015	**2016**	2015
Ports operation				
– Mainland China, Hong Kong and Taiwan				
– PRD excluding HK	**4%**	4%	**7.64%**	8.41%
– Hong Kong	**3%**	3%	**7.64%**	8.41%
– Others	**5%**	5%	**7.64%**	8.41%

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 nor the industry growth rate.

(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 relevant CGUs.

As at 31 December 2016, no impairment of any of its CGUs or group of CGUs containing goodwill with indefinite useful live has been identified. Management believes that any reasonably possible change in any of the above assumptions would not cause the aggregate carrying amount of any of the above CGUs to exceed the respective aggregate recoverable amounts.

(c) Included in port operating rights as at 31 December 2016 is an amount of HK$4,141 million (2015: HK$4,365 million) related to the concession for operation of a terminal in the Port of Lomé in Togo for a concession period of 35 years commenced in 2011 granted by the Government of Togolese Republic. The carrying amount of the concession represents the fair value as at the date of the business combination under which the Group acquired the concession and the fair value of the construction services carried out to-date less its accumulated amortisation. Amortisation is provided for since 2015 and over the period in which the Group operates the relevant terminals on a straight-line basis. The relevant group entity recognises both construction revenue and cost in the amount of HK$43 million (2015: HK$451 million) for the year ended 31 December 2016 by reference to the stage of completion of the construction of the terminal at the end of the reporting period and based on the proportion that contract costs incurred for work performed at the end of the reporting period relative to the estimated total contract costs.

The remaining amount related to the concession for operation of a terminal built in Colombo in Sri Lanka for a concession period of 35 years commenced from 2011 granted by the government of the Republic of Sri Lanka. The carrying amount of the concession represents the fair value as at the date of the acquisition of the relevant business by the Group less its accumulated amortisation, which is calculated using the economic usage basis. Further details are also set out in note 33.

(d) Others mainly comprise of the Group's rights to use certain sea areas and the coastal lines associated with the terminals managed and operated by the Group as granted by relevant PRC government authorities for specified periods up to 50 years. Amortisation is provided for over the period in which the Group operates the relevant terminals on a straight-line basis.

17. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK$'million	Harbour works, buildings and dockyard HK$'million	Plant, machinery, furniture and equipment HK$'million	Others HK$'million (Note (b))	Assets under construction HK$'million (Note (a))	Total HK$'million
Year ended 31 December 2016						
As at 1 January 2016	**726**	**12,329**	**5,080**	**536**	**899**	**19,570**
Exchange adjustments	**(37)**	**(608)**	**(220)**	**(28)**	**(68)**	**(961)**
Additions	—	**45**	**118**	**23**	**530**	**716**
Acquisition of assets through acquisition of subsidiaries (note 38)	**93**	—	—	—	—	**93**
Disposals	—	**(2)**	**(12)**	**(2)**	—	**(16)**
Transfers	—	**182**	**79**	—	**(261)**	—
Transfer from investment properties	**2**	—	—	—	—	**2**
Transfer from other non-current assets	—	—	**177**	—	—	**177**
Depreciation (Note (c))	**(24)**	**(462)**	**(569)**	**(67)**	—	**(1,122)**
As at 31 December 2016	**760**	**11,484**	**4,653**	**462**	**1,100**	**18,459**
As at 31 December 2016						
Cost	**1,028**	**15,449**	**9,709**	**996**	**1,100**	**28,282**
Accumulated depreciation and impairment	**(268)**	**(3,965)**	**(5,056)**	**(534)**	—	**(9,823)**
Net book value	**760**	**11,484**	**4,653**	**462**	**1,100**	**18,459**
Year ended 31 December 2015						
As at 1 January 2015	816	11,602	5,051	736	1,777	19,982
Exchange adjustments	(29)	(558)	(192)	(29)	(47)	(855)
Additions	—	65	146	57	899	1,167
Acquisition of a subsidiary	—	—	—	—	137	137
Disposals	—	(22)	(39)	(8)	—	(69)
Disposal of subsidiaries	(34)	(57)	(64)	(163)	(90)	(408)
Transfers	1	1,726	38	12	(1,777)	—
Transfer (to)/from investment properties	(2)	25	—	—	—	23
Transfer from other non-current assets	—	—	704	—	—	704
Depreciation (Note (c))	(26)	(452)	(564)	(69)	—	(1,111)
As at 31 December 2015	726	12,329	5,080	536	899	19,570
As at 31 December 2015						
Cost	981	16,098	9,983	1,056	899	29,017
Accumulated depreciation and impairment	(255)	(3,769)	(4,903)	(520)	—	(9,447)
Net book value	726	12,329	5,080	536	899	19,570

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

Notes:

(a) Included in assets under construction is capitalised interest of approximately HK$46 million (2015: HK$30 million).

(b) Others mainly comprise vessels and ships, motor vehicles and leasehold improvements with net book values of HK$339 million (2015: HK$389 million), HK$51 million (2015: HK$63 million) and HK$25 million (2015: HK$24 million) respectively as at 31 December 2016.

(c) Depreciation expenses charged for the year are included in the consolidated statement of profit or loss as follows:

	2016 HK$'million	2015 HK$'million
Cost of sales	**1,087**	1,078
Administrative expenses	**35**	33
	1,122	1,111

18. INVESTMENT PROPERTIES

	2016 HK$'million	2015 HK$'million
As at 1 January	**287**	1,757
Exchange adjustments	**(297)**	(18)
Additions	**30**	2
Acquisition of assets through acquisition of subsidiaries (note 38)	**6,845**	—
Disposal of subsidiaries (note 37)	—	(1,434)
Transfer to property, plant and equipment	**(2)**	(23)
Transfer to land use rights	**(2)**	—
Increase in fair value (note 8)	**594**	3
As at 31 December	**7,455**	287

The investment properties were revalued at 31 December 2016 by independent and professional qualified valuers. Valuations are based on current prices in an active market that reflects recent transaction prices for similar properties.

The fair value measurements for all of the Group's investment properties are categorised as level 3 (see note 2.1). The fair value was determined based on the direct comparison approach, which makes reference to the recent transactions for similar properties in the proximity and adjusted for a number of factors, including differences in transaction dates, floor areas, etc., between the comparable properties and the subject matters. If the market price of comparable properties increase, the fair value of investment property increase, and vice versa. In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique or level of fair value hierarchy during the year.

19. LAND USE RIGHTS

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

	2016 HK$'million	2015 HK$'million
As at 1 January	**7,545**	7,938
Exchange adjustments	**(490)**	(391)
Additions	**197**	25
Acquisition of assets through acquisition of subsidiaries (note 38)	**195**	—
Transfer from other non-current assets	—	182
Transfer from investment property	**2**	—
Disposal of subsidiaries (note 37)	—	(25)
Amortisation	**(184)**	(184)
As at 31 December	**7,265**	7,545

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

20. INTERESTS IN SUBSIDIARIES

(a) Composition of the Group

Particulars of the Company's principal subsidiaries at 31 December 2016 are set out in note 42 to the consolidated financial statements.

(b) Details of non-wholly-owned subsidiaries that have material non-controlling interests

Among the Group's non-wholly-owned subsidiaries at the end of the reporting period, is Shenzhen Chiwan Wharf Holdings Limited ("Shenzhen Chiwan"), has material non-controlling interests.

Shenzhen Chiwan is a company listed on the Shenzhen Stock Exchange. Although the Group is only beneficially interested in (excluding those held through an associate of the Group, China Nanshan Development (Group) Incorporation, being an unofficial English name ("China Nanshan"), and its subsidiaries) Shenzhen Chiwan for approximately 34% (2015: 34%), the Group has the power to direct approximately 67% (2015: 67%) of the voting right in Shenzhen Chiwan pursuant to an entrustment agreement entered into with China Nanshan, the beneficial owner of 33% equity interest in Shenzhen Chiwan. The ownership interest and voting rights held by numerous other shareholders other than the Group and China Nanshan in Shenzhen Chiwan is approximately 33% (2015: 33%). Therefore, the directors conclude the Group has control over Shenzhen Chiwan and Shenzhen Chiwan is a consolidated subsidiary in these consolidated financial statements.

20. INTERESTS IN SUBSIDIARIES (Continued)

(b) Details of non-wholly-owned subsidiaries that have material non-controlling interests (Continued)

Summarised financial information in respect of Shenzhen Chiwan, which the Group has material non-controlling interests, is set out below. The summarised financial information of Shenzhen Chiwan prepared in accordance with the significant accounting policies of the Group are as follows:

	2016 Shenzhen Chiwan HK$'million	2015 Shenzhen Chiwan HK$'million
Financial information of consolidated statement of profit or loss and other comprehensive income		
Revenue	**2,214**	2,302
Other income and gains	**151**	134
Expenses and taxation	**(1,583)**	(1,628)
Profit for the year	**782**	808
Other comprehensive expense	**(343)**	(314)
Total comprehensive income for the year	**439**	494
Profit for the year, attributable to:		
Equity holders of the Company	**351**	361
Non-controlling interests of the Group	**431**	447
	782	808
Total comprehensive income for the year, attributable to:		
Equity holders of the Company	**172**	198
Non-controlling interests of the Group	**267**	296
	439	494
Dividends paid to non-controlling interests of the Group	**133**	140
Financial information of consolidated statement of financial position		
Non-current assets	**7,143**	7,663
Current assets	**740**	1,102
Current liabilities	**(653)**	(1,299)
Non-current liabilities	**(450)**	(715)
	6,780	6,751
Equity attributable to:		
Equity holders of the Company	**3,249**	3,255
Non-controlling interests of the Group	**3,531**	3,496
	6,780	6,751

20. INTERESTS IN SUBSIDIARIES (Continued)

(b) Details of non-wholly-owned subsidiaries that have material non-controlling interests (Continued)

	2016 Shenzhen Chiwan HK$'million	2015 Shenzhen Chiwan HK$'million
Financial information of consolidated statement of cash flows		
Net cash inflow from operating activities	**968**	1,207
Net cash outflow from investing activities	**(105)**	—
Net cash outflow from financing activities	**(1,176)**	(953)
Net cash (outflow)/inflow	**(313)**	254

(c) At no time had there been any significant restriction imposed on the Group on its ability to access or use the assets or settle the liabilities of any entities of the Group.

21. INTERESTS IN ASSOCIATES

	2016 HK$'million	2015 HK$'million
Share of net assets of:		
Listed associates	**28,975**	24,668
Unlisted associates	**10,251**	10,126
	39,226	34,794
Goodwill:		
Listed associates	**1,186**	486
Unlisted associates	**2,608**	2,673
	3,794	3,159
Total	**43,020**	37,953

The Group's material associates at the end of the reporting period include China International Marine Containers (Group) Co., Ltd. ("CIMC") and Shanghai International Port (Group) Co., Ltd. ("SIPG"). All of the Group's associates are accounted for using equity method in these consolidated financial statements.

21. INTERESTS IN ASSOCIATES (Continued)

Summarised financial information in respect of each of the Group's material associates is set out below. Other associates invested by the Group are not individually material. The summarised financial information below represents material associates' financial information prepared in accordance with the significant accounting policies of the Group.

(a) Material associates

	2016		2015	
	CIMC HK$'million	SIPG HK$'million	CIMC HK$'million	SIPG HK$'million
Financial information of consolidated statement of profit or loss and other comprehensive income				
Revenue	59,155	36,344	71,873	36,107
Profit for the year, attributable to the equity holders of the associates	631	8,157	2,436	8,141
Other comprehensive expense for the year, attributable to the equity holders of the associates	(1,107)	(7,277)	(2,093)	(4,068)
Total comprehensive (expense)/income for the year, attributable to the equity holders of the associates	(476)	880	343	4,073
Dividends received from associates by the Group during the year	185	1,072	270	1,084
Financial information of consolidated statement of financial position				
Non-current assets	79,668	107,185	75,475	98,159
Current assets	59,645	26,547	51,958	22,669
Current liabilities	(51,704)	(37,929)	(54,812)	(22,102)
Non-current liabilities	(43,859)	(18,542)	(30,254)	(17,514)
Net assets of the associates	43,750	77,261	42,367	81,212

21. INTERESTS IN ASSOCIATES (Continued)

(a) Material associates (Continued)

	2016		2015	
	CIMC HK$'million	**SIPG HK$'million**	CIMC HK$'million	SIPG HK$'million
Reconciliation to the carrying amounts of interests in the associates:				
Net assets of the associates	**43,750**	**77,261**	42,367	81,212
Less: non-controlling interests	**(11,010)**	**(8,412)**	(8,300)	(9,008)
Less: perpetual medium term note	**(2,290)**	—	(2,427)	—
Net assets attributable to the shareholders of the associates	**30,450**	**68,849**	31,640	72,204
Proportion of the Group's interests in the associates (Note (a) and (b))	**24.53%**	**25.15%**	23.08%	24.05%
Net assets attributable to the Group's interests in the associates	**7,469**	**17,315**	7,303	17,365
Goodwill	**393**	**788**	410	76
Carrying amount of the Group's interests in the associates	**7,862**	**18,103**	7,713	17,441
Market value of the listed associates, valued based on the quoted prices in active markets for the identical asset directly, and categorised as level 1 of the fair value hierarchy of the Group's interests in the associates	**8,182**	**33,357**	9,746	43,109

Notes:

(a) Acquisition of additional interest in SIPG

During the year, 254,170,980 shares were purchased by the Group from open market for aggregate considerations of HK$1,524 million. Consequentially, the Group's interest in SIPG has been increased from 24.05% to 25.15%.

For the year ended 31 December 2015, 418,495,000 shares were issued by SIPG to eligible scheme participants in accordance with an employee share subscription scheme. Consequentially, the Group's interests in SIPG had been diluted from 24.49% to 24.05%, resulting in a gain on deemed disposal of HK$212 million.

(b) Acquisition of additional interest in CIMC

During the year, 43,277,500 shares were purchased by the Group from open market for aggregate considerations of HK$450 million. Consequentially, the Group's interest in CIMC has been increased from 23.08% to 24.53%.

For the year ended 31 December 2015, 19,095,035 shares and 286,096,100 shares were issued by CIMC upon the exercise of share options by its qualified scheme participants and issue of new shares to subscribers. Consequentially, the Group's interest in CIMC had been diluted from 25.54% to 23.08%, resulted in a gain on deemed disposal of HK$178 million.

21. INTERESTS IN ASSOCIATES (Continued)

(b) Aggregate of other associates

	2016 HK$'million	2015 HK$'million
The Group's share of:		
Profit for the year	**1,193**	1,295
Other comprehensive expense	**(679)**	(540)
Total comprehensive income	**514**	755
Aggregate carrying amount of the Group's interests in these associates	**17,055**	12,799

Notes:

(a) Acquisition of an associate principally engaged in terminal and related logistic services

On 12 January 2016, the Company entered into a share purchase agreement with, among others, Dalian Port (PDA) Company Limited ("Dalian Port"), a joint stock limited company established in the PRC with limited liability, whose shares are listed on HKSE and the Shanghai Stock Exchange, pursuant to which Dalian Port agreed to allot and issue, and the Company agreed to subscribe for 1,180,320,000 shares of Dalian Port (the "Subscription Shares") for a total consideration of HK$4,332 million. The Subscription Shares represent approximately 21.05% of the issued share capital of Dalian Port as enlarged by the allotment and issuance of the Subscription Shares.

This transaction had been completed during the year and the Group's investment in Dalian Port is accounted for as an interest in an associate as the directors consider the Group has significant influence over the investee.

(b) Particulars of the Group's principal associates at 31 December 2016 are set out in note 43 to the consolidated financial statements.

22. INTERESTS IN JOINT VENTURES

	2016 HK$'million	2015 HK$'million
Share of net assets of unlisted joint ventures	**8,859**	8,988
Goodwill	**50**	53
	8,909	9,041

All of the Group's joint ventures are accounted for using equity method in these consolidated financial statements.

Summarised financial information in respect of the aggregate of the Group's joint ventures, each of which is not individually material, is set out below.

	2016 HK$'million	2015 HK$'million
The Group's share of:		
Profit for the year	**297**	144
Other comprehensive expense	**(359)**	(365)
Total comprehensive expense	**(62)**	(221)

Note: Particulars of the Group's principal joint ventures at 31 December 2016 are set out in note 44 to the consolidated financial statements.

23. OTHER FINANCIAL ASSETS

	2016 HK$'million	2015 HK$'million
Available-for-sale financial assets, at fair value:		
Listed equity investments in Hong Kong	**152**	143
Listed equity investments in Mainland China	**2,620**	5,155
Unlisted equity investments in Mainland China	**578**	585
	3,350	5,883

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

	2016 HK$'million	2015 HK$'million
As at 1 January	**5,883**	4,215
Acquisition	—	2
Disposal	**(706)**	—
Exchange adjustments	**(26)**	(22)
Net change in fair value transferred to equity	**(1,801)**	1,688
As at 31 December	**3,350**	5,883

95.5% (2015: 97.6%) of the available-for-sale financial assets are denominated in Renminbi and the remaining balance is denominated in Hong Kong dollar.

24. OTHER NON-CURRENT ASSETS

	2016 HK$'million	2015 HK$'million
Prepayments and deposits for purchase of non-current assets	**225**	404
Deposit for acquisition of a subsidiary (Note)	—	597
Advance to an associate	**10**	—
Others	**160**	109
	395	1,110

Note: The amount as at 31 December 2015 represented RMB500 million (approximately HK$597 million) paid to two fellow subsidiaries for the acquisition of the entire interest of 深圳金域融泰投資發展有限公司 (Shenzhen Jinyu Rongtai Investment Development Company Limited, being an unofficial English name) ("Shenzhen Jinyu"), an entity whose principal assets are certain building properties located in the Mainland China. The deposit was refundable and non-interest bearing. The acquisition has been completed during the year, as set out in note 38, the deposit was then used to settle part of the consideration.

25. INVENTORIES

	2016 HK$'million	2015 HK$'million
Raw materials	**57**	55
Spare parts and consumables	**20**	22
	77	77

26. DEBTORS, DEPOSITS AND PREPAYMENTS

	2016 HK$'million	2015 HK$'million
Trade debtors	**868**	937
Less: provision for impairment of trade debtors (Note (a))	**(58)**	(20)
Trade debtors, net (Note (c))	**810**	917
Amounts due from fellow subsidiaries (Note (f))	**6**	15
Amounts due from associates (Note (g))	**383**	297
Amounts due from joint ventures (Note (f))	**2**	5
Dividend receivables	**271**	375
	1,472	1,609
Other debtors, deposits and prepayments	**824**	307
	2,296	1,916

Notes:

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

	2016 HK$'million	2015 HK$'million
As at 1 January	**20**	23
Provision for impairment of trade debtors	**39**	1
Reversal of provision	**—**	(3)
Exchange adjustments	**(1)**	(1)
As at 31 December	**58**	20

The creation and release of provision for impairment of trade debtors have been included in administrative expenses in the consolidated statement of profit or loss. 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$10 million (2015: HK$24 million) are included in trade debtors as at 31 December 2016.

26. DEBTORS, DEPOSITS AND PREPAYMENTS (Continued)

Notes: (Continued)

(c) The Group has a credit policy of allowing an average credit period of 90 days (2015: 90 days) to its trade customers. The ageing analysis of trade debtors, based on the invoice date, net of provision for impairment of trade debtors, is as follows:

	2016 HK$'million	2015 HK$'million
Not yet due	**462**	458
Days overdue		
– 1 - 90 days	**279**	334
– 91 - 180 days	**50**	108
– 181 - 365 days	**15**	13
– Over 365 days	**4**	4
	810	917

(d) As at 31 December 2016, trade debtors of HK$462 million (2015: HK$458 million) and balances with related companies of HK$662 million (2015: HK$692 million) are neither past due nor impaired and are fully performing.

(e) As at 31 December 2016, trade debtors of HK$329 million (2015: HK$442 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, the overdue amounts can be recovered. The ageing analysis of these trade debtors is as follows:

	2016 HK$'million	2015 HK$'million
Days overdue		
– 1 to 90 days	**279**	334
– 91 to 180 days	**50**	108
	329	442

As at 31 December 2016, it is noted that provision for impairment may be required in respect of trade debtors for the gross amount of HK$77 million (2015: HK$37 million) and a provision of HK$58 million (2015: HK$20 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.

(g) The amounts of HK$111 million (2015: nil) are unsecured, interest bearing at fixed rate of 9% (2015: nil) per annum and repayable within twelve months from the end of the reporting period. The amounts of HK$134 million (2015: HK$143 million) are unsecured, interest-bearing at fixed rate of 1% (2015: 1%) per annum and repayable within twelve months from the end of the reporting period. The remaining balances are unsecured, interest free and repayable on demand.

27. CASH AND BANK BALANCES

	2016 HK$'million	2015 HK$'million
Cash at bank and in hand	**2,696**	3,854
Short-term time deposits	**941**	6,439
	3,637	10,293

The weighted average effective interest rate on time deposits as at the end of the reporting period is approximately 1.01% (2015: 0.47%) per annum. These deposits had an average maturity period of 60 days (2015: 41 days).

27. CASH AND BANK BALANCES (Continued)

Cash and bank balances are denominated in the following currencies:

	2016 HK$'million	2015 HK$'million
Hong Kong dollar	**563**	5,179
Renminbi	**2,295**	2,032
United States dollar	**721**	2,765
Euro	**38**	315
Other currencies	**20**	2
	3,637	10,293

28. SHARE CAPITAL

	Company			
	Number of shares		Share capital	
	2016	2015	**2016 HK$'million**	2015 HK$'million
Issued and fully paid:				
As at 1 January	**2,598,715,093**	2,562,648,140	**18,994**	17,918
Transfer upon exercise of share options	**—**	—	**—**	28
Issue of shares on exercise of share options (Note (a))	**70,000**	7,471,000	**2**	172
Issue of scrip dividend shares (Note (b))	**26,758,997**	26,739,941	**547**	820
Issue of shares on conversion of MCS (Note (c))	**188,135**	1,856,012	**5**	56
As at 31 December	**2,625,732,225**	2,598,715,093	**19,548**	18,994

Notes:

(a) During the year, 70,000 (2015: 7,471,000) shares were issued upon exercise of share options. Total net proceeds were HK$2 million (2015: HK$172 million).

The weighted average share price at the time of exercise was HK$23.61 (2015: HK$32.74) per share. The related transaction costs have been deducted from the proceeds received.

During the year, no ordinary shares were repurchased.

28. SHARE CAPITAL (Continued)

Notes: (Continued)

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

	Date of issue	Number of shares issued
2015 final dividend	18 July 2016	**16,925,675**
2016 interim dividend	16 November 2016	**9,833,322**
2016 Total		**26,758,997**
2015 Total		26,739,941

(c) During the year, 188,135 (2015: 1,856,012) shares were issued upon conversion of the MCS. No proceeds were received by the Company for the shares issued.

(d) Share options

The existing share option scheme was approved by the shareholders' resolutions of the Company and adopted on 9 December 2011 (the "New Scheme"), under which 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; and (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. 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 New Scheme is valid and effective for a period of 10 years.

Upon termination of the old scheme on 9 December 2011, 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.

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:

	2016		2015	
	Weighted average exercise price HK$	**Number of share options**	Weighted average exercise price HK$	Number of share options
As at 1 January	**23.03**	**12,912,000**	23.01	20,383,000
Exercised	**23.03**	**(70,000)**	22.99	(7,471,000)
Expired	**23.03**	**(12,842,000)**	N/A	—
As at 31 December	**N/A**	—	23.03	12,912,000

Share options outstanding and exercisable as at 31 December 2015 had their expiry in 2016 and exercise price of HK$23.03 per share. No share options was outstanding as at 31 December 2016.

29. MANDATORY CONVERTIBLE SECURITIES

MCS are equity instruments issued by the Company at the subscription price of HK$30.26 per unit, representing a direct, unsecured and subordinated obligation of the Company. The MCS entitle the holders to receive fixed coupons semiannually at the rates of 8%, 6% and 4% per annum in the first, second and third year, respectively, from the MCS issuance. The Company may at its discretion elect to defer or cancel any scheduled distributions. Any deferred or cancelled distributions are non-cumulative and do not bear any interests. However, if the Company determines to do so but declares, makes or pays any dividends to the ordinary shareholders, the MCS holders should be notified, and the MCS shall be converted into ordinary shares of the Company at the initial conversion price. Any deferred but unpaid distributions prior to the accelerated conversion date and any scheduled future distributions after the accelerated conversion date (taking into account their net present value) shall be paid immediately to the MCS holders by cash.

Holders of MCS have the rights to convert any of their MCS into ordinary shares of the Company, at the conversion rate of one unit of MCS to one ordinary share of the Company (subject to certain anti-dilution adjustments), at any time prior to the mandatory conversion date, being the third anniversary following the date of issuance of the MCS, at the initial conversion price of HK$30.26 per ordinary share.

The MCS may be assigned or transferred by its holders without restriction but will not be listed on the HKSE or any other stock exchanges. The MCS are not entitled to dividends declared and paid by the Company to its ordinary shareholders and do not carry any voting rights of the Company.

On 6 June 2014, the open offer of the MCS, which was on the basis of one unit of MCS for every five ordinary shares held, became unconditional. A total of 505,400,882 units of MCS were issued, equivalent to 505,400,882 ordinary shares of the Company in issue when converted. An aggregate of 502,676,197 units (including those units taken up under underwriting arrangements) were issued to CMG and its associates (as defined under the Listing Rules and including CMU). The net proceeds received by the Group in regard to the open offer of the MCS amounted to HK$15,287 million.

During the year, 188,135 (2015: 1,856,012) units of MCS have been converted to ordinary shares of the Company and distribution amounted to HK$761 million (2015: HK$1,067 million) has been declared and paid to the holders of the MCS.

30. OTHER RESERVES

	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 2016	**48**	**(1,218)**	**4,231**	**2,559**	**2,565**	**8,185**
OTHER COMPREHENSIVE INCOME/(EXPENSE)						
Exchange differences from retranslation of investments in subsidiaries, associates and joint ventures	—	—	—	**(3,670)**	—	**(3,670)**
Decrease in fair value of available-for-sale financial assets, net of deferred taxation	—	—	**(1,616)**	—	—	**(1,616)**
Release of reserve upon disposal of an available-for-sale financial asset, net of deferred taxation	—	—	**(461)**	—	—	**(461)**
Share of reserves of associates	—	**38**	**(495)**	—	—	**(457)**
Other comprehensive income/(expense) for the year, net of tax	—	**38**	**(2,572)**	**(3,670)**	—	**(6,204)**
TRANSACTIONS WITH OWNERS						
Transfer from retained earnings	—	—	—	—	**138**	**138**
Transfer upon lapse of share options	**(48)**	—	—	—	—	**(48)**
Capital contribution to a subsidiary	—	**28**	—	—	—	**28**
Total transactions with owners for the year	**(48)**	**28**	—	—	**138**	**118**
As at 31 December 2016	—	**(1,152)**	**1,659**	**(1,111)**	**2,703**	**2,099**
As at 1 January 2015	76	(1,573)	2,782	5,677	2,411	9,373
OTHER COMPREHENSIVE INCOME/(EXPENSE)						
Exchange differences from retranslation of investments in subsidiaries, associates and joint ventures	—	—	—	(3,083)	—	(3,083)
Increase in fair value of available-for-sale financial assets, net of deferred taxation	—	—	1,521	—	—	1,521
Release of reserves upon disposal of subsidiaries (note 37)	—	—	—	(35)	—	(35)
Share of reserves of associates	—	223	(72)	—	—	151
Other comprehensive income/(expense) for the year, net of tax	—	223	1,449	(3,118)	—	(1,446)
TRANSACTIONS WITH OWNERS						
Transfer from retained earnings	—	—	—	—	154	154
Transfer upon exercise of share options	(28)	—	—	—	—	(28)
Disposal of interests in subsidiaries to a non-controlling equity holder without losing control therein	—	132	—	—	—	132
Total transactions with owners for the year	(28)	132	—	—	154	258
As at 31 December 2015	48	(1,218)	4,231	2,559	2,565	8,185

Note: Amount mainly represents statutory reserve of the Group's subsidiaries in the PRC. According to the relevant laws in the PRC, the Group's subsidiaries established in the 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.

31. LOANS FROM SHAREHOLDERS

	Loans from an intermediate holding company		Loans from the ultimate holding company		Total	
	2016 HK$'million	2015 HK$'million	**2016 HK$'million**	2015 HK$'million	**2016 HK$'million**	2015 HK$'million
The loans as at 31 December 2016 and 2015 are repayable as follows:						
Within 1 year	**63**	34	**336**	277	**399**	311
Between 1 and 2 years	**223**	67	**—**	358	**223**	425
Between 2 and 5 years	**56**	239	**—**	—	**56**	239
	342	340	**336**	635	**678**	975
Less: amounts due within one year included under current liabilities	**(63)**	(34)	**(336)**	(277)	**(399)**	(311)
Non-current portion	**279**	306	**—**	358	**279**	664
Interest rates per annum	**4.35%**	3.03% - 4.35%	**4.65%**	4.65% - 5.20%		

All of the loans from an intermediate holding company and the ultimate holding company are denominated in Renminbi, interest bearing at fixed rate at the interest rates as set out above and unsecured.

32. OTHER FINANCIAL LIABILITIES

	2016 HK$'million	2015 HK$'million
Bank loans		
Unsecured short-term bank loans		
– variable rate	**1,916**	551
– fixed rate	**648**	149
Unsecured long-term fixed rate bank loans	**112**	90
Long-term variable rate bank loans		
– unsecured	**1,375**	686
– secured (Note (a))	**4,209**	4,375
	8,260	5,851
Loans from non-controlling equity holders of subsidiaries (Note (c))	**416**	364
Notes payable (Note (d))		
– US$200 million, 7.125% guaranteed listed notes maturing in 2018	**1,546**	1,542
– US$200 million, 3.5% guaranteed listed notes maturing in 2020	**1,544**	1,541
– US$500 million, 5% guaranteed listed notes maturing in 2022	**3,839**	3,830
– US$500 million, 4.75% guaranteed listed notes maturing in 2025	**3,855**	3,851
– RMB200 million, 3.44% unlisted notes maturing in 2016	**—**	239
– RMB300 million, 4.9% unlisted notes maturing in 2016	**—**	358
– RMB1,500 million, 3.19% unlisted notes maturing in 2017	**1,683**	—
– RMB250 million, 3.9% unlisted notes maturing in 2017	**279**	—
– RMB500 million, 5.6% unlisted notes maturing in 2018	**—**	594
– RMB300 million, 2.97% unlisted notes maturing in 2019	**334**	—
	13,080	11,955
Total	**21,756**	18,170
Less: amounts due within one year included under current liabilities	**(4,963)**	(1,489)
Non-current portion	**16,793**	16,681

32. OTHER FINANCIAL LIABILITIES (Continued)

Notes:

(a) The entire shareholdings in two (2015: two) subsidiaries, owned by the Company and its subsidiary as at 31 December 2016, are pledged to various banks for bank facilities granted to the relevant subsidiaries.

(b) Listed notes issued by subsidiaries of the Company of HK$10,784 million (2015: HK$10,764 million) are secured by corporate guarantees provided by the Company.

(c) The amount of HK$44 million (2015: nil) are unsecured, interest bearing at 9% (2015: nil) per annum and repayable within twelve months from the end of the reporting period.

The amount of HK$372 million (2015: HK$364 million) are unsecured, interest bearing at 4.65% (2015: 4.65%) per annum and is not required to be repaid within twelve months from the end of the reporting period.

(d) Except for the RMB1,500 million 3.19% unlisted notes maturing in 2017 which are issued by the Company, other note payables are issued by subsidiaries of the Company. The effective interest rates are as follows:

	2016	2015
US$200 million, 7.125% guaranteed listed notes maturing in 2018	**7.36%**	7.36%
US$200 million, 3.5% guaranteed listed notes maturing in 2020	**3.64%**	3.64%
US$500 million, 5% guaranteed listed notes maturing in 2022	**5.22%**	5.22%
US$500 million, 4.75% guaranteed listed notes maturing in 2025	**4.83%**	4.83%
RMB200 million, 3.44% unlisted notes maturing in 2016	**N/A**	3.60%
RMB300 million, 4.9% unlisted notes maturing in 2016	**N/A**	5.23%
RMB1,500 million, 3.19% unlisted notes maturing in 2017	**3.35%**	N/A
RMB250 million, 3.9% unlisted notes maturing in 2017	**3.91%**	N/A
RMB500 million, 5.6% unlisted notes maturing in 2018	**N/A**	5.95%
RMB300 million, 2.97% unlisted notes maturing in 2019	**3.57%**	N/A

(e) As at 31 December 2016, the Group has undrawn bank loan facilities and other debt financing instruments amounting to HK$20,494 million (2015: HK$11,569 million), of which HK$17,183 million (2015: HK$8,985 million) and HK$3,311 million (2015: HK$2,584 million) are committed and uncommitted credit facilities respectively.

(f) The other financial liabilities as at 31 December 2016 and 2015 are repayable as follows:

	Bank loans		Listed notes payable		Unlisted notes payable		Loans from non-controlling equity holders of subsidiaries		Total	
	2016 HK$'million	2015 HK$'million	2016 HK$'million	2015 HK$'million	2016 HK$'million	2015 HK$'million	2016 HK$'million	2015 HK$'million	2016 HK$'million	2015 HK$'million
Within 1 year	**2,957**	892	—	—	**1,962**	597	**44**	—	**4,963**	1,489
Between 1 and 2 years	**516**	703	**1,546**	—	—	—	—	—	**2,062**	703
Between 2 and 5 years	**2,455**	1,401	**1,544**	3,083	**334**	594	—	—	**4,333**	5,078
Within 5 years	**5,928**	2,996	**3,090**	3,083	**2,296**	1,191	**44**	—	**11,358**	7,270
More than 5 years	**2,332**	2,855	**7,694**	7,681	—	—	**372**	364	**10,398**	10,900
	8,260	5,851	**10,784**	10,764	**2,296**	1,191	**416**	364	**21,756**	18,170

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

	2016	2015
Hong Kong dollar	**N/A**	1.56% to 2.41%
Renminbi	**1.20% to 4.90%**	3.92% to 5.62%
Euro	**3.72% to 5.78%**	3.72% to 5.78%
United States dollar	**3.35% to 3.92%**	3.52%

32. OTHER FINANCIAL LIABILITIES (Continued)

Notes: (Continued)

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

	2016 HK$'million	2015 HK$'million
Hong Kong dollar	—	503
Renminbi	6,099	2,164
Euro	2,260	2,415
United States dollar	13,397	13,088
	21,756	18,170

33. OTHER NON-CURRENT LIABILITIES

Included in the balance of other non-current liabilities is the minimum guaranteed royalty and premium provision (the "Royalty Provision") of HK$948 million (2015: HK$964 million) under a Build-Operate-Transfer Agreement (the "BOT Agreement") with Sri Lanka Ports Authority ("SLPA") due by a non-wholly-owned subsidiary, Colombo International Container Terminals Limited, to SLPA.

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

The current portion of the Royalty Provision amounted to HK$43 million (2015: HK$109 million) is included in "creditors and accruals" in current liabilities. The initial recognition of the Royalty Provision is determined by discounting the future annual guaranteed cash flows at the then market rate.

34. DEFERRED TAXATION

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

	2016 HK$'million	2015 HK$'million
As at 1 January	(2,292)	(2,150)
Exchange adjustments	108	102
Arising from acquisition of an associate	(83)	—
Credited/(charged) to consolidated statement of profit or loss (note 13)	107	(196)
Credited/(charged) to other comprehensive income		
– Revaluation of available-for-sale financial assets (note 13)	185	(166)
– Release upon disposal of an available-for-sale financial asset (note 13)	51	—
Disposal of subsidiaries (note 37)	—	118
As at 31 December	(1,924)	(2,292)

34. DEFERRED TAXATION (Continued)

Deferred income tax assets are recognised for tax loss carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK$766 million (2015: HK$820 million) to be carried forward against future taxable income. The entire amount expires in the following years:

	2016 HK$'million	2015 HK$'million
2016	—	120
2017	**96**	102
2018	**219**	234
2019	**188**	201
2020	**153**	163
2021	**110**	—
	766	820

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 and other		Total	
	2016 HK$'million	2015 HK$'million	**2016 HK$'million**	2015 HK$'million	**2016 HK$'million**	2015 HK$'million	**2016 HK$'million**	2015 HK$'million
As at 1 January	**(1,180)**	(1,030)	**(722)**	(854)	**(431)**	(324)	**(2,333)**	(2,208)
Exchange adjustments	**66**	57	**37**	49	**8**	—	**111**	106
Arising from acquisition of an associate	**(83)**	—	—	—	—	—	**(83)**	—
Credited/(charged) to consolidated statement of profit or loss	**231**	(207)	**25**	24	**(160)**	—	**96**	(183)
Credited/(charged) to other comprehensive income								
– Revaluation of available-for-sale financial assets	—	—	—	—	**185**	(166)	**185**	(166)
– Release upon disposal of an available-for-sale financial asset	—	—	—	—	**51**	—	**51**	—
Disposal of subsidiaries	—	—	—	59	—	59	—	118
As at 31 December	**(966)**	(1,180)	**(660)**	(722)	**(347)**	(431)	**(1,973)**	(2,333)

34. DEFERRED TAXATION (Continued)

Deferred tax assets

	Provision		Others		Total	
	2016 HK$'million	2015 HK$'million	**2016 HK$'million**	2015 HK$'million	**2016 HK$'million**	2015 HK$'million
As at 1 January	**4**	21	**37**	37	**41**	58
Exchange adjustments	**(1)**	(3)	**(2)**	(1)	**(3)**	(4)
Credited/(charged) to consolidated statement of profit or loss	**8**	(14)	**3**	1	**11**	(13)
As at 31 December	**11**	4	**38**	37	**49**	41

35. CREDITORS AND ACCRUALS

	2016 HK$'million	2015 HK$'million
Trade creditors (Note (a))	**275**	271
Amounts due to fellow subsidiaries (Note (b))	**220**	115
Consideration payable for acquisition of a subsidiary (Note 38)	**1,131**	—
	1,626	386
Other payables and accruals	**1,871**	2,196
	3,497	2,582

Notes:

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

	2016 HK$'million	2015 HK$'million
Not yet due	**167**	160
Days overdue		
– 1 - 90 days	**66**	70
– 91 - 180 days	**9**	5
– 181 - 365 days	**2**	2
– Over 365 days	**31**	34
	275	271

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

36. INFORMATION OF THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of operating profit to net cash inflow from operations:

	2016 HK$'million	2015 HK$'million
Operating profit	**3,897**	2,981
Adjustments for:		
Depreciation and amortisation	**1,438**	1,392
Increase in fair value of investment properties	**(594)**	(3)
Provision for impairment of trade debtors	**39**	—
Gain on disposal of an available-for-sale financial asset	**(512)**	—
Gain on disposal of property, plant and equipment	**(3)**	(22)
Gain on deemed disposal of interests in associates and a joint venture	**(6)**	(399)
Gain on disposal of subsidiaries	**—**	(52)
Gain on partial disposal of an associate	**—**	(2)
Operating profit before working capital changes	**4,259**	3,895
Increase in inventories	**(2)**	(12)
(Increase)/decrease in debtors, deposits and prepayments	**(464)**	77
Increase in creditors and accruals	**300**	259
Net cash inflow generated from operations	**4,093**	4,219

37. DISPOSAL OF SUBSIDIARIES

For the year ended 31 December 2015

In January 2015, the Group completed the disposal of the entire issued share capital of, and the entire amount of the shareholders' loan advanced by the Group to, SAH, for an aggregate cash consideration of HK$760 million to a wholly-owned subsidiary of CMG.

In October 2015, the Group also completed the disposal of the entire issued share capital of, and the entire amount of shareholders' loan advanced by the Group to, Universal Sheen Investment Limited ("USL") for a cash consideration of HK$1,426 million to another wholly-owned subsidiary of CMG, which is also an intermediate holding company of the Company.

37. DISPOSAL OF SUBSIDIARIES (Continued)

For the year ended 31 December 2015 (Continued)

The aggregate amounts of assets and liabilities attributable to SAH and USL as known by the management of the Company on the respective dates of the disposals were as follows:

	HK$'million
Analysis of the aggregate assets and liabilities of SAH and USL over which control was lost:	
Goodwill	165
Land use rights	25
Property, plant and equipment	408
Investment properties	1,434
Other non-current assets	59
Inventories	41
Financial asset at fair value through profit or loss	580
Debtors, deposits and prepayments	151
Cash and bank balances	23
Creditors and accruals	(114)
Loans from an intermediate holding company	(172)
Amounts due to immediate holding company	(2,068)
Other financial liabilities	(61)
Other non-current liabilities	(15)
Deferred tax liabilities	(118)
Taxation payable	(16)
Net assets disposed of	322
Aggregate gain on disposal of subsidiaries:	
Consideration received	2,186
Net assets disposed of	(322)
Assignment of shareholder's loan	(2,068)
Non-controlling interests	221
Cumulative exchange differences reclassified to profit or loss upon disposals	35
Gain on disposals	52
Net cash inflows arising on disposals:	
Cash consideration	2,186
Less: Cash and bank balances disposed of	(23)
	2,163

38. ACQUISITION OF ASSETS THROUGH ACQUISITIONS OF SUBSIDIARIES

For the year ended 31 December 2016

In September 2015, a wholly-owned subsidiary of the Company entered into a share purchase agreement with two fellow subsidiaries to acquire 100% equity interest in Shenzhen Jinyu from the fellow subsidiaries. The acquisition has been completed in current year with total consideration of RMB2,047 million (equivalent to approximately HK$2,456 million).

In December 2016, a wholly-owned subsidiary of the Company completed the acquisition of 100% equity interest in 深圳市招商前海灣置業有限公司 (Shenzhen China Merchants Qianhaiwan Property Company Limited, being an unofficial English name) ("Shenzhen Qianhaiwan") from two fellow subsidiaries. The total consideration is RMB2,821 million (equivalent to approximately HK$3,154 million).

The transactions are accounted for as acquisitions of assets as the acquisitions do not meet the definition of business combinations.

	HK$'million
The net assets acquired in the transactions are as follows:	
Property, plant and equipment	**93**
Investment properties	**6,845**
Land use rights	**195**
Debtors, deposits and prepayments	**4**
Cash and bank balances	**31**
Creditors and accruals	**(450)**
Other financial liabilities	**(1,108)**
Total identifiable net assets	**5,610**
Net cash outflow arising in the acquisitions:	
Cash consideration	**5,610**
Less: Cash and bank balances acquired	**(31)**
Deposit paid in previous year (note 24)	**(600)**
Cash consideration not yet paid (note 35)	**(1,131)**
Total consideration paid	**3,848**

39. ACQUISITION OF A SUBSIDIARY

For the year ended 31 December 2015

Pursuant to a capital injection agreement entered into among a wholly-owned subsidiary of the Company, an independent third party and 廣東頤德港口有限公司 (Guangdong Yide Port Limited, being an unofficial English name) ("Yide Port"), the Group agreed to inject RMB55 million (equivalent to HK$69 million) (the "Injected Capital") to Yide Port and Yide Port agreed to raise its capital by the same amount. The Injected Capital represented 51% of Yide Port's total capital immediately after injection. Yide Port is a limited liability company established in the PRC principally engaged in port operations.

The transaction was completed in July 2015 and the fair value of the identifiable assets acquired and liabilities assumed for Yide Port as at the completion date was amounted to HK$135 million.

	HK$'million
Consideration satisfied in cash	69
Fair value of identifiable assets acquired and liabilities assumed:	
Property, plant and equipment	137
Cash and bank balances	115
Debtors, deposits and prepayments	94
Other financial liabilities	(139)
Creditors and accruals	(72)
Total identifiable net assets	135
Non-controlling interests	(66)
	69
Net cash inflow arising in the acquisition:	
Cash consideration paid	(69)
Add: Cash and bank balances acquired	115
	46

The non-controlling interest in Yide Port 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$66 million.

Yide Port contributed no revenue and incurred operating expenses of HK$2 million for the year ended 31 December 2015 since the completion of the acquisition.

Had Yide Port been consolidated from 1 January 2015, there would have been no change to the Group's profit attributable to the equity holders of the Company and the revenue of the Group shown in the consolidated statement of profit or loss for the year ended 31 December 2015.

40. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments for property, plant and equipment, intangible assets and land use rights that are contracted but not provided for

	2016 HK$'million	2015 HK$'million
Group:		
Property, plant and equipment and intangible assets	**1,150**	1,542
Land use rights	**728**	—
	1,878	1,542
Joint ventures:		
Property, plant and equipment	**407**	402
	2,285	1,944

(b) Capital commitments for investments that are contracted but not provided for

	2016 HK$'million	2015 HK$'million
Group:		
– Ports projects	**579**	581
– Investment in an available-for-sale investment	**4**	4
– Investment in a subsidiary and an associate	**63**	58
– Acquisition of a subsidiary	—	1,846
	646	2,489

(c) Commitments under operating leases

As at 31 December 2016, the Group has future aggregate minimum lease payments under non-cancellable operating leases for property, plant and equipment and land use rights as follows:

	2016 HK$'million	2015 HK$'million
Within one year	**175**	164
In the second to fifth year inclusive	**245**	311
After the fifth year	**1,739**	1,738
	2,159	2,213

40. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

(d) Future operating lease receivables

As at 31 December 2016, the Group has future aggregate lease receivables under non-cancellable operating leases for investment properties and property, plant and equipment as follows:

	2016 **HK$'million**	2015 HK$'million
Within one year	**116**	103
In the second to fifth year inclusive	**195**	139
After the fifth year	**110**	35
	421	277

(e) Contingent liabilities

As at 31 December 2016, the other shareholder of an associate of which the Group held as to 49% of its issued share capital provided corporate guarantees to the full amount for certain loan facilities granted by banks to and other obligations borne by the relevant associate. A counter indemnity in favour of the other shareholder of the associate is executed pursuant to which the Group undertakes to indemnify the other shareholder 49% of the liabilities in the aggregate amount of HK$148 million (2015: HK$217 million) arising from the above loan facilities and other obligations.

In addition to above, the Group also provides guarantees for banking facilities granted to and other obligations borne by associates of the Group. The total amount guaranteed by the Group is HK$410 million (2015: HK$11 million) and the aggregate amount utilised by the relevant associates amounted to HK$100 million (2015: HK$5 million).

The directors assessed the risk of default of the associate in serving the aforesaid loan facilities and other obligations at the end of the reporting period and considered the risk to be insignificant and it is not likely that any guaranteed amount will be claimed.

41. RELATED PARTY TRANSACTIONS

The directors regard CMG, a stated-owned enterprise registered in the PRC and is controlled by the PRC Government, as being the ultimate holding company of the Company.

Related parties refer to entities in which CMG has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions, or directors or officers of the Company and its subsidiaries. A summary of significant related party transactions entered into in the normal course of business between the Group and its related parties during the year and balances arising from related transactions as at 31 December 2016 are as follows:

41. RELATED PARTY TRANSACTIONS (Continued)

(a) Balances and transactions with CMG, its subsidiaries, associates and joint ventures (collectively referred to as the "CMG Group")

	Note	2016 HK$'million	2015 HK$'million
Rental income from	(i)		
– an intermediate holding company		—	36
– fellow subsidiaries		**7**	3
– associates		—	15
Rental expenses paid to	(i)		
– an intermediate holding company		—	1
– fellow subsidiaries		**99**	123
– associates		**79**	81
Service income from	(ii)		
– fellow subsidiaries		**77**	61
– joint ventures		**124**	137
– associates		**98**	54
Service fees paid to	(iii)		
– fellow subsidiaries		**47**	32
– joint ventures		**37**	27
Interest expenses and upfront fees paid to	(iv)		
– ultimate holding company		**28**	65
– an intermediate holding company		**16**	47

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 ports and logistics service fees were charged with reference to market rates.

(iii) These related parties 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 note 31 to the consolidated financial statements on the outstanding amounts due to the ultimate and an intermediate holding companies.

(v) During the year ended 31 December 2016, the Group completed the acquisition of 100% equity interest in Shenzhen Jinyu and Shenzhen Qianhaiwan for an aggregate cash consideration of RMB4,868 million (equivalent to approximately HK$5,610 million) from certain subsidiaries of CMG, details are disclosed in note 38.

(vi) During the year ended 31 December 2015, the Company entered into a share purchase agreement with an intermediate holding company of the Company, pursuant to which the Company agreed to sell the entire issued share capital of USL and to assign the shareholder's loan to the intermediate holding company. The total consideration was HK$1,426 million.

The Company also entered into a share purchase agreement with a wholly-owned subsidiary of CMG, the ultimate holding company of the Company, pursuant to which the Company agreed to sell the entire issued share capital of SAH and to assign the shareholder's loan to the wholly-owned subsidiary of CMG. The total consideration was HK$760 million.

(vii) During the year ended 31 December 2015, a wholly-owned subsidiary of the Group transferred certain assets to a joint venture at a consideration of HK$74 million.

41. RELATED PARTY TRANSACTIONS (Continued)

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

Notes: (Continued)

(viii) During the year ended 31 December 2015, a non-wholly-owned subsidiary of the Company completed a transaction with a fellow subsidiary for acquisition of a land use right located in Zhangzhou, the PRC, at a consideration of HK$24 million.

(ix) During the year ended 31 December 2013, a wholly-owned subsidiary of the Company entered into another transaction with a fellow subsidiary for acquisition of a land use right located in Shenzhen, the PRC, at a consideration of HK$17 million. The transaction has not yet been completed at the end of the reporting period and the amount paid by the Group as at 31 December 2016 and 2015 amounting to HK$17 million (2015: HK$17 million) was also accounted for as a prepayment for purchase of non-current assets set out in note 24.

(x) As at 31 December 2016, the Group placed deposits of HK$982 million (2015: HK$4,295 million) with China Merchants Bank Co., Ltd. ("CMB"), an associate of CMG.

During the year, interest income from CMB amounted to HK$10 million (2015: HK$53 million).

During the year ended 31 December 2016, interest expense paid and payable to CMB amounted to HK$1 million (2015: HK$2 million).

The balances with entities within CMG Group as at 31 December 2016 and 31 December 2015 are disclosed in notes 24, 26, 31 and 35 to the consolidated financial statements.

(b) Transactions with other PRC state-controlled entities

A number of subsidiaries of the Company operate in the Mainland China, an economic environment currently predominated by entities controlled, jointly controlled or significantly influenced by the PRC Government. These PRC subsidiaries therefore have substantial volumes of transactions with other PRC state-controlled entities during their ordinary course of businesses including but not limited to the purchases of assets, construction of ports and related facilities, bank deposits and borrowings, among others.

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

	2016 **HK$'million**	2015 HK$'million
Interest expense paid (Note)	**19**	16

Note: Interest expense was charged at interest rate as specified in note 32 to the consolidated financial statements on the outstanding loans from non-controlling equity holders of subsidiaries.

The balances with non-controlling equity holders of subsidiaries as at 31 December 2016 and 2015 are disclosed in note 32 to the consolidated financial statements.

(d) Key management compensation

	2016 **HK$'million**	2015 HK$'million
Salaries and other short-term employee benefits	**14**	14

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

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

Name of subsidiary	Place of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of ownership interest held by the Company Directly 2016 %	Directly 2015 %	Indirectly 2016 %	Indirectly 2015 %	Principal activities
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) Investment Limited	Hong Kong	HK$10,000	**100.00**	100.00	—	—	Investment holding and securities trading
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 Bonded Logistics Co., Limited (Note (b))	PRC	RMB700,000,000	—	—	**78.26**	78.26	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
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**	85.00	—	—	Provision of container terminal services
Lomé Container Terminal S.A. (Note (c))	Togolese Republic	XOF200,000,000	—	—	**35.00**	35.00	Provision of container terminal services
Mega Shekou Container Terminals Limited	British Virgin Islands	US$120	—	—	**80.00**	80.00	Investment holding

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of ownership interest held by the Company Directly 2016 %	Directly 2015 %	Indirectly 2016 %	Indirectly 2015 %	Principal activities
Shekou 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) (Notes (b) and (d))	PRC	RMB644,763,730	—	—	**45.66**	45.66	Port operations
Shenzhen Haiqin Engineering Supervision & Management Co., Ltd. (Note (a))	PRC	RMB3,000,000	—	—	**100.00**	100.00	Provision of services on ports construction
Shenzhen Haixing Harbour Development Company Ltd. (Note (b))	PRC	US$15,151,500	—	—	**67.00**	67.00	Provision of container terminal services
Shenzhen Mawan Port Service Co., Ltd. (Note (b))	PRC	RMB200,000,000	—	—	**83.70**	83.70	Operation of berth No. 5 in Mawan, Shenzhen, PRC
Shenzhen Mawan Terminals Co., Ltd. (Note (b))	PRC	RMB335,000,000	—	—	**83.70**	83.70	Operation of berths No. 6 & No. 7 in Mawan, Shenzhen, PRC
Shenzhen Mawan Wharf Co., Ltd. (Note (b))	PRC	RMB200,000,000	—	—	**83.70**	83.70	Operation of berth No. 0 in Mawan, Shenzhen, PRC
Xia Men Bay China Merchants Terminals Co., Ltd. (Notes (b) and (d))	PRC	RMB315,000,000	—	—	**31.00**	31.00	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	**10.57**	10.57	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

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of ownership interest held by the Company				Principal activities
			Directly		Indirectly		
			2016 %	2015 %	2016 %	2015 %	
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
廣東頤德港口有限公司(Note (b))	PRC	RMB216,000,000	—	—	**51.00**	51.00	Port operations
深圳金域融泰投資發展有限公司 (Note (e))	PRC	RMB800,000,000	—	—	**100.00**	—	Property holding
深圳市招商前海灣置業有限公司 (Note (e))	PRC	RMB200,000,000	—	—	**100.00**	—	Property holding

Notes:

(a) Foreign investment enterprises

(b) Sino-foreign joint ventures

(c) This entity is considered to be a subsidiary of the Company despite the Group holds effective equity interest of 35% (2015: 35%) therein as the Group has the power to appoint and remove the majority of the executive committee of the entity, which is empowered to direct the relevant activities of control of the investee by virtue of the shareholders' agreement.

(d) These entities are considered to be subsidiaries of the Company despite the Group holds less than half of the equity interest therein as the Group has the power to appoint and remove the majority of the board of directors of the relevant entities and holds more than half of the voting rights at the relevant shareholders' meetings of the respective entity by virtue of agreements with other investors.

(e) Acquired during the year.

43. PARTICULARS OF PRINCIPAL ASSOCIATES

Name of associate	Place of incorporation/ registration and operation	Proportion of ownership interest indirectly held by the Company		Principal activities
		2016 %	2015 %	
Asia Airfreight Terminal Company Limited	Hong Kong	**20.00**	20.00	Airfreight services
China International Marine Containers (Group) Co., Ltd. (shares listed on the HKSE and the Shenzhen Stock Exchange) (Note (a))	PRC	**24.53**	23.08	Design, manufacture and sales of dry freight containers and refrigerated containers, road transportation vehicle, energy, chemical and food equipment and offshore engineering

43. PARTICULARS OF PRINCIPAL ASSOCIATES (Continued)

Name of associate	Place of incorporation/ registration and operation	Proportion of ownership interest indirectly held by the Company 2016 %	2015 %	Principal activities
China Nanshan Development (Group) Incorporation (Note (a))	PRC	**37.01**	37.01	Investment holding
Chu Kong River Trade Terminal Co., Limited	British Virgin Islands	**20.00**	20.00	Provision of shuttle-barge ports services
Dalian Port (PDA) Company Limited (shares listed on the HKSE and the Shanghai Stock Exchange) (Notes (a) and (b))	PRC	**21.05**	—	Provision of terminal business and logistic services
Modern Terminals Limited	Hong Kong	**27.01**	27.01	Provision of container terminal services and warehouse services
Port de Djibouti S.A.	Republic of Djibouti	**23.50**	23.50	Operations of seaports and terminals and port related business in Djibouti
Shanghai International Port (Group) Co., Ltd. (A shares listed on the Shanghai Stock Exchange) (Note (a))	PRC	**25.15**	24.05	Ports and container terminal business and related services
Terminal Link SAS	French Republic	**49.00**	49.00	Operations of container terminals in Europe, Mediterranean Basil, Africa, Americas and Asia
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.	Federal Republic of Nigeria	**28.50**	28.50	Provision of container terminal services

Notes:

(a) Sino-foreign joint ventures

(b) Acquired during the year

44. PARTICULARS OF PRINCIPAL JOINT VENTURES

Name of joint venture	Issued capital/ registered capital	Proportion of ownership interest indirectly held by the Company 2016 %	2015 %	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 Ltd. (Notes (a) and (b))	HK$8,000,000	—	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
Qingdao Port Dongjiakou Ore Terminal Co., Ltd (Note (a))	RMB1,400,000,000	**25.00**	25.00	Ports and bulk cargo terminal business
Euro-Asia Oceangate S.ar.l.	USD940,141,587.60	**40.00**	40.00	Ports and container terminal business

Notes:

(a) Sino-foreign joint ventures

(b) Deregistered during the year

Under the relevant shareholders' agreement, decisions of relevant activities of the entities above require unanimous consent from relevant joint venture partner(s). Accordingly, neither the Group nor the other venture partners(s) has the ability to control the relevant entities unilaterally and each of the entity above is considered as jointly controlled by the Group and the relevant joint venture partner(s).

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2016 HK$'million	2015 HK$'million
ASSETS		
Non-current assets		
Property, plant and equipment	**463**	478
Interests in subsidiaries	**46,537**	39,888
Prepayment	**6**	6
	47,006	40,372
Current assets		
Debtors, deposits and prepayments	**50**	7
Advances to subsidiaries	**6,766**	3,921
Cash and bank balances	**562**	7,490
	7,378	11,418
Total assets	**54,384**	51,790
EQUITY		
Capital and reserves attributable to equity holders of the Company		
Share capital	**19,548**	18,994
Mandatory convertible securities	**15,219**	15,224
Reserves (Note)	**3,890**	4,926
Proposed dividend (Note)	**1,707**	1,429
Total equity	**40,364**	40,573
LIABILITIES		
Non-current liabilities		
Advances from subsidiaries	**10,790**	10,748
Current liabilities		
Advances from subsidiaries	**1,490**	397
Creditors and accruals	**57**	72
Other financial liabilities	**1,683**	—
	3,230	469
Total liabilities	**14,020**	11,217
Total equity and liabilities	**54,384**	51,790
Net current assets	**4,148**	10,949
Total assets less current liabilities	**51,154**	51,321

The statement of financial position of the Company was approved and authorised for issue by the Board of Directors on 29 March 2017 and are signed on its behalf by:

Mr. Li Xiaopeng
DIRECTOR

Mr. Bai Jingtao
DIRECTOR

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note: The reserves of the Company at 31 December 2016 and 2015 are as follows:

	Share-based compensation reserve HK$'million	**Capital reserve HK$'million (Note (i))**	**Retained earnings HK$'million**	**Total HK$'million**
As at 1 January 2016	**48**	**2,340**	**3,967**	**6,355**
Transfer upon lapse of share options	**(48)**	—	**48**	—
Profit for the year	—	—	**2,007**	**2,007**
Dividends paid (Note (ii))	—	—	**(2,004)**	**(2,004)**
Distribution to MCS holders	—	—	**(761)**	**(761)**
As at 31 December 2016	—	**2,340**	**3,257**	**5,597**
Retained earnings as at 31 December 2016 representing:				
Reserves			**1,550**	
Proposed dividend			**1,707**	
			3,257	
As at 1 January 2015	76	2,340	4,942	7,358
Transfer upon exercise of share options	(28)	—	—	(28)
Profit for the year	—	—	2,075	2,075
Dividends paid (Note (ii))	—	—	(1,983)	(1,983)
Distribution to MCS holders	—	—	(1,067)	(1,067)
As at 31 December 2015	48	2,340	3,967	6,355
Retained earnings as at 31 December 2015 representing:				
Reserves			2,538	
Proposed dividend			1,429	
			3,967	

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) Dividends paid in the years are as follows:

	2016 HK$'million	2015 HK$'million
Interim of 22 HK cents (2015: 22 HK cents) per ordinary share	**575**	569
2015 final of 55 HK cents (2015: 2014 final of 55 HK cents) per ordinary share	**1,429**	1,414
	2,004	1,983

46. EVENT AFTER THE REPORTING PERIOD

Formation of joint ventures in connection with investment in the Djibouti International Free Trade Zone

On 16 January 2017, the Company entered into a shareholders' agreement with two fellow subsidiaries ("Agreement I") and another shareholders' agreement with the same fellow subsidiaries, the controlling shareholder of an associate and an independent third party ("Agreement II") (all of the parties as stated above, together with the Company, collectively referred to as the "Joint Investors"), in connection with proposed investments in the Djibouti International Free Trade Zone (the "Djibouti IFTZ Investment"). Two joint venture entities were formed by the Joint Investors as platforms to co-invest into the Djibouti IFTZ Investment. Details of these investments are set out in the announcement of the Company on 16 January 2017. Up to the date these consolidated financial statements were authorised for issuance, the Company has agreed to contribute US$12 million (equivalent to approximately HK$94 million) under Agreement I and has paid US$320,400 (equivalent to approximately HK$2.50 million) under Agreement II.

Corporate Information

BOARD OF DIRECTORS

Mr. Li Jianhong *(Chairman)*
(resigned on 18 February 2016)

Mr. Li Xiaopeng *(Chairman)*
(appointed as Chairman on 18 February 2016)

Mr. Hu Jianhua *(Vice Chairman)*
(appointed as Vice Chairman on 18 February 2016)

Mr. Su Xingang (resigned on 18 February 2016)

Mr. Fu Gangfeng (resigned on 29 November 2016)

Mr. Yu Liming (resigned on 29 November 2016)

Mr. Wang Hong

Mr. Hua Li (appointed on 29 November 2016)

Mr. Deng Renjie (resigned on 29 November 2016)

Mr. Bai Jingtao *(Managing Director)*

Mr. Wang Zhixian (appointed on 18 February 2016)

Mr. Zheng Shaoping

Ms. Shi Wei (appointed on 29 November 2016)

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

Industrial and Commercial Bank of China
Bank of China
China Construction Bank
China Development Bank
China Merchants Bank
The Bank of Toky-Mitsubishi UFJ, Ltd.

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISER

Linklaters

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.cmport.com.hk

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of China Merchants Port Holdings Company Limited (the "**Company**") will be held at Island Ballroom, Level 5, Island Shangri-La, Hong Kong, Two Pacific Place, Supreme Court Road, Central, Hong Kong on Friday, 2 June 2017 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 2016 together with the Report of the Directors and the Independent Auditor's Report.

2 To declare a final dividend of 65 HK cents per share for the year ended 31 December 2016 in scrip form with cash option.

3 A. Each as a separate resolution, to re-elect the following retiring directors of the Company (the "**Directors**"):

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

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

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

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

(e) To re-elect Mr. Zheng Shaoping as a Director;

(f) To re-elect Ms. Shi Wei as a Director; and

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

B. To authorise the board of Directors (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 its remuneration.

5 To consider and, if thought fit, to pass with or without modifications the following resolutions as ordinary resolutions:

Ordinary Resolutions

A. "**THAT**:

(a) subject to the Companies Ordinance (Chapter 622 of the laws of Hong Kong) (the "**Companies Ordinance**"), The Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and the terms and conditions of the share option scheme adopted by the shareholders of the Company on 9 December 2011 (the "**Share Option Scheme**"), a mandate be and is hereby unconditionally given to the Directors to exercise during the Relevant Period (as defined in paragraph (c) below) all the powers of the Company to grant options to subscribe for shares of the Company and/or to make or grant offers of options under the Share Option Scheme that would or might require shares of the Company to be alloted and/or options to be granted under the Share Option Scheme;

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

(c) for the purpose 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 Company's articles of association (the "**Articles of Association**") or any applicable laws 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."

B. "**THAT**:

(a) subject to paragraph (c) of this Resolution and pursuant to Sections 140 and 141 of the Companies Ordinance, the exercise by the Directors during the Relevant Period (as defined in paragraph (d) below) of all the powers of the Company to allot, issue and deal with additional shares 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 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 total number of shares allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors 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, shall not exceed 20 per cent. of the total number of shares of the Company in issue as at the date of the passing of this Resoultion (such total number to be subject to adjustment in the case of any conversion of any or all of the shares of the Company into a larger or smaller number of shares of the Company after 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 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.

"Rights Issue" means an offer of shares of the Company open for a period fixed by the Directors 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 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)."

C. "**THAT**:

(a) subject to paragraph (b) of this Resolution, the exercise by the Directors during the Relevant Period (as defined in paragraph (c) below) of all the powers of the Company to buy back its own shares on the Stock Exchange or any other stock exchange on which the securities of the Company may be listed and recognised by 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 Listing Rules or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;

(b) the total number of shares of the Company which may be bought back 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 total number of the shares of the Company in issue on the date of the passing of this Resolution (such total number to be subject to adjustment in the case of any conversion of any or all of the shares of the Company into a larger or smaller number of shares of the Company after 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 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."

D. "**THAT** conditional upon Resolutions numbered 5B and 5C set out in the notice convening this meeting being passed, the total number of shares of the Company which are bought back by the Company under the authority granted to the Directors as mentioned in Resolution numbered 5C set out in the notice convening this meeting shall be added to the total number of shares of the Company that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to Resolution numbered 5B set out in the notice convening this meeting, provided that the number of shares bought back by the Company shall not exceed 10 per cent. of the total number of shares of the Company in issue on the date of the passing of this Resolution (such total number to be subject to adjustment in the case of any conversion of any or all of the shares of the Company into a larger or smaller number of shares of the Company after the passing of this Resolution)."

By Order of the Board
China Merchants Port Holdings Company Limited
Li Xiaopeng
Chairman

Hong Kong, 21 April 2017

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, speak 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 Registrars, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, 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 29 May 2017 to 2 June 2017, 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 Registrars, 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 Friday, 26 May 2017.

   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 Friday, 9 June 2017. In order to qualify for the proposed final dividend, all transfers and the relevant share certificates must be lodged with the Company's Share Registrars, Computershare Hong Kong Investor Services Limited, at the above address not later than 4:30 p.m. on Friday, 9 June 2017.

4. Concerning resolutions numbered 5B and 5D 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 sections 140 and 141 of the Companies Ordinance and the Listing Rules.

5. Concerning resolution numbered 5C above, the Board wishes to state that it has no immediate plans to buy back 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 buy back shares. The Explanatory Statement required by the Listing Rules in connection with the proposed buy-back 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 54 of the Articles of Association.

7. As at the date of this notice, the Board comprises Mr. Li Xiaopeng, Mr. Hu Jianhua, Mr. Wang Hong, Mr. Hua Li, Mr. Bai Jingtao, Mr. Wang Zhixian, Mr. Zheng Shaoping and Ms. Shi Wei 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.

CHINA MERCHANTS PORT
HOLDINGS COMPANY LIMITED

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