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

Stock Code 股份代號：00144

WE CONNECT THE WORLD

2018
INTERIM REPORT 中期報告

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Presence of China Merchants Port Holdings Company Limited
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Mainland China, Hong Kong and Taiwan
中國大陸，香港及台灣

Ports 碼頭業務　Logistics 綜合物流業務

Pearl River Delta
珠三角地區

Ports

Mega SCT
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Chiwan Container Terminal
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Shenzhen Mawan Project
深圳媽灣項目

Shenzhen Chiwan Wharf
深圳赤灣港航

China Merchants Port Services
招商港務

Shenzhen Haixing Harbour Development
深圳海星港口發展

China Merchants Container Services
招商局貨櫃服務

Modern Terminals
現代貨箱碼頭

Guangdong Yide Port
廣東頤德港口

Logistics

China Merchants Bonded Logistics
招商局保稅物流

Yangtze River Delta
長三角地區

Ports

Shanghai International Port (Group)
上海國際港務（集團）

Ningbo Daxie China Merchants International Terminals
寧波大榭招商國際碼頭

Ningbo Zhoushan Port
寧波舟山港

South-East Region
東南地區

Ports

Zhangzhou China Merchants Port
漳州招商局碼頭

Shantou China Merchants Port Group
汕頭招商局港口集團

South-West Region
西南地區

Ports

Zhanjiang Port
湛江港

Kaohsiung, Taiwan
台灣，高雄

Ports

Kao Ming Container Terminal
高明貨櫃碼頭

Bohai Rim
環渤海地區

Ports

Dalian Port
大連港

Qingdao Qianwan United Container Terminal
青島前灣聯合集裝箱碼頭

Qingdao Qianwan West Port United Terminal
青島前灣西港聯合碼頭

Qingdao Port Dongjiakou Ore Terminal
青島港董家口礦石碼頭

Qingdao Port International
青島港國際

Tianjin Five Continents International Container Terminal
天津五洲國際集裝箱碼頭

Logistics

China Merchants International Terminal (Qingdao)
招商局國際碼頭（青島）

Tianjin Haitian Bonded Logistics
天津海天保税物流

Corporate Information

BOARD OF DIRECTORS

Mr. Li Xiaopeng *(Chairman)*
(resigned on 11 January 2018)
Mr. Fu Gangfeng (*Chairman*)
(appointed on 20 March 2018)
Mr. Hu Jianhua (*Vice Chairman*)
Mr. Wang Hong
(resigned on 4 June 2018)
Mr. Su Jian
Mr. Xiong Xianliang
(appointed on 4 June 2018)
Mr. Bai Jingtao *(Managing Director)*
Mr. Wang Zhixian
Mr. Zheng Shaoping
Ms. Shi Wei
(resigned on 4 June 2018)
Mr. Kut Ying Hay*
Mr. Lee Yip Wah Peter*
Mr. Li Kwok Heem John*
Mr. Li Ka Fai David*
Mr. Bong Shu Ying Francis*

* *independent non-executive director*

REGISTERED OFFICE

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

COMPANY SECRETARY

Mr. Leung Chong Shun, Practising Solicitor

PRINCIPAL BANKERS

China Development Bank
The Hong Kong and Shanghai Banking Corporation Limited
Bank of China
Industrial and Commercial Bank of China
China Construction Bank
The Bank of Tokyo-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

Financial Highlights

	For the six months ended 30 June 2018 HK$'million	2017 HK$'million	Year-on-year changes
Consolidated statement of profit or loss highlights			
Revenue[1]	16,549	24,288	(31.9%)
Profit attributable to equity holders of the Company	5,448	3,148	73.1%
Non-recurrent gains, net of tax[2]	(3,277)	(879)	272.8%
Recurrent profit	2,171	2,269	(4.3%)
Earnings per share (HK cents)			
Basic and diluted	166.22	100.62	65.2%
Dividend per share (HK cents)			
Interim dividend	22.00	22.00	—
Special interim dividend	–	135.00	N/A
Consolidated statement of cash flows highlights			
Net cash generated from operating activities	2,026	1,864	8.7%

	30 June 2018 HK$'million	31 December 2017 HK$'million	Changes
Consolidated statement of financial position highlights			
Total assets	144,129	131,951	9.2%
Capital and reserves attributable to equity holders of the Company	75,873	73,447	3.3%
Net interest-bearing debts[3]	31,462	19,313	62.9%

	For the six months ended 30 June 2018 HK$'million	2017 HK$'million	Year-on-year changes
Revenue[1]			
Ports operation	**13,375**	12,161	10.0%
Bonded logistics operation	**333**	281	18.5%
Port-related manufacturing operation	**–**	9,265	N/A
Other operations	**2,841**	2,581	10.1%
Total	**16,549**	24,288	(31.9%)
EBITDA[4]			
Ports operation	**6,545**	5,891	11.1%
Bonded logistics operation	**149**	123	21.1%
Port-related manufacturing operation	**–**	835	N/A
Other operations	**663**	660	0.5%
EBITDA	**7,357**	7,509	(2.0%)
Unallocated net income[6]	**4,172**	563	641.0%
Net interest expenses[5]	**(1,284)**	(1,067)	20.3%
Taxation[5]	**(1,682)**	(1,096)	53.5%
Depreciation and amortisation[5]	**(2,338)**	(2,079)	12.5%
Non-controlling interests[5]	**(777)**	(682)	13.9%
Profit attributable to equity holders of the Company	**5,448**	3,148	73.1%

1. Include revenue of the Company and its subsidiaries, and its share of revenue of associates and joint ventures.
2. For 2018, include gain on disposal of subsidiaries, net of tax of HK$3,733 million, increase in fair value of investments properties, net of tax of HK$158 million, and net loss on change in fair value of financial assets and liabilities at fair value through profit or loss, net of tax of HK$614 million. For 2017, include gain on disposal of a subsidiary of HK$813 million and increase in fair value of investment properties, net of tax of HK$66 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 and gain on disposal of subsidiaries.
5. Include the respective items of the Company and its subsidiaries, and its share of the respective sums of associates and joint ventures.
6. Include expenses for corporate function and gain on disposal of subsidiaries.

Management Discussion and Analysis

GENERAL OVERVIEW

In the first half of 2018, global economy continued its positive recovery momentum of 2017, but certain volatility remained. With the reduced balance in the expansion of global economy, the growth rate of some major economies appeared to reach its peak and commenced to decline. Driven by the stimulation of economic policies including tax reform, the U.S. investor and consumer confidence remained strong and the unemployment rate continued to decrease which led to a stronger growth momentum in the U.S. Following the hastened pace of interest rate hike, the general economy of the U.S. did not show any significant contraction. Some EU countries recorded decrease in domestic demand and slow down of economic activities which exceeded expectation. Because of the weaker individual consumption and investment sentiments, the Japanese economy shrank in the first quarter. In addition, in emerging market and developing economies, the expected inflation hike accelerated the pace of tightening monetary policies; in which imposed pressure on currency depreciation at the same time. Impacted by these factors, certain economies with weaker fundamentals shared a more unbalanced growth outlook. Some South American and Asian countries have made downward adjustment to the growth forecasts of their respective economies. However, the rise in oil price supported some oil-exporting nations to enhance their economies and outlooks. Although the risks that threaten the global economic growth prospect have been increasing, with the gradually stronger fundamentals of the major economies such as the U.S. and China, the recovery trajectory of the global economy continued and the growth prospect over the medium term remained relatively optimistic.

According to the forecast in the "World Economic Outlook" published by the International Monetary Fund ("**IMF**") in July 2018, with the support of the active financial market and continued turnaround of investment and trading, the global economic growth was projected to increase from 3.7% in 2017 to 3.9% in 2018 and 3.9% in 2019. The developed economies grew at 2.4% in 2018, which remained at the same level as compared to that in 2017. Meanwhile, emerging markets and developing economies were projected at a growth of 4.9%, representing an increase of 0.2 percentage point as compared to that of 2017. Total global trading volume (including goods and services) was predicted to grow by 4.8%, representing a decrease of 0.3 percentage point as compared to that of 2017.

In the first half of 2018, China maintained a positive upward trend with a Gross Domestic Product ("**GDP**") growth of 6.8% year-on-year. Due to the rebound of foreign trade, total import and export value amounted to US$2.21 trillion, representing a year-on-year increase of 16.0%, among which the total export value was US$1.17 trillion, indicating a 12.8% year-on-year increase, while total import value was US$1.03 trillion, reflecting a year-on-year increase of 19.9%.

Benefitted from the restorative growth of China's domestic demand and the good performance of import and export trade, according to the data published by the Ministry of Transport of China, the container throughput handled by Chinese ports of significant scale totalled 121 million TEUs during the first half of 2018, representing a year-on-year increase of 5.4%, down 3.4 percentage points as compared to the growth rate of the same period last year. Of which, 108 million TEUs were handled by coastal ports, representing a year-on-year increase of 5.5%, down 2.3 percentage points as compared to the growth rate of the same period last year.

During the six months ended 30 June 2018, the Group's ports handled a total container throughput of 53.81 million TEUs (2017: 50.16 million TEUs), representing a growth of 7.3% as compared with the same period last year, and bulk cargo volume of 250 million tonnes (2017: 249 million tonnes), representing a growth of 0.6% as compared with the same period last year. Profit attributable to equity holders of the Company amounted to HK$5,448 million, representing an increase of 73.1% over the same period last year. Since the Group no longer shared profits from China International Marine Containers (Group) Co., Ltd ("**CIMC**") starting from the second half of last year, recurrent profit [Note 1] decreased by 4.3% over the same period last year to HK$2,171 million. Recurrent profit derived from the Group's core ports operations amounted to HK$2,787 million, up by 13.7% year-on-year. EBITDA [Note 2] derived from the Group's core ports operations amounted to HK$6,545 million, up by 11.1% year-on-year, accounting for 89.0% of the Group's total EBITDA.

BUSINESS REVIEW

Ports operation

In the first half of the year, the Group's ports handled a total container throughput of 53.81 million TEUs, up by 7.3% year-on-year, enabling the Group to sustain its leading position among port operators in China. The growth of the period was mainly benefitted from the significant growth of throughput handled by the Group's overseas ports. Among which, the Group's ports in Mainland China contributed container throughput of 40.00 million TEUs, representing an increase of 5.6% year-on-year. The Group's ports in Hong Kong and Taiwan contributed an aggregate container throughput of 3.72 million TEUs, which basically remained at the same level as compared to the same period last year. Total container throughput handled by the Group's overseas ports was 10.09 million TEUs, representing a growth of 18.2% year-on-year. Bulk cargo volume handled by the

Note 1 Profit attributable to equity holders of the Company net of non-recurrent gains after tax. Non-recurrent gains include: for the first half of 2018, gain on disposal of subsidiaries, change in fair value of financial assets and liabilities at fair value through profit or loss and change in fair value of investment properties; while for the first half of 2017, gain on disposal of a subsidiary and change in fair value of investment properties.

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

Group's ports increased by 0.6% year-on-year to 250 million tonnes, within which bulk cargo volume handled by ports in Mainland China totalled 247 million tonnes, representing an increase of 0.7% year-on-year.

Pearl River Delta region

In the Pearl River Delta region, the Group's terminals in West Shenzhen Port Zone handled a container throughput of 5.54 million TEUs in the first half of the year, down by 0.5% year-on-year, of which international container throughput totalled 5.23 million TEUs, up by 1.5% year-on-year. Chu Kong River Trade Terminal Co., Ltd. handled a total container throughput of 0.67 million TEUs, down by 2.0% year-on-year. Bulk cargo volume handled by the West Shenzhen Port Zone amounted to 7.43 million tonnes, down by 28.9% year-on-year, which was principally affected by the declining grain business in the Pearl River Delta region upon reaching its peak in 2017. Dongguan Machong Terminal handled bulk cargo volume of 5.48 million tonnes, down by 25.0% year-on-year. The total container throughput handled by ports in Hong Kong decreased by 3.8% year-on-year in the first half of the year, of which the container throughput handled by the ports in Kwai Tsing area decreased by 3.5% year-on-year. Modern Terminals Limited and China Merchants Container Services Limited delivered an aggregate container throughput of 2.90 million TEUs in the first half of the year, which decreased by 0.5% year-on-year, and outperformed the overall market of Hong Kong.

Yangtze River Delta region

In the first half of the year, Shanghai International Port (Group) Co., Ltd. handled a total container throughput of 20.51 million TEUs, up by 4.6% year-on-year. Bulk cargo volume handled down by 9.3% year-on-year to 75.80 million tonnes, which was principally affected by the increase in production volume of iron ore in China, leading to the shrunk demand for imported iron ore and a decrease in demand for crude oil resulted from the environmental protection activities in the Yangtze River Region. Ningbo Daxie China Merchants International Terminals Co., Ltd. handled a total container throughput of 1.71 million TEUs in the first half of the year, representing an increase of 4.7% year-on-year.

Bohai Rim region

Dalian Port (PDA) Company Limited handled a total container throughput of 5.50 million TEUs and bulk cargo volume of 61.84 million tonnes, representing an increase of 3.9% and a decrease of 1.6% year-on-year respectively in the first half of the year. Qingdao Qianwan United Container Terminal Co., Ltd. handled a total container throughput of 3.40 million TEUs, representing an increase of 4.7% year-on-year. Qingdao Qianwan West Port United Terminal Co., Ltd. handled bulk cargo volume of 7.12 million tonnes, representing an increase of 11.0% year-on-year. Qingdao Port Dongjiakou Ore Terminal Co., Ltd. handled bulk cargo volume of 29.51 million tonnes, indicating an increase of 5.7% year-on-year. Tianjin Five Continents International Container Terminals Co., Ltd. handled a total container throughput of 1.32 million TEUs, representing an increase of 6.4% year-on-year.

South-East region of Mainland China

In the first half of the year, Zhangzhou China Merchants Port Co., Ltd. ("**ZCMP**"), located in Xiamen Bay Economic Zone, handled a container throughput of 0.19 million TEUs, down by 4.1% year-on-year, which was mainly attributed to the insufficient local demand and hence affected the container volume. In the first half of the year, ZCMP handled bulk cargo volume of 7.94 million tonnes, up by 88.0% year-on-year, which was mainly attributed to the recovery of the production activities of wood processing and iron ore fines industries in the hinterland. Shantou China Merchants Port Group Co., Ltd., which was acquired in August 2017, handled a container throughput of 0.61 million TEUs and bulk cargo volume of 4.48 million tonnes.

South-West region of Mainland China

Zhanjiang Port (Group) Co., Ltd. handled a total container throughput of 0.46 million TEUs, up by 9.8% year-on-year; and a total bulk cargo volume of 46.06 million tonnes, up by 7.5% year-on-year in the first half of the year.

Taiwan

Kao Ming Container Terminal Corporation in Kaohsiung handled a total container throughput of 0.82 million TEUs in the first half of the year, which basically remained at the same level as compared to the same period last year.

Overseas operation

During the first half of the year, the total container throughput handled by the Group's overseas operation amounted to 10.09 million TEUs, representing an increase of 18.2% year-on-year, among which the container throughput handled by Colombo International Container Terminals Limited in Sri Lanka rose by 16.4% year-on-year to 1.30 million TEUs. Container throughput handled by Lomé Container Terminal S.A. in Togo amounted to 0.49 million TEUs, up by 36.1% year-on-year. Container throughput handled by Tin-Can Island Container Terminal Limited in Nigeria was 0.26 million TEUs, representing an increase of 33.8% year-on-year. Terminal Link SAS, which acquired the port of Thessaloniki in Greece at the beginning of this year, handled container throughput of 6.72 million TEUs, representing an increase of 12.6% year-on year. Kumport Liman Hizmetleri ve Lojistik Sanayi ve Ticaret Anonim Şirketi in Turkey handled container throughput of 0.65 million TEUs, representing an increase of 57.8% year-on-year. Container throughput handled by Port de Djibouti S.A. in Djibouti amounted to 0.41 million TEUs, down by 15.8% year-on-year, mainly attributed to the decrease in transshipment volume to Ethiopia. In February 2018, the acquisition of TCP Participações S.A. ("**TCP**") in Brazil was officially completed, TCP handled a container throughput of 0.26 million TEUs from March to June.

Strategic deployments in the ports operation

In the first half of 2018, moving towards its vision of "to be a world's leading comprehensive port service provider", the Group proposed the overall operation philosophy of "enhancing core capability, insisting on both quality and efficiency, capitalising on opportunities of this era and striving to become a world's leading enterprise". The Group set its vision on long term development and maintained its strategic positioning and strived to be a world's leading comprehensive port service provider. Meanwhile, by capitalising on the existing opportunities, the Group adhered to the principle of "enhancing capability, improving quality and efficiency" as a pivot to focus on both denotative and connotative development, and made efforts in business expansion, platform construction and capacity building.

Regarding the development of homebase port, the significant asset restructuring of Shenzhen Chiwan Wharf Holdings Limited ("**Shenzhen Chiwan**") was in progress as planned. Moreover, the construction of Tonggu Channel dredging and widening project was expeditiously underway. The Group pushed forward the construction of an intelligent port. The "E-port" project was in progress as planned, focusing on the development of big data platform and visualised platform. The intelligent port project connected the external customer service with the internal intelligent and automated terminal operations and compounded by the use of various technologies such as LBS system, Internet of Things, big data and others for the construction of an intelligent port. Meanwhile, the Group promoted the application of innovative projects and implement innovative projects including "Container Storage Yard Operation Safety System" and "RTG Storage Capacity Control". During the period under review, the Group's "Comprehensive Service Platform" was officially put into operation, which facilitated trade and customs operation and enhanced the overall competitiveness of the homebase port.

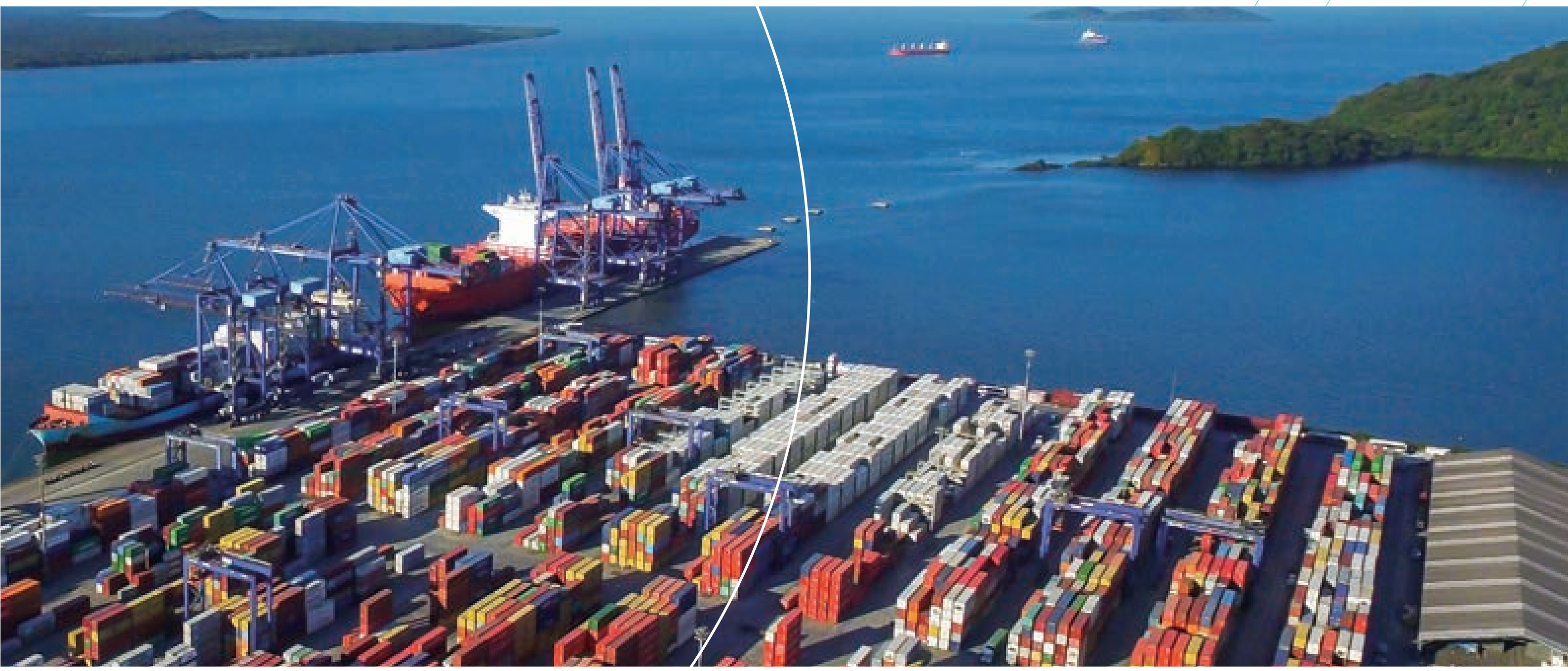
As for overseas expansion, by seizing the development opportunities arising from the "Belt and Road" initiative promoted by China and collaboration over international production capacity, the Group explored the implementation of the comprehensive development model of "Port-Park-City" oversea. On 23 February 2018, the Group completed the acquisition of TCP, which is the second largest container terminal in Brazil. On 14 June 2018, the Group completed the acquisition of the Port of Newcastle, which is the largest port on the east coast of Australia. Those projects marked the expansion of the Group's overseas port layout from Asia, Africa, Europe and North America to South America and Oceania, realizing its coverage in six continents.

With respect to the Chinese port market, the Group continued to capture the opportunities arising from the existing domestic ports operation consolidation and the coordinated development of ports and cities in China so as to optimise the structure of domestic ports resources. It has also designed a multi-beneficial cooperation model based on the port conditions of different regions and resources available in various hinterlands.

With regard to innovative development, in the first half of 2018, the Group pushed forward the establishment of a comprehensive port ecosystem on the foundation of ports operation in an orderly manner, and enhanced the synergy and cooperation between the relevant involved parties in port business and strengthened its ability in creating values for customers through innovation of management, technology and business models and expansion towards the upstream and downstream of industrial chain and value chain, thereby realising the transformation from a terminal operator to a comprehensive port service provider. It has also implemented projects such as an electronic trading platform for minor bulk agricultural product with a view to establishing a comprehensive port ecosystem with its best endeavours, at the same time launching the global intelligent container project and developed the container cargo status analysis platform based on big data. The innovative integration model of industry with elements of finance initiated the establishment of an innovative port development and investment platform in China and boosted the synergy and mutual use of resources. The Group further facilitated the replication and promotion of the success in "Port+" model and commenced deep cooperation in the fields of port big data and intelligent hardware and software by focusing on the direction of "Smart Port". The Group has built a comprehensive port ecosystem and has developed a highly vertical ecosystem for port and port-related industries.

Bonded logistics operation

During the first half of the year, the Group's bonded logistics business continued to pursue the development direction of diverse integrated services business. On one hand, the Group put more efforts in marketing and enhanced the utilisation rate of resources such as the existing warehouses and yards so as to respond with market changes. The utilisation rate of the warehouses of China Merchants Bonded Logistics Co., Ltd. in Shenzhen recorded an increase of 23.6 percentage points to 99.4% year-on-year. The utilisation rate of warehouses of China Merchants International Terminal (Qingdao) Co., Ltd. in Qingdao remained at 100%. Tianjin Haitian Bonded Logistics Co., Ltd., which is an associate of the Group, recorded an utilisation rate of 58.0% of its warehouses in the first half of the year. On the other hand, the Group also actively expanded its overseas projects, striving to maintain a balanced business layout. The bonded warehouse in Djibouti, which was invested and constructed by the Group, will commence operation in the near term.



During the first half of 2018, the total cargo volume handled at the three major air cargo terminals in Hong Kong amounted to 2.09 million tonnes, representing an increase of 2.6% year-on-year. Asia Airfreight Terminal Company Limited, which is an associate of the Group, handled a total cargo volume of 0.41 million tonnes, representing an increase of 59.1% year-on-year, and a market share of 19.6%, up by 6.9 percentage points year-on-year.

FINANCIAL REVIEW

For the six months ended 30 June 2018, the Group's revenue [Note 3] amounted to HK$16,549 million, down 31.9% over the same period last year, of which the Group no longer share the revenue from CIMC after the disposal since the second half of last year, decreased by HK$9,265 million over the same period last year, on the other hand, revenue from core ports operation increased by 10.0% over the same period last year to HK$13,375 million as a result of the new acquisition projects and a rise in business volume. Profit attributable to equity holders of the Company amounted to HK$5,448 million, up 73.1% over the same period last year, which included a gain of HK$3,733 million (net of tax) recognized from the disposal of the Group's equity interest in Shenzhen Chiwan during the period.

As at 30 June 2018, total assets of the Group increased by 9.2% from HK$131,951 million as at 31 December 2017 to HK$144,129 million, which was mainly attributed to the completion of acquisition of TCP during the period. Net assets attributable to equity holders of the Company was HK$75,873 million as at 30 June 2018, representing an increase of 3.3% from that as at 31 December 2017, mainly resulted from increase in profit attributable to equity holders of the Company.

The financial statements of the Group's foreign investments are in Renminbi, Euro, United States dollar or Brazilian Real 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 on 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.

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

In general, the Group's ports operation continued to yield stable cash inflow. The Group's total net cash inflow from operating activities for the six months ended 30 June 2018 was HK$2,026 million, an increase of 8.7% as compared to the same period last year. For the six months ended 30 June 2018, due to the fact that capital expenditure on business acquisitions increased significantly as compared to the same period last year, the Group has net cash outflow of HK$11,613 million from investment activities during the period, as compared to a net cash inflow of HK$6,532 million in the same period last year. At the same time, the Group's net cash inflow from financing activities amounted to HK$8,928 million for the six months ended 30 June 2018, as compared to a net cash inflow of HK$3,293 million in the same period last year.

To support the Group's general corporate finance needs, including the repayment of existing indebtedness, CMHI Finance (BVI) Co., Ltd, a wholly-owned subsidiary of the Company, completed the issuance of fixed-rate guaranteed notes totalling US$1,500 million in August 2018, which consists of two tranches including a 5-year tranche of US$900 million notes maturing in 2023 with a coupon rate of 4.375%, and a 10-year tranche of US$600 million notes maturing in 2028 with a coupon rate of 5%. These notes are listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

LIQUIDITY AND TREASURY POLICIES

As at 30 June 2018, the Group had approximately HK$8,532 million in cash, 4.4% of which was denominated in Hong Kong dollars, 7.6% in United States dollars, 75.5% in Renminbi and 12.5% in other currencies.

The Group mainly derived its funding sources from its operating activities related to ports operation, bonded logistics operation and property investment, and investment returns received from associates and joint ventures, which amounted to HK$2,026 million in total.

During the period, the Group incurred capital expenditure amounted to HK$1,200 million while the Group adopted to 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-term to long-term loans, the Group, supported by adequate undrawn bilateral bank 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 30 June 2018, the Company had 3,277,619,310 shares in issue. The Company issued 47,006,515 shares under the Company's scrip dividend scheme in July 2018.

As at 30 June 2018, the Group's net gearing ratio [Note 4] was approximately 35.4%.

During the period, the Company issued fixed-rate unlisted note maturing in 2021 for the amount of RMB500 million to finance the Group's working capital.

The Group had aggregate bank loans and listed notes payable of HK$24,146 million as at 30 June 2018 that contain customary cross default provisions.

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

As at 30 June 2018, the Group's outstanding interest bearing debts are analysed as below:

	30 June 2018 HK$'million	31 December 2017 HK$'million
Floating-rate bank loans which are repayable as follows (Note):		
Within 1 year	**15,293**	1,045
Between 1 and 2 years	**2,013**	1,811
Between 2 and 5 years	**5,245**	5,242
More than 5 years	**1,679**	2,033
	24,230	10,131
Fixed-rate bank loans which are repayable as follows:		
Within 1 year	**136**	586
More than 5 years	**30**	30
	166	616
Fixed-rate listed notes payable which are repayable:		
In 2018	**—**	1,562
In 2020	**1,565**	1,558
In 2022	**3,895**	3,877
In 2025	**3,904**	3,888
	9,364	10,885
Fixed-rate unlisted notes payable which are repayable:		
In 2018	**—**	418
In 2019	**—**	358
In 2021	**593**	—
In 2022	**2,965**	2,991
	3,558	3,767
Floating-rate listed notes payable which are repayable:		
In 2022	**817**	—
Loans from an intermediate holding company which are repayable as follows:		
Within 1 year	**61**	120
Between 1 and 2 years	**—**	59
	61	179
Loans from a fellow subsidiary		
Repayable within 1 year	**1,079**	2,261
Loan from an associate		
Repayable within 1 year	**277**	276
Loan from a non-controlling equity holder of a subsidiary		
Repayable more than 5 years	**442**	445

Note: All bank loans are unsecured except for HK$4,104 million (31 December 2017: HK$4,284 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 a fellow subsidiary HK$'million	Loan from an associate HK$'million	Loan from a non-controlling equity holder of a subsidiary HK$'million	Total HK$'million
As at 30 June 2018								
USD	15,330	9,364	—	—	—	277	—	24,971
RMB	5,949	—	3,558	61	1,079	—	—	10,647
EURO	1,799	—	—	—	—	—	442	2,241
Brazilian Real	1,318	817	—	—	—	—	—	2,135
	24,396	10,181	3,558	61	1,079	277	442	39,994
As at 31 December 2017								
USD	2,200	10,885	—	—	—	276	—	13,361
RMB	6,583	—	3,767	179	2,261	—	—	12,790
EURO	1,964	—	—	—	—	—	445	2,409
	10,747	10,885	3,767	179	2,261	276	445	28,560

ASSETS CHARGE

As at 30 June 2018, bank loans of HK$237 million (31 December 2017: HK$120 million) borrowed by subsidiaries of the Company were secured by property, plant and equipment with carrying value of HK$406 million (31 December 2017: HK$369 million) and land use rights with carrying value of HK$193 million (31 December 2017: HK$197 million). In addition, the entire shareholdings in two subsidiaries owned by the Company and its subsidiary were pledged to various banks for bank loans of HK$3,867 million (31 December 2017: HK$4,164 million).

EMPLOYEES AND REMUNERATION

As at 30 June 2018, the Group employed 9,036 full time staff, of which 203 worked in Hong Kong, 6,713 worked in Mainland China, and the remaining 2,120 worked overseas. The remuneration paid by the Group for the period amounted to HK$1,012 million, representing 26.6% 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. 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 promoting the building of low-carbon green port. The Group encouraged its ports to actively carry out energy conservation management and to reduce energy consumption and control emission of greenhouse gas, such as carbon dioxide, through special operation management model and research and development of innovative energy conservation and emission reduction technologies. While continuing to develop new process and technologies, the Group also promoted and extended the application of successful cases such as "substitution of fuel-powered equipment with electricity-powered equipment (油改電)", "RTG remote control project (RTG遠端控制項目)" and "shore-powered supply for vessels (船舶岸基供電)", as well as LNG new energy and LED energy-saving lighting equipment at its ports so as to further expand the application of new energy conservation technologies and products with a view to 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. 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. In the first half of 2018, the Group donated education and living materials that worth US$21,000 to the poor local areas in Hambantota, Sri Lanka. The Group continued to organise the summer course under "Shaping Blue Dreams Together — C Blue Training Programme in the 21st Century (共鑄藍色夢想— 21世紀海上絲綢之路優才計劃)", providing advanced-level port and shipping training programme for 25 overseas trainees from 13 countries over 4 continents along the "Belt and Road". Supplemented by site visits to leading enterprises in fields such as port and shipping, logistics and industrial park development in China, the programme adopted an education model that combines theoretical courses with researches and investigations, which can provide training for overseas trainees to acquire professional knowledge and enhance operational capability, at the same time promoting the economic development and social progress of countries along the "Belt and Road" on a continuous basis.

FUTURE PROSPECTS

Looking forward to the second half of the year, the global economy is expected to stay on the recovery trajectory. According to IMF, it is expected that the global economy will grow by 3.9% in 2018, up 0.2 percentage point as compared to that of 2017, among which, developed economies are expected to grow by 2.4% (2017: 2.4%), while emerging and developing economies will grow by 4.9% (2017: 4.7%). However, as the global economy recovered from recession, trade and investment tend to become moderate, financing conditions tightened, and trade frictions escalated, it is expected that the momentum of marginal economic growth will slow down.

In the second half of the year, the economy of China is expected to enter into a stage of "slower growth, higher quality". It is expected that China's real GDP will grow by 6.5% in 2018. As for stimulating the investment, consumption and export of the domestic economy, investment will slow down as de-leverage continues; consumption will become the key driver of the economy; and the escalation of Sino-US trade friction may affect export performance to some extent. In 2018, risks to the economy of China are tilted to the downside with the uncertainties mainly including the tightening of monetary and real estate policies as well as external demand.

The growth rate of global container throughput has increased but the growth rate may slow down due to the impact of the economic and trade environment. Benefited from various factors such as recovery of the global economy, and improved sentiments of the shipping industry, the global container throughput for 2017 rebounded to 6.8%. Nevertheless, after entering into 2018, as a result of the Sino-US trade friction in the first half of the year, the market confidence in global trade and the port and shipping industry has been affected. However, as most of the international procurement contract to be delivered in the second half of the year were entered into before the trade war, thus, the influence of the trade war on the port throughput during the year will be limited. In the event that the Sino-US trade friction continues and worsens, the future global trade landscape might be reshaped and the flow of international trade might be changed.

In the second half of the year, the Group will continue to adhere to its vision of "to be a world's leading comprehensive port service provider". The Group will also, with "enhancing capability, improving quality and efficiency" as a pivot, push forward balanced development in terms of regions, businesses and stages, and continue to deepen, optimise, and refine the Group's strategies. It will strengthen its strategic directives, maintain its strategic positioning, and deepen its strategic goal to ensure that all operational targets can be met. The Group will conduct a thorough review on the transformation and innovation of its ports operation to nurture and explore new drivers for profitability, including the expansion into upstream and downstream of ports operation and extension of the industrial chain. We will also vigorously promote the "Port-Park-City" development model and consolidate resources to explore comprehensive regional development and construction with a focus on ports operations.

While staying focused on its core ports operation, the Group will strive to achieve new breakthrough by promoting the development of its key projects. The Group will enhance the overall competitiveness of its homebase port in China by further improving its service products in relation to cargo collection-distribution, enhancing the attractiveness of Shenzhen homebase port for cargo from the Pearl River Delta region as well as reinforcing and strengthening the overall servicing capability of Shenzhen homebase port. We will also steadily push forward the work in relation to unification of the port code in West Shenzhen Port Zone, gradually realise reasonable deployment of the shipping routes of the West Shenzhen Port Zone with a view to increasing the overall utilisation rate of resources of the port zone and enhance the comprehensive market competitiveness. We will expedite the construction of overseas homebase port by focusing on the regional strategic planning, optimizing use of the resources, facilitating the implementation of port strategy with an aim to expanding the production capacity and securing client resources in advance. We will also accelerate the consolidation of existing domestic ports operation by taking advantage of the favourable national policies.

The Group will insist on pursuing innovation and transformation and continue to exert great efforts in building a comprehensive port ecosystem and promoting the construction of "E-port" platform. Its core competitiveness will also be enhanced through the establishment of a unified customer service platform. We will also further promote the Yingkou port financing project, and launch projects such as PRD terminal networking project, Port AI project, and auto-driving truck in port restricted area project. While carrying out the research and development of new technologies, we will also study the promotional plan for marketing of the relevant technological products, which will serve as support for the development of our business model in the future. We will step up our efforts in respect of integration of industry with elements of finance by pushing ahead with the establishment of an investment platform for innovation development of domestic ports on a continuous basis. Meanwhile, we will commence innovative investment business in areas such as "business model innovation for port operations, technological innovation for port operations and mechanism and system innovation for port operations", striving to realise a deep and cross-sector integration of innovations.

Against a backdrop of continuous recovery of the global economy and trade, steady growth of the Chinese economy and uncertainties of the port and shipping market in 2018, the Group will seize new opportunities for its port business to continuously adjust and optimise its asset structure and demonstrate the effect of the capital management platform with a view to enhancing its overall return on equity. As always, the Group will endeavor to maximise shareholder value while enhancing profitability, thereby delivering better returns for its shareholders.

INTERIM DIVIDEND AND SCRIP DIVIDEND SCHEME

In order to reward investors' continuous support of the Group, the Board resolved to declare an interim dividend of 22 HK cents per share, totalling HK$731 million for the six months ended 30 June 2018 (representing a dividend payout of 13.4%) by way of an issue of new shares with an alternative to the shareholders to elect to receive the interim dividend (or part thereof) in cash in lieu of such allotment (2017: interim dividend of 22 HK cents and a special interim dividend of 135 HK cents per share, aggregate interim dividends of 157 HK cents per share by way of issue of new shares equivalent with cash alternative), payable on or around 15 November 2018 to shareholders whose names appear on the register of members of the Company (the "**Register of Members**") on 2 October 2018 (the "**Scrip Dividend Scheme**").

A circular containing details of the Scrip Dividend Scheme together with the relevant election form will be sent to shareholders on or around 5 October 2018. 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 interim dividend warrants and certificates for the new shares will be despatched to shareholders on or around 15 November 2018.

CLOSURE OF REGISTER

The Register of Members will be closed from 24 September 2018 to 2 October 2018 (both days inclusive), during which no transfer of shares of the Company will be registered. In order to qualify for the interim dividend, all transfers and the relevant share certificates must be lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on 21 September 2018.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2018, 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 in the Company

Name of Director	Capacity	Nature of interest	Number of shares in the Company	Percentage of aggregate long position in shares held to the issued shares of the Company as at 30 June 2018
Mr. Lee Yip Wah Peter	Beneficial owner	Personal interest	206,093	0.0063%
Mr. Li Kwok Heem John	Interest of spouse	Family interest	1,876,102	0.0572%
			2,082,195	0.0635%

Save as disclosed above and based on the register maintained by the Company under section 352 of the SFO, as at 30 June 2018, 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 debenture of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required, pursuant to section 352 of the SFO, to be entered in the register or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), to be notified to the Company and the Stock Exchange.

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

SHARE OPTION SCHEME

At an extraordinary general meeting of the Company held on 9 December 2011 (the "**Adoption Date**"), the shareholders of the Company adopted the new share option scheme (the "**Share Option Scheme**") and the previous share option scheme was terminated on the same date. Under the Share Option Scheme, the Board may, at their discretion, invite any director or employee of the Company or any of its subsidiaries or associates, to take up options to subscribe for fully paid ordinary shares in the Company subject to the terms and conditions stipulated therein.

In view of the on-going support given to the Company by the CMHK Group (representing China Merchants Holdings (Hong Kong) Company Limited ("**CMHK**"), an intermediate holding company of the Company, together with its subsidiaries (excluding the Group) and associated companies), the Board considered that it is in the best interests of the Company to extend the Share Option Scheme to directors and employees of members of the CMHK Group, together with the directors and employees of the Company, its subsidiaries and associates, the "**Eligible Persons**".

The life of the Share Option Scheme is 10 years commencing on the Adoption Date and ending on 8 December 2021. No share options were granted, exercised, lapsed or cancelled under the Share Option Scheme during the period. Accordingly, there was no outstanding option from 1 January to 30 June 2018.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2018, 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 of total issued shares
China Merchants Group Limited	Interest of Controlled Corporation	2,025,882,546(1,2,3)	61.81%
China Merchants Steam Navigation Company Limited	Interest of Controlled Corporation	2,022,882,546(2)	61.72%
China Merchants Holdings (Hong Kong) Company Limited	Interest of Controlled Corporation	2,022,882,546(2)	61.72%
Broadford Global Limited	Interest of Controlled Corporation	1,269,088,795(2)	38.72%
Rainbow Reflection Limited	Interest of Controlled Corporation	1,269,088,795(2)	38.72%
China Merchants Investment Development Company Limited	Beneficial Owner	1,269,088,795(2)	38.72%
Shenzhen Chiwan Wharf Holdings Limited	Beneficial Owner	1,269,088,795(2)	38.72%
China Merchants Union (BVI) Limited	Beneficial Owner	753,793,751(2)	23.00%
Pagoda Tree Investment Company Limited	Interest of Controlled Corporation	753,793,751(4)	23.00%
Compass Investment Company Limited	Interest of Controlled Corporation	753,793,751(4)	23.00%
CNIC Corporation Limited	Interest of Controlled Corporation	753,793,751(4)	23.00%
Verise Holdings Company Limited	Interest of Controlled Corporation	753,793,751(4)	23.00%

Notes:

1. Each of China Merchants Steam Navigation Company Limited ("**CMSN**") and China Merchants Shekou Industrial Zone Holdings Company Limited ("**CMSIZ**") is a subsidiary of China Merchants Group Limited ("**CMG**"). CMG is deemed to be interested in 2,025,882,546 shares which represents the aggregate of 2,022,882,546 shares deemed to be interested by CMSN (see Note 2 below) and 3,000,000 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. China Merchants Investment Development Company Limited ("**CMID**") is in turn wholly-owned by Rainbow Reflection Limited ("**Rainbow**"), which is in turn wholly-owned by Broadford Global Limited ("**Broadford**"), which is in turn wholly-owned by CMHK and China Merchants Union (BVI) Limited ("**CMU**") is 50%-owned by CMHK. Pursuant to an agreement dated 25 April 2018 between Rainbow, Broadford, CMU and CMID, Rainbow allotted and issued 7,167,002,980 ordinary shares to CMU, representing 25.34% of the total issued capital of Rainbow. The transaction has completed as at 30 June 2018.

   Shenzhen Chiwan Wharf Holdings Limited ("**Shenzhen Chiwan**") is interested in 1,269,088,795 shares, arising from an agreement entered into between Shenzhen Chiwan and CMID on 19 June 2018 for the sale of 1,269,088,795 shares by CMID to Shenzhen Chiwan. The transaction has not been completed as at 30 June 2018.

   CMSN is deemed to be interested in 2,022,882,546 shares which are deemed to be interested by CMHK. Such shares represent the aggregate of 753,793,751 shares beneficially held by CMU and 1,269,088,795 shares beneficially held by CMID.

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 3,000,000 shares which are deemed to be interested by Top Chief. Such shares represent the 3,000,000 shares beneficially held by Orienture.

4. According to the disclosure of interests form submitted by Pagoda Tree Investment Company Limited ("**Pagoda Tree**") on 24 May 2018, 50% interest in CMU is owned by Verise Holdings Company Limited ("**Verise Holdings**"), which is wholly-owned by CNIC Corporation Limited ("**CNIC Corporation**"), formerly known as GUOXIN International Investment Corporation Limited, 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, CNIC Corporation, Compass Investment and Pagoda Tree is deemed to be interested in the 753,793,751 shares beneficially held by CMU.

Short Position

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.

CORPORATE GOVERNANCE

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.

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules on the Stock Exchange as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code during the period.

The Board resolved to appoint Mr. Su Jian as Executive Director of the Company with effect from 12 October 2017 to fill a casual vacancy. However, Mr. Su Jian was not subject to re-election at the first general meeting of the Company after his appointment (being the extraordinary general meeting of the Company held on 19 March 2018) in accordance with Code Provision A.4.2 set out in the Corporate Governance Code ("**Corporate Governance Code**") contained in Appendix 14 to the Listing Rules and was only subject to re-election at the annual general meeting of the Company held on 1 June 2018 (and Mr. Su Jian was re-elected as Executive Director of the Company by the shareholders of the Company at such general meeting). Save as disclosed, in the opinion of the Directors, the Company has complied with the rest of the code provisions set out in the Corporate Governance Code throughout the six months ended 30 June 2018.

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 1 June 2018 to answer shareholders' questions.

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

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") comprises all of the five independent non-executive directors. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and risk management and financial report matters including the review of the unaudited interim results for the six months ended 30 June 2018 and the 2018 Interim Report.

UPDATE ON DIRECTOR'S BIOGRAPHICAL DETAILS

With effect from 4 July 2018, Mr. Fu Gangfeng was appointed as 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.

With effect from 10 August 2018, Mr. Hu Jianhua has resigned as Executive Vice President of China Merchants Group Limited and was appointed as Director of China Merchants Group Limited on the same day.

Saved as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

By order of the Board
Fu Gangfeng
Chairman

Hong Kong, 31 August 2018

Condensed Consolidated Statement of Profit or Loss

For the Six Months Ended 30 June 2018

	Note	Unaudited 2018 HK$'million	2017 HK$'million
Revenue	6	**5,560**	4,055
Cost of sales		**(3,032)**	(2,291)
Gross profit		**2,528**	1,764
Other income and other gains, net	8	**4,062**	1,026
Administrative expenses		**(777)**	(530)
Operating profit		**5,813**	2,260
Finance income	9	**135**	36
Finance costs	9	**(872)**	(582)
Finance costs, net	9	**(737)**	(546)
Share of profits less losses of			
Associates		**1,644**	1,861
Joint ventures		**251**	203
		1,895	2,064
Profit before taxation		**6,971**	3,778
Taxation	10	**(1,058)**	(302)
Profit for the period	11	**5,913**	3,476
Attributable to:			
Equity holders of the Company		**5,448**	3,148
Non-controlling interests		**465**	328
Profit for the period		**5,913**	3,476
Dividends	12	**731**	4,980
Earnings per share for profit attributable to equity holders of the Company	13		
Basic and diluted (HK cents)		**166.22**	100.62

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Six Months Ended 30 June 2018

	Unaudited 2018 HK$'million	2017 HK$'million
Profit for the period	**5,913**	3,476
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	**(904)**	2,553
Increase in fair value of available-for-sale financial assets, net of deferred taxation	—	470
Increase in fair value of equity instruments at fair value through other comprehensive income ("FVTOCI"), net of deferred taxation	**114**	—
Share of investment revaluation reserve of associates	**(30)**	167
Release of reserves upon disposal of subsidiaries	**(98)**	(57)
Item that will not be reclassified subsequently to profit or loss:		
Share of other reserves of associates	—	(19)
Total other comprehensive (expense)/income for the period, net of tax	**(918)**	3,114
Total comprehensive income for the period	**4,995**	6,590
Total comprehensive income attributable to:		
Equity holders of the Company	**4,512**	5,898
Non-controlling interests	**483**	692
	4,995	6,590

Condensed Consolidated Statement of Financial Position

As at 30 June 2018

	Note	**Unaudited 30 June 2018 HK$'million**	Audited 31 December 2017 HK$'million
ASSETS			
Non-current assets			
Goodwill	14	**8,040**	3,628
Intangible assets	14	**11,265**	5,925
Property, plant and equipment	14	**29,338**	30,880
Investment properties	14	**8,478**	8,411
Land use rights	14	**11,614**	12,851
Interests in associates		**44,690**	43,314
Interests in joint ventures	15	**12,444**	9,750
Other financial assets		**4,087**	3,689
Other non-current assets		**230**	400
Deferred tax assets		**65**	51
		130,251	118,899
Current assets			
Inventories		**88**	99
Debtors, deposits and prepayments	16	**5,238**	3,705
Taxation recoverable		**20**	1
Cash and bank balances		**8,532**	9,247
		13,878	13,052
Total assets		**144,129**	131,951

Condensed Consolidated Statement of Financial Position

As at 30 June 2018

	Note	Unaudited 30 June 2018 HK$'million	Audited 31 December 2017 HK$'million
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	17	38,207	38,207
Reserves		36,935	33,306
Proposed dividend		731	1,934
		75,873	73,447
Non-controlling interests		12,991	16,194
Total equity		88,864	89,641
LIABILITIES			
Non-current liabilities			
Bank and other borrowings	18	23,148	22,292
Other non-current liabilities	19	5,895	1,851
Deferred tax liabilities		3,384	2,638
		32,427	26,781
Current liabilities			
Creditors and accruals	20	5,228	8,999
Bank and other borrowings	18	16,846	6,268
Taxation payable		764	262
		22,838	15,529
Total liabilities		55,265	42,310
Total equity and liabilities		144,129	131,951
Net current liabilities		(8,960)	(2,477)
Total assets less current liabilities		121,291	116,422

Condensed Consolidated Statement of Changes in Equity

For the Six Months Ended 30 June 2018

	Unaudited					
	Attributable to equity holders of the Company				Non-controlling interests	Total
	Share capital HK$'million	Other reserves HK$'million	Retained earnings HK$'million	Total HK$'million	HK$'million	HK$'million
As at 31 December 2017 (audited)	38,207	6,978	28,262	73,447	16,194	89,641
Adjustments (note 3.2)	—	(1,935)	1,935	—	—	—
As at 1 January 2018 (adjusted)	38,207	5,043	30,197	73,447	16,194	89,641
COMPREHENSIVE INCOME						
Profit for the period	—	—	5,448	5,448	465	5,913
Other comprehensive (expense)/income						
Exchange differences from retranslation of investments in subsidiaries, associates and joint ventures	—	(846)	—	(846)	(58)	(904)
Increase in fair value of equity instruments at FVTOCI, net of deferred taxation	—	38	—	38	76	114
Share of reserves of associates	—	(30)	—	(30)	—	(30)
Release of reserves upon disposal of subsidiaries	—	1,055	(1,153)	(98)	—	(98)
Total other comprehensive income/(expense) for the period, net of tax	—	217	(1,153)	(936)	18	(918)
Total comprehensive income for the period	—	217	4,295	4,512	483	4,995
TRANSACTIONS WITH OWNERS						
Capital contribution to a subsidiary	—	—	—	—	20	20
Transfer to reserves	—	37	(37)	—	—	—
Share of reserves of associates	—	(152)	—	(152)	—	(152)
Dividends	—	—	(1,934)	(1,934)	(674)	(2,608)
Repayment of capital contribution to a non-controlling equity holder	—	—	—	—	(2)	(2)
Acquisition of subsidiaries (note 21)	—	—	—	—	226	226
Obligation arising from a put option to non-controlling equity holders of subsidiaries (note 19)	—	—	—	—	(579)	(579)
Disposal of subsidiaries (note 22)	—	—	—	—	(2,677)	(2,677)
Total transactions with owners for the period	—	(115)	(1,971)	(2,086)	(3,686)	(5,772)
As at 30 June 2018	38,207	5,145	32,521	75,873	12,991	88,864

Condensed Consolidated Statement of Changes in Equity

For the Six Months Ended 30 June 2018

	Unaudited						
	Attributable to equity holders of the Company					Non-controlling interests	Total
	Share capital HK$'million	Mandatory convertible securities HK$'million	Other reserves HK$'million	Retained earnings HK$'million	Total HK$'million	HK$'million	HK$'million
As at 1 January 2017	19,548	15,219	2,099	29,042	65,908	7,830	73,738
COMPREHENSIVE INCOME							
Profit for the period	—	—	—	3,148	3,148	328	3,476
Other comprehensive income/(expense)							
Exchange differences from retranslation of investments in subsidiaries, associates and joint ventures	—	—	2,190	—	2,190	363	2,553
Increase in fair value of available-for-sale financial assets, net of deferred taxation	—	—	469	—	469	1	470
Share of reserves of associates	—	—	148	—	148	—	148
Release of reserves upon disposal of a subsidiary	—	—	(522)	465	(57)	—	(57)
Total other comprehensive income for the period, net of tax	—	—	2,285	465	2,750	364	3,114
Total comprehensive income for the period	—	—	2,285	3,613	5,898	692	6,590
TRANSACTIONS WITH OWNERS							
Capital contribution to a subsidiary	—	—	—	—	—	166	166
Transfer to reserves	—	—	30	(30)	—	—	—
Dividends	—	—	—	(1,707)	(1,707)	(209)	(1,916)
Distribution to mandatory convertible securities holders	—	—	—	(304)	(304)	—	(304)
Issue of shares upon conversion of mandatory convertible securities	15,219	(15,219)	—	—	—	—	—
Repayment of capital contribution to a non-controlling equity holder	—	—	—	—	—	(9)	(9)
Total transactions with owners for the period	15,219	(15,219)	30	(2,041)	(2,011)	(52)	(2,063)
As at 30 June 2017	34,767	—	4,414	30,614	69,795	8,470	78,265

Condensed Consolidated Statement of Cash Flows

For the Six Months Ended 30 June 2018

	Note	Unaudited 2018 HK$'million	2017 HK$'million
Net cash generated from operating activities		**2,026**	1,864
Cash flows from investing activities			
Proceeds from disposal of subsidiaries (net of cash and cash equivalents disposed of)	22	**4,826**	8,543
Purchase of property, plant and equipment and port operating rights		**(1,256)**	(738)
Repayment from an associate		**—**	54
Investments in associates and joint ventures		**(4,072)**	(171)
Payment for acquisition of assets through acquisition of a subsidiary (net of deposit previously paid and cash and cash equivalents acquired)		**—**	(1,144)
Payment for acquisition of subsidiaries (net of cash and cash equivalents acquired)			
– completed during the period	21	**(5,628)**	—
– completed in previous years		**(5,366)**	—
Other investing cash flows		**(117)**	(12)
Net cash (used in)/generated from investing activities		**(11,613)**	6,532
Cash flows from financing activities			
Proceeds from bank loans		**19,970**	2,512
Repayment of bank loans		**(7,176)**	(2,063)
Other financing cash flows		**(3,866)**	2,844
Net cash generated from financing activities		**8,928**	3,293
(Decrease)/increase in cash and cash equivalents		**(659)**	11,689
Cash and cash equivalents at 1 January		**9,247**	3,637
Effect of foreign exchange rate changes		**(56)**	98
Cash and cash equivalents at 30 June, represented by cash and bank balances		**8,532**	15,424

Notes to the Condensed Consolidated Interim Financial Information

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"). The address of its registered office is 38/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

This condensed consolidated interim financial information is presented in Hong Kong dollars, unless otherwise stated. This condensed consolidated interim financial information has been approved for issue by the Board of Directors on 31 August 2018 but has not been audited.

2. BASIS OF PREPARATION

The condensed consolidated interim financial information for the six months ended 30 June 2018 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on HKSE and should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The financial information relating to the financial year ended 31 December 2017 that is included in the condensed consolidated interim financial information as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those consolidated financial statements. Further information relating to these statutory annual consolidated financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) (the "Companies Ordinance") is as follows:

The Company has delivered the annual consolidated financial statements for the year ended 31 December 2017 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company's auditor has reported on those consolidated financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Companies Ordinance.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial information for the six months ended 30 June 2018 has been prepared on the historical cost convention, as modified by the revaluation of investment properties, equity investments and financial liabilities designated at fair value through profit or loss ("FVTPL"), which are carried at fair value.

Except as described below in note 3.1 to 3.2 for changes in accounting policies resulting from application of new to HKFRSs, the accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended 31 December 2017, as described therein.

During the period, the Group has applied, for the first time, the following new and amendments to HKFRSs and an interpretation issued by the HKICPA, which are mandatorily effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated interim financial information:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) - Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 - 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The new and amendments to HKFRSs and an interpretation have been applied in accordance with the relevant transition provisions in the respective standards which results in changes in accounting policies, amounts reported as described below.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.1 Impacts and changes in accounting policies on application of HKFRS 15 "Revenue from Contracts with Customers"

The Group has applied HKFRS 15 for the first time in the current interim period. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group recognises revenue from the following major sources:

- Terminal handling charge, representing loading of cargos and containers on and off vessels at the Group's port terminals, stevedoring and the auxiliary services
- Warehousing services income, representing temporary storage of cargos and containers, custom clearance services and the auxiliary services
- Gross rental income from investment properties

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply HKFRS 15 retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 and HKAS 11 and the related interpretations.

Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- 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 Group satisfies a performance obligation

Under HKFRS 15, the Group 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.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.1 Impacts and changes in accounting policies on application of HKFRS 15 "Revenue from Contracts with Customers" (continued)

Key changes in accounting policies resulting from application of HKFRS 15 (continued)

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

The Group recognises revenue over time and the directors of the Company assessed that the application of HKFRS 15 has no material impact on the timing and amounts of revenue recognised.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.2 Impacts and changes in accounting policies on application of HKFRS 9 "Financial Instruments"

During the current period, the Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (i) the classification and measurement of financial assets and financial liabilities and (ii) expected credit losses ("ECL") for financial assets.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to the financial instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to the financial instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Trade debtors arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less accumulated impairment under HKAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All equity investments (included in other financial assets) are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of equity investments, the Group may irrevocably elect to present subsequent changes in fair value of the equity investments in other comprehensive income ("OCI") if those equity investments are neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.2 Impacts and changes in accounting policies on application of HKFRS 9 "Financial Instruments" (continued)

Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Classification and measurement of financial assets (continued)

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Equity instruments designated as at FVTOCI

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with HKFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income and other gains, net" line item in profit or loss.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend earned on the financial asset and is included in the "other income and other gains, net" line item.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in below section.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.2 Impacts and changes in accounting policies on application of HKFRS 9 "Financial Instruments" (continued)

Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subjected to impairment under HKFRS 9 (including trade debtors, other debtors and other financial assets). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment is done based on the Group's historical credit loss experience, adjusted for factors that are specific to the trade debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade debtors and lease receivables. The ECL on these assets are assessed individually for trade debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.2 Impacts and changes in accounting policies on application of HKFRS 9 "Financial Instruments" (continued)

Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Impairment under ECL model (continued)

Significant increase in credit risk (continued)

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group considers that default has occurred when the financial instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKAS 17 "Leases".

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.2 Impacts and changes in accounting policies on application of HKFRS 9 "Financial Instruments" (continued)

Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Impairment under ECL model (continued)

Measurement and recognition of ECL (continued)

For financial guarantee contracts, the Group is required to make payments only in the event of a default by the debtors in accordance with the terms of the instruments that are guaranteed. Accordingly, the expected losses are the present value of the expected payments to reimburse the holders for a credit loss that it incurs less any amounts that the Group expects to receive from the holders, the debtors or any other parties.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Except for investments in equity instruments that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amounts, with the exception of trade debtors where the corresponding adjustment is recognised through a loss allowance account.

For financial guarantee contracts, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with HKFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets and lease receivables for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9.

The directors of the Company assessed that the application of ECL has no material impact on existing financial assets and lease receivables.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.2 Impacts and changes in accounting policies on application of HKFRS 9 "Financial Instruments" (continued)

Key changes in accounting policies resulting from application of HKFRS 9 (continued)

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Other financial assets			Reserves	
	Available-for-sale financial assets HK$'million	Financial assets at FVTPL required by HKFRS 9 HK$'million	Equity instruments at FVTOCI HK$'million	Other reserves HK$'million	Retained earnings HK$'million
As at 31 December 2017 - HKAS 39	3,689	N/A	N/A	6,978	28,262
Reclassification:					
From available-for-sale financial assets (Note)	(3,689)	3,557	132	—	—
Transfer from reserves	—	—	—	(1,935)	1,935
As at 1 January 2018	—	3,557	132	5,043	30,197

Note:

Available-for-sale financial assets

From available-for-sale financial assets to equity instruments at FVTOCI

The Group elected to present in OCI for the fair value changes of its equity investments previously classified as available-for-sale financial assets amounted to HK$132 million as at 31 December 2017, and measured at fair value. These investments are not held for trading and not expected to be sold in the foreseeable future. The fair value changes relating to those investments previously carried at fair value continued to accumulate in other reserves. There is no impact on current and deferred tax and non-controlling interests upon these changes.

From available-for-sale financial assets to financial assets at FVTPL

At the date of initial application of HKFRS 9, the Group's equity investments of HK$3,557 million were reclassified from available-for-sale financial assets to financial assets at FVTPL. The fair value changes relating to those investments previously carried at fair value were transferred from other reserves to retained earnings. There is no impact on current and deferred tax and non-controlling interests upon these changes.

3. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

3.3 Adoption of new accounting policy in respect of financial liabilities at FVTPL

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were consistent with those applied to the annual consolidated financial statements for the year ended 31 December 2017.

5. FINANCIAL RISK MANAGEMENT

(i) 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 condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and hence should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2017.

There have been no significant changes in the risk management since last financial year end or in any risk management policies.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(ii) Fair value estimation

Different levels of fair value measurements 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 is disclosed below.

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

The following tables present the Group's assets and liabilities that are measured at fair value as at 30 June 2018 and 31 December 2017:

	Level 1 HK$'million	Level 2 HK$'million	Level 3 HK$'million	Total HK$'million
As at 30 June 2018				
Financial assets				
Financial assets at FVTPL	**2,278**	—	**757**	**3,035**
Equity instruments at FVTOCI	—	—	**103**	**103**
	2,278	—	**860**	**3,138**
Financial liabilities				
Financial liabilities at FVTPL	—	—	**4,367**	**4,367**
As at 31 December 2017				
Financial assets				
Available-for-sale financial assets				
– listed equity investments	2,817	—	—	2,817
– unlisted equity investments	—	—	872	872
	2,817	—	872	3,689

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(ii) Fair value estimation (continued)

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

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 financial assets at FVTPL (2017: 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 financial assets at FVTPL (2017: available-for-sale financial assets) 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. As at 30 June 2018, if the factor of discount for lack of marketability was 5% higher/lower while all the other variables were held constant, the changes in fair value of the unlisted equity instruments of a listed entity would not be significant to the Group.

The fair value of other unlisted equity instruments that are accounted for as financial assets at FVTPL and equity instruments at FVTOCI (2017: available-for-sale financial assets) is valued based on Guideline Publicly Traded Company 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. As at 30 June 2018, if any of the significant unobservable inputs above was 5% higher/lower while all the other variables were held constant, the changes in fair value of the other unlisted equity instruments would not be significant to the Group.

The fair value of the gross obligation arising from a put option issued to non-controlling equity holders of subsidiaries, excluding fair value of the put option, is accounted for as a financial liability at FVTPL. The fair value of the put option that is accounted for as a financial liability at FVTPL is valued using Black Scholes option model and the significant unobservable inputs used in the fair value measurement are the exercise price, the risk-free rate, the expected dividend yield, the expected volatility and the time-to-maturity. As at 30 June 2018, if any of the significant unobservable inputs above was 5% higher/lower while all the other variables were held constant, the changes in fair value of the put option would not be significant to the Group.

The fair value of the liabilities arising from the concession arrangements (see note 19) that are accounted for as financial liabilities at FVTPL is valued at the present value of the expected future economic benefits that will flow out of the Group arising from such obligation by using discounted cash flow method. The significant unobservable inputs are the discount rate, factor of inflation and probability-adjusted business volume. As at 30 June 2018, if any of the significant unobservable inputs above was 5% higher/lower while all the other variables were held constant, the changes in fair value of the liabilities arising from the concession arrangements would not be significant to the Group.

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(ii) Fair value estimation (continued)

(a) 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 instruments or any reclassification of financial instruments in the period.

The following tables present the changes in level 3 financial instruments for the six months ended 30 June 2018 and 2017:

	Financial assets at FVTPL HK$'million	Equity instruments at FVTOCI HK$'million	Financial liabilities at FVTPL HK$'million	Total HK$'million
Six months ended 30 June 2018				
As at 1 January 2018	**752**	**120**	**—**	**872**
Addition	**2**	**—**	**—**	**2**
Acquisition of subsidiaries (note 21)	**—**	**—**	**(5,091)**	**(5,091)**
Disposal of subsidiaries (note 22)	**—**	**(168)**	**—**	**(168)**
Exchange adjustments	**(7)**	**(1)**	**749**	**741**
Settlement	**—**	**—**	**39**	**39**
Unrealised fair value gain/(loss) recognised in profit or loss	**10**	**—**	**(64)**	**(54)**
Unrealised fair value gain recognised in OCI (included in other reserves)	**—**	**152**	**—**	**152**
As at 30 June 2018	**757**	**103**	**(4,367)**	**(3,507)**

	Available-for-sale financial assets HK$'million
Six months ended 30 June 2017	
As at 1 January 2017	578
Exchange adjustments	13
Unrealised fair value gain recognised in OCI (included in other reserves)	87
As at 30 June 2017	678

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

(ii) Fair value estimation (continued)

(b) 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 condensed consolidated interim financial information approximate their fair values at the end of the reporting period.

6. 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 period.

	Six months ended 30 June	
	2018	2017
	HK$'million	HK$'million
Terminal handling charge, representing loading of cargos and containers on and off vessels at the Group's port terminals, stevedoring and the auxiliary services	**5,275**	3,821
Warehousing services income, representing temporary storage of cargos and containers, custom clearance services and the auxiliary services	**221**	199
Gross rental income from investment properties	**64**	35
	5,560	4,055

7. SEGMENT INFORMATION

The key management team of the Company is regarded as the chief operating decision-maker ("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 perspective.

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 business and financial perspectives, management assesses the performance of the Group's business operations including ports operation, bonded logistics operation, 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
   - Yangtze River Delta
   - Bohai Rim
   - Others

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

(ii) Bonded logistics operation includes logistic park operation, ports transportation and airport cargo handling operated by the Group and its associates.

(iii) Port-related manufacturing operation represents container manufacturing operated by the Group's associate. Following the disposal of the Group's entire interest in Soares Limited ("Soares"), a wholly-owned subsidiary of the Company, during the six months ended 30 June 2017 whose principal asset was the Group's entire interest in an associate engaging in the port-related manufacturing operation, the segment information in this segment reported to the Group's CODM is up to the date of such disposal.

(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.

7. SEGMENT INFORMATION (CONTINUED)

Each of the segments under ports operation includes 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 include 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.

During the six months ended 30 June 2018, one of the customers has accounted for over 10% of the Group's total revenue amounting to HK$719 million (2017: no single customer accounted for over 10% of the Group's total revenue).

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

	Revenue		**Non-current assets**	
	Six months ended 30 June		**30 June**	31 December
	2018	2017	**2018**	2017
	HK$'million	HK$'million	**HK$'million**	HK$'million
Mainland China, Hong Kong and Taiwan	**3,812**	3,306	**81,954**	83,813
Other locations	**1,748**	749	**44,145**	31,246
	5,560	4,055	**126,099**	115,059

7. 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	
	Pearl River Delta	Yangtze River Delta	Bohai Rim	Others						
	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
For the six months ended 30 June 2018										
Company and subsidiaries	**3,035**	**—**	**40**	**452**	**1,748**	**5,275**	**221**	**—**	**64**	**5,560**
Share of associates	**437**	**4,252**	**946**	**20**	**665**	**6,320**	**112**	**—**	**2,773**	**9,205**
Share of joint ventures	**6**	**245**	**668**	**633**	**228**	**1,780**	**—**	**—**	**4**	**1,784**
Total segment revenue	**3,478**	**4,497**	**1,654**	**1,105**	**2,641**	**13,375**	**333**	**—**	**2,841**	**16,549**
For the six months ended 30 June 2017										
Company and subsidiaries	2,869	—	35	168	749	3,821	199	—	35	4,055
Share of associates	481	4,766	1,029	—	542	6,818	82	9,265	2,545	18,710
Share of joint ventures	5	210	607	546	154	1,522	—	—	1	1,523
Total segment revenue	3,355	4,976	1,671	714	1,445	12,161	281	9,265	2,581	24,288

7. 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 six months ended 30 June 2018										
	Ports operation						Bonded logistics operation	Other operations			Total
	Mainland China, Hong Kong and Taiwan				Other locations	Sub-total		Other investments	Corporate function	Sub-total	
	Pearl River Delta	Yangtze River Delta	Bohai Rim	Others							
	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
Operating profit/(loss)	5,571	(557)	39	58	635	5,746	78	216	(227)	(11)	5,813
Share of profits less losses of											
– Associates	64	1,108	49	8	298	1,527	12	105	–	105	1,644
– Joint ventures	–	75	138	(28)	65	250	–	1	–	1	251
	5,635	626	226	38	998	7,523	90	322	(227)	95	7,708
Finance costs, net	(6)	–	–	(3)	(197)	(206)	(19)	(23)	(489)	(512)	(737)
Taxation	(876)	(2)	(3)	(18)	(36)	(935)	(16)	(107)	–	(107)	(1,058)
Profit/(loss) for the period	4,753	624	223	17	765	6,382	55	192	(716)	(524)	5,913
Non-controlling interests	(291)	–	–	(33)	(135)	(459)	(6)	–	–	–	(465)
Profit/(loss) attributable to equity holders of the Company	4,462	624	223	(16)	630	5,923	49	192	(716)	(524)	5,448
Other information:											
Depreciation and amortisation	428	–	1	151	423	1,003	49	–	10	10	1,062
Capital expenditure	189	–	–	379	472	1,040	155	1	4	5	1,200

7. 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 six months ended 30 June 2017											
	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	
	Pearl River Delta HK$'million	Yangtze River Delta HK$'million	Bohai Rim HK$'million	Others HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
Operating profit/(loss)	1,075	77	44	19	315	1,530	68	813	102	(253)	(151)	2,260
Share of profits less losses of												
– Associates	126	961	57	–	258	1,402	(2)	187	274	–	274	1,861
– Joint ventures	–	66	137	(22)	30	211	–	–	(8)	–	(8)	203
	1,201	1,104	238	(3)	603	3,143	66	1,000	368	(253)	115	4,324
Finance costs, net	(5)	–	–	(12)	(112)	(129)	(20)	–	(21)	(376)	(397)	(546)
Taxation	(155)	(50)	(9)	(4)	(15)	(233)	(14)	(17)	(38)	–	(38)	(302)
Profit/(loss) for the period	1,041	1,054	229	(19)	476	2,781	32	983	309	(629)	(320)	3,476
Non-controlling interests	(274)	–	–	–	(54)	(328)	(1)	–	1	–	1	(328)
Profit/(loss) attributable to equity holders of the Company	767	1,054	229	(19)	422	2,453	31	983	310	(629)	(319)	3,148
Other information:												
Depreciation and amortisation	396	–	3	55	202	656	46	–	–	8	8	710
Capital expenditure	552	–	–	71	13	636	9	–	23	–	23	668

7. 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 30 June 2018										
	Ports operation						Bonded logistics operation	Other operations			Total
	Mainland China, Hong Kong and Taiwan				Other locations	Sub-total		Other investments	Corporate function	Sub-total	
	Pearl River Delta	Yangtze River Delta	Bohai Rim	Others							
	HK$'million	HK$'million	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)	17,681	3,165	585	11,228	37,470	70,129	2,938	8,437	5,406	13,843	86,910
Interests in associates	2,502	24,605	3,746	291	6,780	37,924	392	6,374	—	6,374	44,690
Interests in joint ventures	3	1,010	3,033	2,748	5,619	12,413	—	31	—	31	12,444
Total segment assets	20,186	28,780	7,364	14,267	49,869	120,466	3,330	14,842	5,406	20,248	144,044
Taxation recoverable											20
Deferred tax assets											65
Total assets											144,129
LIABILITIES											
Segment liabilities	(1,359)	—	(37)	(2,331)	(12,686)	(16,413)	(980)	(1,204)	(32,520)	(33,724)	(51,117)
Taxation payable											(764)
Deferred tax liabilities											(3,384)
Total liabilities											(55,265)

7. SEGMENT INFORMATION (CONTINUED)

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

	As at 31 December 2017										
	Ports operation						Bonded logistics operation	Other operations			Total
	Mainland China, Hong Kong and Taiwan				Other locations	Sub-total		Other investments	Corporate function	Sub-total	
	Pearl River Delta	Yangtze River Delta	Bohai Rim	Others							
	HK$'million	HK$'million	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)	23,519	2,988	1,008	11,407	23,095	62,017	2,756	8,191	5,871	14,062	78,835
Interests in associates	2,987	24,555	3,814	286	6,727	38,369	395	4,550	—	4,550	43,314
Interests in joint ventures	3	944	2,926	2,804	3,043	9,720	—	30	—	30	9,750
Total segment assets	26,509	28,487	7,748	14,497	32,865	110,106	3,151	12,771	5,871	18,642	131,899
Taxation recoverable											1
Deferred tax assets											51
Total assets											131,951
LIABILITIES											
Segment liabilities	(3,279)	—	(37)	(2,536)	(11,915)	(17,767)	(1,126)	(1,203)	(19,314)	(20,517)	(39,410)
Taxation payable											(262)
Deferred tax liabilities											(2,638)
Total liabilities											(42,310)

8. OTHER INCOME AND OTHER GAINS, NET

	Six months ended 30 June 2018 HK$'million	2017 HK$'million
Dividend income from equity investments	**38**	84
Increase in fair value of investment properties	**217**	87
Gain on disposal of subsidiaries (note 22)	**4,400**	813
Gain on disposal of property, plant and equipment	**13**	6
Net exchange (losses)/gains	**(114)**	5
Decrease in fair value of financial assets at FVTPL	**(518)**	—
Increase in fair value of financial liabilities at FVTPL	**(64)**	—
Others	**90**	31
	4,062	1,026

9. FINANCE INCOME AND COSTS

	Six months ended 30 June 2018 HK$'million	2017 HK$'million
Finance income from:		
Interest income from bank deposits	**104**	30
Others	**31**	6
	135	36
Interest expense on:		
Bank loans	**(364)**	(203)
Listed notes payable	**(336)**	(278)
Unlisted notes payable	**(100)**	(63)
Loans from:		
– non-controlling equity holders of subsidiaries	**(11)**	(11)
– a fellow subsidiary	**(35)**	(13)
– the ultimate holding company and an intermediate holding company	**(4)**	(11)
– an associate	**(14)**	—
Others	**(35)**	(20)
Total borrowing costs incurred	**(899)**	(599)
Less: amount capitalised on qualifying assets (Note)	**27**	17
Finance costs	**(872)**	(582)
Finance costs, net	**(737)**	(546)

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 condensed consolidated statement of financial position. Capitalisation rate of 8.91% per annum (2017: 4.08% per annum) was applied, representing the weighted average rate of the costs of borrowings used to finance the qualifying assets.

10. TAXATION

Hong Kong Profits Tax has been provided for at the rate of 16.5% (2017: 16.5%) on the estimated assessable profit for the period.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day.

Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying corporations in Hong Kong for the years of assessment commencing on or after 1 April 2018 will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of corporations not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The two-tiered profits tax rates regime is applicable to the Group for the year ending 31 December 2018 and only one subsidiary in the Group could elect for the two-tiered rates regime and the election, once made, is irrevocable.

The directors of the Company are in the view that the impact of the two-tiered profits tax rates regime on the Group's current and deferred tax position is not material.

The Group's operations in Mainland China are subject to corporate income tax law of People's Republic of China (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 period 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.

10. TAXATION (CONTINUED)

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

	Six months ended 30 June	
	2018	2017
	HK$'million	HK$'million
Current taxation		
Hong Kong profits tax	**2**	1
PRC corporate income tax (Note)	**841**	141
Overseas profits tax	**14**	1
Withholding income tax	**101**	128
Deferred taxation		
Origination and reversal of temporary differences	**100**	31
	1,058	302

Note: Included in the amount for the current interim period is the PRC corporate income tax of HK$630 million levied on the Group for the gain on disposal of Shenzhen Chiwan Group (as defined in note 22) during the period.

11. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2018	2017
	HK$'million	HK$'million
Profit for the period has been arrived at after charging:		
Staff costs (including Directors' emoluments)	**1,012**	719
Depreciation of property, plant and equipment	**795**	549
Amortisation of intangible assets and land use rights	**267**	161
Operating lease rentals in respect of		
– land and buildings	**112**	108
– plant and machinery	**35**	39

12. DIVIDENDS

	Six months ended 30 June	
	2018	2017
	HK$'million	HK$'million
Interim dividend of 22 HK cents (2017: 22 HK cents) per ordinary share	**731**	698
Special interim dividend, paid, of 135 HK cents per ordinary share for 2017	—	4,282
	731	4,980

At a meeting held on 31 August 2018, the Board of Directors proposed an interim dividend of 22 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 interim dividend (or part thereof) in cash in lieu of such allotment. This proposed dividend is not reflected as dividend payable in this condensed consolidated interim financial information but will be reflected as an appropriation of retained earnings for the year ending 31 December 2018.

The amount of interim dividend for 2018 (2017: interim dividend for 2017 and the special interim dividend) was based on 3,324,625,825 (2017: 3,172,077,487) shares in issue as at 31 August 2018.

13. 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:

	Six months ended 30 June	
	2018	2017
Basic and diluted		
Profit attributable to equity holders of the Company (HK$'million)	**5,448**	3,148
Weighted average number of ordinary shares in issue (Note)	**3,277,619,310**	3,128,867,827
Basic and diluted earnings per share (HK cents)	**166.22**	100.62

Note: The weighted average number of ordinary shares in issue for the purposes of basic and diluted earnings per share for the six months ended 30 June 2018 and 2017 included the ordinary shares of the Company in issue during the period. The numbers for the six months ended 30 June 2017 also included the ordinary shares issued upon conversion of the Mandatory Convertible Securities ("MCS") 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 before and after its conversion to ordinary shares have been taken into account in the calculation of the basic and diluted earnings per share above for the six months ended 30 June 2017.

14. GOODWILL, INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES AND LAND USE RIGHTS

	Goodwill HK$'million	Intangible assets HK$'million	Property, plant and equipment HK$'million	Investment properties HK$'million	Land use rights HK$'million
Six months ended 30 June 2018					
Net book value as at 1 January 2018	**3,628**	**5,925**	**30,880**	**8,411**	**12,851**
Exchange adjustments	**(1)**	**(889)**	**(422)**	**(77)**	**(76)**
Additions	—	**14**	**1,130**	—	—
Acquisition of subsidiaries (note 21)	**4,886**	**6,485**	**2,453**	—	—
Increase in fair value	—	—	—	**217**	—
Transfer from other non-current assets	—	—	**70**	—	—
Disposals	—	—	**(28)**	—	—
Disposal of subsidiaries (note 22)	**(473)**	**(141)**	**(3,950)**	**(73)**	**(1,023)**
Depreciation and amortisation	—	**(129)**	**(795)**	—	**(138)**
Net book value as at 30 June 2018	**8,040**	**11,265**	**29,338**	**8,478**	**11,614**
Six months ended 30 June 2017					
Net book value as at 1 January 2017	2,791	5,407	18,459	7,455	7,265
Exchange adjustments	77	394	505	230	223
Additions	—	12	273	1	9
Increase in fair value	—	—	—	87	—
Disposals	—	—	(22)	—	—
Depreciation and amortisation	—	(70)	(549)	—	(91)
Net book value as at 30 June 2017	2,868	5,743	18,666	7,773	7,406

15. INTERESTS IN JOINT VENTURES

Acquisitions of joint ventures engaged in port operation in Australia

On 6 February 2018, the Company entered into an acquisition agreement with China Merchants Union (BVI) Limited ("CMU", a joint venture of the immediate holding company) and its wholly owned subsidiary, Gold Newcastle Property Holding Pty Limited ("Gold Newcastle"), pursuant to which CMU and Gold Newcastle agreed to sell and the Group agreed to purchase 50% of the total equity interests in the Port of Newcastle (as defined below). As part of the transaction, CMU also agreed to sell and the Group also agreed to purchase the entire interest in Gold Newcastle. Upon completion, Gold Newcastle will become a wholly-owned subsidiary of the Company. The total consideration for these acquisitions, including the interest-bearing shareholder's loan from CMU to the Port of Newcastle with a principal amount of AUD162.5 million, is AUD607.5 million, subject to certain adjustments as set forth in the relevant agreement.

The port of Newcastle comprises various entities and trusts that, through lease and sublease, being granted with all the rights and interests, for a term of approximately 98 years from 30 May 2014 in relation to the largest port on the east coast of Australia (the "Port of Newcastle"). Gold Newcastle is an entity established in Australia by CMU for the sole purpose of holding certain assets comprising the Port of Newcastle. The other 50% interest in Port of Newcastle is held by an independent third party.

The transactions had been completed during the period for a final consideration of AUD605 million (equivalent to approximately HK$3,488 million) and the Group's investment in Port of Newcastle is accounted for as interests in joint ventures as the Directors consider the Group has joint control with the relevant joint venture partners over the investees.

16. DEBTORS, DEPOSITS AND PREPAYMENTS

	30 June 2018 HK$'million	31 December 2017 HK$'million
Trade debtors, net (Note (a))	**1,277**	1,042
Amounts due from fellow subsidiaries (Note (b))	**5**	5
Amounts due from associates (Note (c))	**281**	284
Amounts due from joint ventures (Note (b))	**1**	2
Amounts due from a related party (Note (d))	**1,215**	1,181
Dividend receivables	**1,552**	231
Other debtors, deposits and prepayments	**907**	960
	5,238	3,705

16. DEBTORS, DEPOSITS AND PREPAYMENTS (CONTINUED)

Notes:

(a) Bill receivables of HK$14 million (31 December 2017: HK$20 million) are included in trade debtors as at 30 June 2018.

The Group has a credit policy of allowing an average credit period of 90 days (2017: 90 days) to its trade customers. The ageing analysis of the trade debtors, based on the invoice date, net of provision for impairment of trade debtors, is as follows:

	30 June 2018 HK$'million	31 December 2017 HK$'million
0 - 90 days	**1,179**	862
91 - 180 days	**79**	149
181 - 365 days	**15**	23
Over 365 days	**4**	8
	1,277	1,042

(b) The amounts are unsecured, interest free and expected to be repayable within twelve months from the end of the reporting period.

(c) The amounts of HK$142 million (31 December 2017: HK$144 million) are unsecured, interest-bearing at fixed rate of 1% (31 December 2017: 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.

(d) The related party is an associate of China Merchants Group Limited ("CMG") (see note 24). The amount is interest-bearing at floating interest rate, repayable within twelve months from the end of the reporting period and secured by the equity interest in an associate of the Group held by the controlling shareholder of the associate.

17. SHARE CAPITAL

	Number of shares		**Share capital**	
	Six months ended 30 June		**Six months ended 30 June**	
	2018	2017	**2018 HK$'million**	2017 HK$'million
Issued and fully paid:				
As at 1 January	**3,277,619,310**	2,625,732,225	**38,207**	19,548
Issue of shares on conversion of MCS	**—**	503,135,602	**—**	15,219
As at 30 June	**3,277,619,310**	3,128,867,827	**38,207**	34,767

Notes:

(a) During the period from 1 July 2018 to the date of approval of this condensed consolidated interim financial information, 47,006,515 ordinary shares (2017: 43,209,660 ordinary shares) were issued to satisfy the payment of the 2017 final dividend of HK$792 million (2017: HK$927 million).

(b) MCS were 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. Subject to the discretion of the Company, the MCS entitled the holders to receive fixed coupons semi-annually, before they were converted into ordinary shares of the Company, up to the mandatory conversion date, 13 June 2017, being the third anniversary following the date of issuance of the MCS. The MCS were not entitled to dividends declared and paid by the Company to its ordinary shareholders and did not carry any voting rights of the Company before its conversion. All outstanding MCS were converted to ordinary shares of the Company during the six months ended 30 June 2017.

18. BANK AND OTHER BORROWINGS

	30 June 2018 HK$'million	31 December 2017 HK$'million
Bank loans		
Unsecured short-term bank loans		
– variable rate	**13,263**	239
– fixed rate	**136**	586
Unsecured long-term fixed rate bank loans	**30**	30
Long-term variable rate bank loans		
– unsecured	**6,863**	5,608
– secured (Note (a))	**4,104**	4,284
	24,396	10,747
Loans from an intermediate holding company (Note (b))	**61**	179
Loan from a non-controlling equity holder of a subsidiary (Note (c))	**442**	445
Loans from a fellow subsidiary (Note (d))	**1,079**	2,261
Loan from an associate (Note (e))	**277**	276
Notes payable (Note (f))		
– US$200 million, 7.125% guaranteed listed notes maturing in 2018	**—**	1,562
– US$200 million, 3.5% guaranteed listed notes maturing in 2020	**1,565**	1,558
– US$500 million, 5% guaranteed listed notes maturing in 2022	**3,895**	3,877
– US$500 million, 4.75% guaranteed listed notes maturing in 2025	**3,904**	3,888
– Reais 428 million, Brazil's National Consumer Price Index ("IPCA") + 7.82% listed notes maturing in 2022	**817**	—
– RMB250 million, 6.38% unlisted notes maturing in 2018	**—**	299
– RMB100 million, 4.74% unlisted notes maturing in 2018	**—**	119
– RMB300 million, 2.97% unlisted notes maturing in 2019	**—**	358
– RMB2,500 million, 4.89% unlisted notes maturing in 2022	**2,965**	2,991
– RMB500 million, 5.15% unlisted notes maturing in 2021	**593**	—
	13,739	14,652
Total	**39,994**	28,560
Less: amounts due within one year included under current liabilities	**(16,846)**	(6,268)
Non-current portion	**23,148**	22,292

18. BANK AND OTHER BORROWINGS (CONTINUED)

Notes:

(a) As at 30 June 2018, the following assets are pledged against the Group's secured bank loans:

	30 June 2018 HK$'million	31 December 2017 HK$'million
Property, plant and equipment	**406**	369
Land use rights	**193**	197
	599	566

In addition to the above, the entire shareholdings in two subsidiaries owned by the Company and its subsidiary as at 30 June 2018 and 31 December 2017, are also pledged to various banks for bank facilities granted to the relevant subsidiaries.

(b) As at 30 June 2018, the amount is denominated in Renminbi, interest-bearing at fixed rate at 4.35% per annum, unsecured and repayable within twelve months from the end of the reporting period.

As at 31 December 2017, the amount was denominated in Renminbi, interest-bearing at fixed rate at 4.35% per annum and unsecured. Except for the amount of HK$59 million, the remaining amount was repayable within twelve months from the end of the reporting period.

(c) The amount is unsecured, interest-bearing at 4.65% (31 December 2017: 4.65%) per annum and is not required to be repaid within twelve months from the end of the reporting period.

(d) The fellow subsidiary is a financial institution approved and regulated by the People's Bank of China and the China Banking Regulatory Commission. The amounts are unsecured, interest-bearing ranging from 3.83% to 4.74% (31 December 2017: 3.83% to 4.35%) per annum and repayable within twelve months from the end of the reporting period.

(e) The amount is unsecured, interest-bearing at floating rate per annum and repayable within twelve months from the end of the reporting period.

(f) Listed notes issued by subsidiaries of the Company of HK$9,364 million (31 December 2017: HK$10,885 million) are secured by corporate guarantees provided by the Company.

The effective interest rates of the Group's notes payable are as follows:

	30 June 2018	31 December 2017
US$200 million, 7.125% guaranteed listed notes maturing in 2018	**N/A**	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%
Reais 428 million, IPCA + 7.82% listed notes maturing in 2022	**12.21%**	N/A
RMB250 million, 6.38% unlisted notes maturing in 2018	**N/A**	6.68%
RMB100 million, 4.74% unlisted notes maturing in 2018	**N/A**	4.89%
RMB300 million, 2.97% unlisted notes maturing in 2019	**N/A**	3.57%
RMB2,500 million, 4.89% unlisted notes maturing in 2022	**4.94%**	4.94%
RMB500 million, 5.15% unlisted notes maturing in 2021	**5.22%**	N/A

(g) As at 30 June 2018, the Group has undrawn bank loan facilities and other debt financing instruments amounting to HK$26,024 million (31 December 2017: HK$29,786 million), of which HK$20,218 million (31 December 2017: HK$23,679 million) and HK$5,806 million (31 December 2017: HK$6,107 million) are committed and uncommitted credit facilities respectively.

18. BANK AND OTHER BORROWINGS (CONTINUED)

Notes: (continued)

(h) The bank and other borrowings as at 30 June 2018 and 31 December 2017 are repayable as follows:

	Bank loans HK$'million	Listed notes payable HK$'million	Unlisted notes payable HK$'million	Loans from an intermediate holding company HK$'million	Loan from a non-controlling equity holder of a subsidiary HK$'million	Loans from a fellow subsidiary HK$'million	Loan from an associate HK$'million	Total HK$'million
As at 30 June 2018								
Within 1 year	**15,429**	—	—	**61**	—	**1,079**	**277**	**16,846**
Between 1 and 2 years	**2,013**	—	—	—	—	—	—	**2,013**
Between 2 and 5 years	**5,245**	**6,277**	**3,558**	—	—	—	—	**15,080**
Within 5 years	**22,687**	**6,277**	**3,558**	**61**	—	**1,079**	**277**	**33,939**
More than 5 years	**1,709**	**3,904**	—	—	**442**	—	—	**6,055**
	24,396	**10,181**	**3,558**	**61**	**442**	**1,079**	**277**	**39,994**
As at 31 December 2017								
Within 1 year	1,631	1,562	418	120	—	2,261	276	6,268
Between 1 and 2 years	1,811	—	358	59	—	—	—	2,228
Between 2 and 5 years	5,242	5,435	2,991	—	—	—	—	13,668
Within 5 years	8,684	6,997	3,767	179	—	2,261	276	22,164
More than 5 years	2,063	3,888	—	—	445	—	—	6,396
	10,747	10,885	3,767	179	445	2,261	276	28,560

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

	30 June 2018	31 December 2017
Renminbi	**1.20% to 4.90%**	1.20% to 4.90%
Euro	**3.72% to 5.78%**	3.72% to 5.78%
United States dollar	**2.53% to 5.23%**	4.54%
Brazilian Real	**3.50% to 9.39%**	N/A

19. OTHER NON-CURRENT LIABILITIES

Included in the amount as at 30 June 2018 is the liabilities arising from the concession arrangements of HK$3,627 million (31 December 2017: nil) for a port located in Brazil with the local port authority due by the TCP Group (as defined in note 21) (the "TCP Concession Liabilities"). The relevant concession arrangement allows for operations in the relevant port for up to 2048. Pursuant to the said concession arrangements, including the amendments thereto, with the relevant authority, concession payment is payable on a monthly basis and is adjusted from time to time, among other conditions, with reference to an official inflation index in Brazil. The TCP Concession Liabilities are designated as FVTPL at initial recognition upon the completion of the TCP Acquisition (as defined in note 21) and subsequently measured at fair value, with any gains or losses arising on remeasurement (other than those attributable to changes in credit risks of these liabilities) recognised in profit or loss. The current portion of the TCP Concession Liabilities amounting to HK$90 million is included in creditors and accruals in current liabilities.

Included in the amount as at 30 June 2018 is also gross obligation arising from a put option issued to non-controlling equity holders of subsidiaries ("Put Option Liability") of HK$650 million (31 December 2017: nil). The excess of Put Option Liability over the fair value of the put option (as stated in note 21) amounting to HK$579 million at initial recognition was debited to the non-controlling interests. Further details are set out in note 21.

20. CREDITORS AND ACCRUALS

	30 June 2018 HK$'million	31 December 2017 HK$'million
Trade creditors (Note (a))	**305**	397
Amounts due to fellow subsidiaries (Note (b))	**181**	193
Consideration payable for acquisition of subsidiaries	—	5,351
Dividend payable to ordinary shareholders of the Company	**1,934**	—
Contract liabilities	**78**	—
Other payables and accruals	**2,730**	3,058
	5,228	8,999

Notes:

(a) The ageing analysis of the trade creditors, based on invoice date, is as follows:

	30 June 2018 HK$'million	31 December 2017 HK$'million
0 - 90 days	**196**	246
91 - 180 days	**5**	24
181 - 365 days	**10**	43
Over 365 days	**94**	84
	305	397

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

21. ACQUISITION OF SUBSIDIARIES

For the six months ended 30 June 2018

On 4 September 2017, the Group (as the purchaser) entered into a share purchase agreement with TCP Participações S.A. (as the intervening party) ("TCP", together with its subsidiaries, the "TCP Group") and several independent third parties who are the original shareholders of TCP (as the seller) (the "Selling Shareholders"), pursuant to which, the Selling Shareholders agreed to sell and the Group agreed to purchase 7,271,233 issued shares of TCP (the "Initial Sale Shares") which were originally owned by the Selling Shareholders. The sale of the Initial Sale Shares to the Group will accelerate the vesting of the stock options granted by TCP (the "TCP Stock Option Plan"). The Selling Shareholders agreed to cause the beneficiaries of the TCP Stock Option Plan to exercise their rights to subscribe for 340,100 shares of TCP under the TCP Stock Option Plan (the "Individual Seller Shares") and to sell all the Individual Seller Shares to the Group (the "TCP Acquisition"). The Initial Sale Shares and the Individual Seller Shares collectively represent 90% of the issued share capital of TCP. The cash consideration for the acquisition of the Initial Sale Shares and the Individual Sellers Shares is Reais 2,812 million (equivalent to approximately HK$6,731 million).

Pursuant to the shareholders' agreement, a put option was granted by the Group to the non-controlling equity holders of TCP Group (the "Option Holders") exercisable 2 years after 23 February 2018. The Option Holders have the right to sell to, and require the Group to acquire all of the Option Holders' remaining equity interest of TCP Group after 23 February 2018 at a cash consideration. At initial recognition, the fair value of the put option as at acquisition date amounting to HK$189 million. The Group was also granted with a call option to acquire all of the Option Holders' remaining equity interest of TCP Group, where the fair value of the call option was determined as negligible at initial recognition.

TCP Group is principally engaged in operation of port facilities in Brazil.

The transaction was completed on 23 February 2018. Since then, the Group has the right to appoint the majority of board members to the board of directors of TCP, which is the authority of the power to direct the relevant activities of TCP. Accordingly, TCP Group is accounted for as subsidiaries of the Group.

21. ACQUISITION OF SUBSIDIARIES (CONTINUED)

For the six months ended 30 June 2018 (continued)

Further details of the TCP Acquisition are set out below:

	HK$'million
Consideration	
Cash	6,731
Provisional fair values of identifiable assets acquired and liabilities assumed:	
Intangible assets (note 14)	6,485
Property, plant and equipment (note 14)	2,453
Deferred tax assets	39
Inventories	1
Debtors, deposits and prepayments	255
Taxation recoverable	40
Cash and bank balances	1,103
Bank and other borrowings	(2,714)
Other non-current liabilities	(4,349)
Deferred tax liabilities	(722)
Creditors and accruals	(274)
Taxation payable	(57)
Total identifiable net assets	2,260

The initial accounting for the above intangible assets acquired in the TCP Acquisition and the value of put option have been determined on a provisional basis, awaiting for the completion of professional valuations. The amounts of deferred tax liabilities and goodwill may be adjusted accordingly. Fair values of the identifiable assets acquired and liabilities assumed are determined/determining by reference to valuations performed by independent and professional qualified valuer based on asset-based approach. Significant assumptions of the valuations include the growth rates, discount rates and expected future cash inflows/outflows of TCP Group.

	HK$'million
Net cash outflow arising in the TCP Acquisition:	
Cash consideration	6,731
Less: Cash and bank balances acquired	(1,103)
Net cash outflow during the six months ended 30 June 2018	5,628

21. ACQUISITION OF SUBSIDIARIES (CONTINUED)

For the six months ended 30 June 2018 (continued)

Trade debtors acquired with a fair value of HK$134 million at the date of acquisition had gross contractual amounts of HK$138 million. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to HK$4 million.

The non-controlling interests in TCP Group recognised were measured by reference to the fair values of the identifiable assets acquired and liabilities assumed at the respective acquisition dates.

Acquisition-related costs amounting to HK$4 million (2017: HK$35 million) in aggregate have been excluded from the consideration transferred and has been recognised as an administrative expense in the condensed consolidated statement of profit or loss in the current period.

Goodwill arising on the TCP Acquisition:

	HK$'million
Cash consideration	**6,731**
Add: Put option derivative	**189**
Add: Non-controlling interests	**226**
Less: Fair values of identifiable net assets acquired	**(2,260)**
Goodwill arising on acquisition	**4,886**

Goodwill arose in the acquisition of TCP Group because the cost of the acquisition included a control premium. In addition, the consideration paid for the acquisition effectively included amounts in relation to the benefit of expected synergies as a result of the new presence in Latin America region which will further strengthen the Group's global port network. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Included in the profit and revenue of the Group for the current period are net profit of HK$23 million and revenue of HK$632 million generated by TCP Group.

Had the TCP Acquisition been completed on 1 January 2018, total group revenue for the period would have been HK$5,685 million, and profit for the period would have been HK$5,934 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the TCP Acquisition been completed on 1 January 2018, nor is it intended to be a projection of future results.

21. ACQUISITION OF SUBSIDIARIES (CONTINUED)

For the six months ended 30 June 2018 (continued)

In determining the 'pro-forma' revenue and profit of the Group had the TCP Acquisition been completed at the beginning of the current period, the directors have:

- calculated depreciation of property, plant and equipment and intangible assets acquired on the basis of the fair values arising in the accounting for the acquisition rather than the carrying amounts recognised in the pre-acquisition financial statements; and

- determined borrowing costs based on the funding levels, credit ratings and debt/equity position of the Group after the acquisition.

22. DISPOSAL OF SUBSIDIARIES

For the six months ended 30 June 2018

In June 2018, the Company completed the disposal of its entire approximately 34% equity interest in Shenzhen Chiwan Wharf Holdings Limited ("Shenzhen Chiwan", together with its subsidiaries, the "Shenzhen Chiwan Group"), a non-wholly-owned subsidiary of the Company whose A shares and B shares are listed on the Shenzhen Stock Exchange, to fellow subsidiaries of CMG for a total cash consideration of HK$5,410 million.

During the period, China Nanshan Development (Group) Incorporation ("China Nanshan", an associate of the Company) also completed the disposal of its entire approximately 33% equity interest in Shenzhen Chiwan for a consideration of HK$6,510 million to another subsidiary of CMG. This transaction, together with the above disposal of the Shenzhen Chiwan Group by the Group, are collectively be referred to as the "Disposal".

The Company was entitled to exercise the management rights and has the power to direct the voting rights of the approximately 33% equity interest of Shenzhen Chiwan held by China Nanshan pursuant to an entrustment agreement entered into with China Nanshan in previous years, which has been terminated upon the completion of the Disposal during the period pursuant to an agreement to terminate the said entrustment agreement. Accordingly, upon completion of the Disposal, Shenzhen Chiwan Group ceased to be subsidiaries of the Company.

22. DISPOSAL OF SUBSIDIARIES (CONTINUED)

For the six months ended 30 June 2018 (continued)

	HK$'million
Analysis of the aggregate assets and liabilities of Shenzhen Chiwan Group over which control was lost:	
Goodwill (note 14)	473
Intangible assets (note 14)	141
Property, plant and equipment (note 14)	3,950
Investment properties (note 14)	73
Land use rights (note 14)	1,023
Interests in associates	897
Other financial assets	180
Other non-current assets	345
Deferred tax assets	13
Inventories	21
Debtors, deposits and prepayments	548
Taxation recoverable	29
Cash and bank balances	584
Bank and other borrowings	(1,304)
Creditors and accruals	(432)
Deferred tax liabilities	(48)
Other non-current liabilities	(223)
Taxation payable	(94)
Net assets disposed of	6,176
Gain on Disposal:	
Cash consideration	5,410
Interests in associates (Note)	2,595
Net assets disposed of	(6,176)
Non-controlling interests	2,677
Cumulative reserves reclassified from equity to profit or loss upon disposal	98
Costs directly attributable to the disposal	(204)
Gain on the Disposal	4,400

Note: Upon completion of the Disposal, an entity previously accounted for as a subsidiary of the Company has been reclassified as interest in an associate since the Group ceased to control thereof. Included in the amount is the fair value of Group's share of business value of the relevant entity as of the date of the completion of the Disposal. Included in the amount is also the Group's share of China Nanshan's gain on disposal of its entire approximately 33% equity interest in Shenzhen Chiwan.

22. DISPOSAL OF SUBSIDIARIES (CONTINUED)

For the six months ended 30 June 2018 (continued)

	HK$'million
Net cash inflow arising on disposal:	
Cash consideration received	5,410
Less: Cash and cash equivalents disposed of	(584)
	4,826

23. COMMITMENTS AND CONTINGENT LIABILITIES

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

	30 June 2018 HK$'million	31 December 2017 HK$'million
Group:		
Property, plant and equipment and intangible assets	5,142	3,214
Joint ventures:		
Property, plant and equipment	585	556
	5,727	3,770

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

	30 June 2018 HK$'million	31 December 2017 HK$'million
Group:		
Port projects	6	6
Acquisition of a subsidiary	—	7,228
	6	7,234

23. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(c) Contingent liabilities

(i) As at 30 June 2018, the TCP Group had significant contingent liabilities arising from pending legal proceedings in Brazil in respect of disputes with local tax authorities, employees or former employees of TCP Group and other parties, amounting to HK$385 million (31 December 2017: nil), which, based on the latest estimates of the management of the Group, is not probable that outflows of resources embodying economic benefits will be required to settle these obligations. Accordingly, no provision for litigation claims in respect of the above cases has been made in the condensed consolidated interim financial information. A counter indemnity in favour of the Group is executed by the Selling Shareholders pursuant to which the latter indemnify to the Group for the above contingent liabilities for and up to predetermined amounts and specified length of time.

(ii) As at 30 June 2018 and 31 December 2017, 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$117 million (31 December 2017: HK$131 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 an associate of the Group. The total amount guaranteed by the Group is HK$392 million (31 December 2017: HK$391 million) and the aggregate amount utilised by the relevant associate amounted to HK$46 million (31 December 2017: HK$64 million) as at 30 June 2018.

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.

24. MATERIAL RELATED PARTY BALANCES AND TRANSACTIONS

The directors regard CMG, a state-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 period and balances arising from related transactions as at 30 June 2018 are as follows:

(a) Balances and transactions with associates and joint ventures of the Group and with CMG, its subsidiaries, associates and joint ventures (collectively referred to as the "CMG Group")

	Note	Six months ended 30 June 2018 HK$'million	2017 HK$'million
Rental income from fellow subsidiaries	(i)	**12**	5
Rental expenses paid to	(i)		
– fellow subsidiaries		**47**	54
– associates		**34**	42
Service income from	(ii)		
– the ultimate holding company		**2**	—
– fellow subsidiaries		**52**	40
– joint ventures		**48**	44
– associates		**25**	34
Service fee paid to	(iii)		
– fellow subsidiaries		**28**	25
– joint ventures		**8**	7
Interest income from			
– associates	(iv)	**2**	6
– a related party	(iv)	**29**	—
– a fellow subsidiary	(v)	**3**	2
Interest expenses and upfront fees paid to	(vi)		
– the ultimate holding company		**—**	5
– an intermediate holding company		**4**	6
– a fellow subsidiary		**35**	13
– an associate		**14**	—

24. MATERIAL RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

(a) Balances and transactions with associates and joint ventures of the Group and with CMG, its subsidiaries, associates and joint ventures (collectively referred to as the "CMG Group") (continued)

Notes:

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

(ii) The ports, logistics and information technology 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 income was charged at interest rates as specified in notes 16(c) and 16(d) on the outstanding amounts due from associates of the Group and a related party.

(v) As at 30 June 2018, the Group placed deposits of HK$1,205 million (31 December 2017: HK$724 million) with China Merchants Group Finance Co., Ltd., a subsidiary of CMG which is a financial institution approved and regulated by the People's Bank of China and the China Banking Regulatory Commission. The amounts are included in cash and bank balances.

Interest income was charged at interest rates ranged from 1.50% to 3.05% (2017: from 1.50% to 1.76%) per annum.

(vi) Interest expenses were charged at interest rates as specified in note 18 on the outstanding amounts due to the ultimate and intermediate holding companies, a fellow subsidiary and an associate.

(vii) During the period ended 30 June 2018, the Company disposed of its entire interest in Shenzhen Chiwan Group to certain subsidiaries of CMG for a total cash consideration of HK$5,410 million.

(viii) During the period ended 30 June 2018, the Company acquired 50% interests in the Port of Newcastle from CMU and its subsidiary for a total cash consideration of HK$3,488 million.

(ix) During the period ended 30 June 2017, the Company disposed of its entire interests in Soares, a wholly-owned subsidiary of the Company, to a subsidiary of CMG for a cash consideration of HK$8,739 million.

(x) As at 30 June 2018, the Group placed deposits of HK$2,856 million (31 December 2017: HK$1,111 million) with China Merchants Bank Co., Ltd. ("CMB"), an associate of CMG.

During the period, interest income from CMB amounted to HK$11 million (2017: HK$10 million).

As at 31 December 2017, the Group borrowed loans of HK$48 million from CMB.

During the period ended 30 June 2017, interest expenses and upfront fees paid and payable to CMB amounted to HK$4 million.

The balances with entities within CMG Group as at 30 June 2018 are disclosed in notes 16, 18 and 20.

(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.

24. MATERIAL RELATED PARTY BALANCES AND TRANSACTIONS (CONTINUED)

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

	Six months ended 30 June	
	2018	2017
	HK$'million	HK$'million
Interest expense paid (Note)	**11**	11

Note: Interest expense was charged at interest rates as specified in note 18(c) on the outstanding loans from non-controlling equity holders of subsidiaries.

The balances with a non-controlling equity holder of a subsidiary as at 30 June 2018 and 31 December 2017 are disclosed in note 18(c).

(d) Key management compensation

	Six months ended 30 June	
	2018	2017
	HK$'million	HK$'million
Salaries and other short-term employee benefits	**12**	11

25. EVENT AFTER THE END OF THE REPORTING PERIOD

Listing of notes issued by a subsidiary of the Company

Subsequent to 30 June 2018, a subsidiary of the Company completed the listing of notes amounting to US$900 million maturing in 2023 and US$600 million maturing in 2028 on the HKSE. The net proceeds of US$1,486 million (equivalent to approximately HK$11,665 million) have been received as at the date of this report.

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