IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY PERSON OR ADDRESS IN THE UNITED STATES. THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE ADDRESSEES OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached preliminary offering memorandum (the "**Offering Memorandum**"). You are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the attached Offering Memorandum. In accessing the attached Offering Memorandum, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

Confirmation of Your Representation: You have accessed the attached Offering Memorandum on the basis that you have confirmed your representation to Bank of China (Hong Kong) Limited, DBS Bank Ltd., The Hongkong and Shanghai Banking Corporation Limited, MUFG Securities EMEA plc, and UBS AG Hong Kong Branch (the "**Joint Lead Managers**" and each of them a "**Joint Lead Manager**") that (1) you are not in the United States ("**US**") and, to the extent you purchase the securities described in the attached Offering Memorandum, you will be doing so pursuant to Regulation S under the US Securities Act of 1933, as amended (the "**Securities Act**") AND (2) that you consent to the delivery of the attached Offering Memorandum and any amendments or supplements thereto by electronic transmission.

The attached Offering Memorandum has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently neither the Joint Lead Managers nor any of their respective directors, officers, employees, representatives, agents and each person who controls any of them or their respective affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version. The Joint Lead Managers will upon request provide a hard copy version to you.

Restrictions: The attached Offering Memorandum is being furnished in connection with an offering in offshore transactions in compliance with Regulation S under the Securities Act solely for the purpose of enabling a prospective investor to consider the purchase of the securities described in the Offering Memorandum. You are reminded that the information in the attached Offering Memorandum is not complete and may be changed.

THE SECURITIES AND THE GUARANTEE DESCRIBED HEREIN HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES AND THE GUARANTEE MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. THIS OFFERING IS MADE SOLELY IN OFFSHORE TRANSACTIONS PURSUANT TO REGULATION S UNDER THE SECURITIES ACT.

THIS OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY PERSON OR ADDRESS IN THE UNITED STATES. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

MiFID II product governance / Professional investors and ECPs only target market — Solely for the purposes of the manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "**MiFID II**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer's target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer's target market assessment) and determining appropriate distribution channels.

Nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of either the Issuer of the securities or the Joint Lead Managers to subscribe for or purchase any of the securities described therein, and access has been limited so that it shall not constitute in the United States or elsewhere a general solicitation or general advertising (as those terms are used in Regulation D under the Securities Act) or directed selling efforts (within the meaning of Regulation S under the Securities Act). If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Joint Lead Managers or any affiliate of them is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Joint Lead Managers it or such affiliate on behalf of the Issuer in such jurisdiction.

You are reminded that you have accessed the attached Offering Memorandum on the basis that you are a person into whose possession this Offering Memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorised to deliver this document, electronically or otherwise, to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you are not allowed to purchase any of the securities described in the attached.

Actions that You May Not Take: If you receive this document by e-mail, you should not reply by e-mail to this announcement, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected.

You are responsible for protecting against viruses and other destructive items. If you receive this document by e- mail, your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

The information in this Preliminary Offering Memorandum is not complete and may be changed. This Preliminary Offering Memorandum is not an offer to sell the securities mentioned herein and is not soliciting an offer to buy such securities in any jurisdiction where such offer or sale is not permitted.

SUBJECT TO COMPLETION
Preliminary Offering Memorandum dated 24 July 2018 **STRICTLY CONFIDENTIAL**

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

CMHI FINANCE (BVI) CO., LTD

(incorporated in the British Virgin Islands with limited liability)

US$ per cent. Guaranteed Notes due
US$ per cent. Guaranteed Notes due
unconditionally and irrevocably guaranteed by

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

(incorporated in Hong Kong with limited liability)

Issue Price for the Notes: per cent.
Issue Price for the Notes: per cent.

The US$ per cent. Guaranteed Notes due (the " **Notes**") and the US$ per cent. Guaranteed Notes due (the " **Notes**", together with the Notes, the "**Notes**") will be issued by CMHI Finance (BVI) Co., Ltd (the "**Issuer**") and each guaranteed pursuant to a separate deed of guarantee dated 2018 (the "**Guarantee**") by China Merchants Port Holdings Company Limited (招商局港口控股有限公司) (the "**Guarantor**"). The Guarantor will unconditionally and irrevocably guarantee the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes. The Guarantor is a holding company, and accordingly, payments under the Guarantee are effectively subordinated to all existing and future liabilities of each of the Guarantor's subsidiaries (other than the Issuer). See "Investments Considerations — Risks Relating to the Issuer and the Guarantor."

The Notes will bear interest from at the rate of per cent. per annum. Interest on the Notes is payable semi-annually in arrear on and in each year, commencing .

The Notes will bear interest from at the rate of per cent. per annum. Interest on the Notes is payable semi-annually in arrear on and in each year, commencing .

Payments on the Notes will be made without deduction for or on account of taxes of the British Virgin Islands, the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**") or the People's Republic of China ("**PRC**") to the extent described in "Terms and Conditions of the Notes — Taxation" and "Terms and Conditions of the Notes — Taxation".

Unless previously redeemed, or purchased and cancelled as provided herein, the Issuer will redeem each Note at its principal amount on and each Note at its principal amount on . The Notes are subject to redemption at the option of the Issuer in whole, but not in part, at any time, at their principal amount, together with accrued interest, in the event of certain changes affecting taxes of the British Virgin Islands, Hong Kong or the PRC. Not later than 30 days following a Change of Control Triggering Event (as defined in the Terms and Conditions), the Issuer must make an offer to purchase all outstanding Notes at a purchase price equal to 101 per cent. of their principal amount, together with interest accrued to, but excluding, the Offer to Purchase Payment Date (as defined in the Terms and Conditions). See "Terms and Conditions of the Notes — Redemption and Purchase" and "Terms and Conditions of the Notes — Redemption and Purchase".

MiFID II product governance / Professional investors and ECPs only target market — Solely for the purposes of the manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "**MiFID II**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer's target market assessment) and determining appropriate distribution channels.

Application has been made to The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") for listing of the Notes by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) (together, "**Professional Investors**") only. This document is for distribution to Professional Investors only. **Investors should not purchase the Notes in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Notes are only suitable for Professional Investors.**

The Hong Kong Stock Exchange has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Notes, the Issuer, the Guarantor and the Group or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

The Notes and the Guarantee have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and are subject to United States tax law requirements. The Notes are being offered outside the United States by the Joint Lead Managers (as defined in "Subscription and Sale") in accordance with Regulation S under the Securities Act ("**Regulation S**"), and may not be offered, sold or delivered within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Pursuant to the Circular on Promoting the Reform of the Filing and Registration System on the Issuance by Enterprises of Foreign Debt (Fa Gai Wai Zi [2015] No. 2044) (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號)) (the "**NDRC Circular**") issued by the National Development and Reform Commission of the PRC ("**NDRC**") on 14 September 2015 which came into effect on the same day, the Guarantor has registered the issuance of the Notes with the NDRC and obtained a certificate from the NDRC dated 11 July 2018 evidencing such registration and which remains in full force and effect. The Guarantor will be required to file or cause to be filed with the NDRC the requisite information on the issuance of the Notes to the NDRC within the prescribed timeframe after the Issue Date. The Notes will mature on at their principal amount. The Notes are subject to redemption, in whole but not in part, at their principal amount, together with accrued interest, at the option of the Issuer at any time in the event of certain changes affecting taxes of the British Virgin Islands or the PRC.

The Notes are expected to be rated "Baa1" by Moody's Investors Service, Inc. ("**Moody's**") and "BBB" by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("**S&P**"). A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the relevant rating organisation. Prospective investors should evaluate each rating independently of any other rating of the Notes or other securities of the Issuer.

See "Investments Considerations" beginning on page 38 for a discussion of certain factors to be considered in connection with an investment in the Notes.

The Notes will be issued in bearer form in the denomination of US$200,000 and integral multiples of US$1,000 in excess thereof. Each series of Notes will initially be represented by a temporary global note (each, a "**Temporary Global Note**" and together, the "**Temporary Global Notes**"), without coupons, which will be deposited with a common depositary on behalf of Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream**") on or about 2018 (the "**Issue Date**"). Each Temporary Global Note will be exchangeable in whole or in part not earlier than 40 days after the Issue Date for a permanent global notes (each, a "**Permanent Global Note**" and together, the "**Permanent Global Notes**"), without coupons, upon prior certification as to non-US beneficial ownership thereof or otherwise as required by US Treasury Regulations. The purchase, sale and transfer of the Notes may only be effected through accounts at Euroclear and Clearstream. Each Permanent Global Note will be exchangeable for definitive form of the Notes in relation to the relevant series ("**Definitive Notes**") in bearer form in the denomination of US$200,000 and integral multiples of US$1,000 in excess thereof in the limited circumstances set out in it. See "Summary of Provisions Relating to the Notes while in Global Form."

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

Bank of China (Hong Kong)	**DBS Bank Ltd.**	**HSBC**	**MUFG**	**UBS**

The date of this Offering Memorandum is 2018

IMPORTANT NOTICE

THIS OFFERING MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, ANY SECURITIES IN ANY JURISDICTION TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE THE OFFER OR SOLICITATION IN SUCH JURISDICTION. NEITHER THE DELIVERY OF THIS OFFERING MEMORANDUM NOR ANY SALE MADE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES IMPLY THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE ISSUER, THE GUARANTOR OR ANY OF THEIR RESPECTIVE SUBSIDIARIES OR THAT THE INFORMATION SET FORTH IN THIS OFFERING MEMORANDUM IS CORRECT AS OF ANY DATE SUBSEQUENT TO THE DATE HEREOF.

MiFID II product governance / Professional investors and ECPs only target market — Solely for the purposes of the manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "**MiFID II**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer's target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer's target market assessment) and determining appropriate distribution channels.

The Offering Memorandum includes particulars given in compliance with the rules governing the listing of securities on the Hong Kong Stock Exchange for the purpose of giving information with regard to the Issuer, the Guarantor and its respective subsidiaries (the "**Group**"), and the Group's associates, joint ventures and affiliates. Each of the Issuer and the Guarantor accepts full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries, that to the best knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

Hong Kong Exchanges and Clearing Limited and Hong Kong Stock Exchange take no responsibility for the contents of this Offering Memorandum, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Memorandum. The Issuer and the Guarantor accept full responsibility for the accuracy of the information contained in this Offering Memorandum and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

Each of the Issuer and the Guarantor, having made all reasonable enquiries, confirms that (i) this Offering Memorandum contains all information with respect to the Group, the Notes and the Guarantee which is material in the context of the issue and offering of the Notes, (ii) the statements contained in this Offering Memorandum relating to the Issuer, the Guarantor and the Group are in every material respect true and accurate and not misleading, (iii) the opinions and intentions expressed in this Offering Memorandum with regard to the Issuer, the Guarantor and the Group are honestly held, have been reached after considering all relevant circumstances, are based on reasonable assumptions and are not misleading in any material respect, (iv) there are no other facts in relation to the Issuer, the Guarantor, the Group, the Notes or the Guarantee the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Offering Memorandum misleading in any material respect and (v) all reasonable enquiries have been made by the Issuer and the Guarantor to ascertain such facts and to verify the accuracy of all such information and statements. Each of the Issuer and the Guarantor accepts full responsibility for the information contained in this Offering Memorandum.

No person is authorised to give any information or to make any representation not contained in this Offering Memorandum and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, the Guarantor or the Joint Lead Managers (as defined herein). No representation or warranty, express or implied, is made by the Joint Lead Managers or any of their affiliates or advisers as to the accuracy or completeness of the information contained herein, and nothing contained in this Offering Memorandum is, or shall be relied upon as, a promise or representation by the Joint Lead Managers or their affiliates, officers, employees, directors, agents or advisers. The delivery of this Offering Memorandum at any time does not imply that the information contained in it is correct as at any time subsequent to its date.

To the fullest extent permitted by law, the Joint Lead Managers and the Agents and their respective affiliates, officers, employees, directors, agents or advisors do not accept any responsibility for the contents of this Offering Memorandum and assume no responsibility for the contents, accuracy, completeness or sufficiency of any such information or for any other statement, made or purported to be made by the Joint Lead Managers or on their behalf in connection with the Issuer, the Guarantor, the Group, or the issue and offering of the Notes. Each of the Joint Lead Managers and the Agents and their respective affiliates, officers, employees, directors, agents or advisors accordingly disclaim all and any liability whether arising in tort or contract or otherwise which they might otherwise have in respect of this Offering Memorandum or any statement herein. None of the Joint Lead Managers or any Agent undertakes to review the financial condition or affairs of the Issuer, the Guarantor or the Group after the date of this Offering Memorandum nor to advise any investor or potential investor in the Notes of any information coming to the attention of the Joint Lead Managers or any Agent. None of the Joint Lead Managers, the Agents and their respective affiliates, officers, employees, directors, agents or advisers have independently verified any of the information contained in this Offering Memorandum and can give no assurance that this information is accurate, truthful or complete. This Offering Memorandum is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by any of the Issuer, the Guarantor or the Joint Lead Managers that any recipient of this Offering Memorandum should purchase the Notes. Each prospective purchaser of the Notes should determine for itself the relevance of the information contained in this Offering Memorandum and its purchase of the Notes should be based upon such independent investigations with its own tax, legal and business advisers as it deems necessary.

This Offering Memorandum has been submitted confidentially to a limited number of investors so that they can consider a purchase of the Notes. Neither the Issuer, the Guarantor nor the Joint Lead Managers have authorised its use for any other purpose. This Offering Memorandum may not be copied or reproduced in whole or in part. It may be distributed and its contents disclosed only to the prospective purchasers to whom it is provided. By accepting delivery of this Offering Memorandum each investor agrees to these restrictions.

In making an investment decision, investors must rely on their own examination of the Issuer, the Guarantor, the Group and the terms of the offering, including the merits and risks involved. See "Investments Considerations" for a discussion of certain factors to be considered in connection with an investment in the Notes.

Each person receiving this Offering Memorandum acknowledges that such person has not relied on the Joint Lead Managers or any person affiliated with the Joint Lead Managers in connection with its investigation of the accuracy of such information or its investment decision.

IN CONNECTION WITH THIS ISSUE, ANY ONE OF THE JOINT LEAD MANAGERS APPOINTED AND ACTING IN ITS CAPACITY AS THE STABILISATION MANAGER (THE "**STABILISATION MANAGER**") (OR PERSONS ACTING ON BEHALF OF THE STABILISATION MANAGER) MAY OVER-ALLOT THE NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISATION MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISATION MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR

AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE CLOSING DATE AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES.

This Offering Memorandum contains the audited consolidated financial statements of the Guarantor as at and for the years ended 31 December 2016 and 2017 which have been audited by Deloitte Touche Tohmatsu. These financial statements were prepared in conformity with Hong Kong Financial Reporting Standards ("**HKFRS**") issued by the Hong Kong Institute of Certified Public Accountants.

In connection with the material asset reorganisation involving Shenzhen Chiwan Wharf Holdings Limited ("**Shenzhen Chiwan**") and pursuant to the relevant PRC regulatory requirements applicable to Shenzhen Chiwan, the Guarantor published an announcement on 15 June 2018 on the Hong Kong Stock Exchange website with audited pro forma consolidated financial information of the Guarantor and its subsidiaries excluding Shenzhen Chiwan and its subsidiaries for the two years and three months ended 31 March 2018 (the "**PRC GAAP Consolidated Financial Information**"). The PRC GAAP Consolidated Financial Information has been prepared on the basis set out therein in conformity with the Generally Accepted Accounting Principles in the PRC (the "**PRC GAAP**"). PRC GAAP differs in certain material respects from HKFRS based on which the consolidated financial statements of the Guarantor as at and for the years ended 31 December 2016 and 2017 were prepared. As such, potential investors are cautioned to take into account the incomparability caused by such differences and not to place undue reliance on such PRC GAAP Consolidated Financial Information, and are advised to consult their respective independent financial advisers if in doubt. None of the Joint Lead Managers, the Agents, or any of their respective affiliates, directors, officers, employees, agents or advisers makes any representation, warranty or undertaking, express or implied of, or accepts any responsibility or liability with respect to, the Guarantor's or the Group's business, financial condition or results of operations. The information contained in the PRC GAAP Consolidated Financial Information should not be taken as an indication of the expected business, financial condition or results of operations of the Group for the financial year ending 31 December 2018.

All non-company specific statistics and data relating to the Group's industry or the economies of pertinent jurisdictions, such as the PRC, have been extracted or derived from publicly available information and various government sources. The Issuer and the Guarantor believe that the sources of this information are appropriate for such information and the Issuer has taken reasonable care in extracting and reproducing such information. Each of the Issuer and the Guarantor has no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. However, this information has not been independently verified by the Issuer, the Guarantor, the Joint Lead Managers or the Agents or by their respective affiliates, employees, directors, advisors and agents and none of the Issuer, the Guarantor, the Joint Lead Managers or the Agents or their respective affiliates, employees, directors, advisors and agents makes any representation as to the correctness, accuracy or completeness of that information. In addition, third party information providers may have obtained information from market participants and such information may not have been independently verified. Accordingly, such information should not be unduly relied upon.

Unless otherwise specified or the context requires, references herein to "**US dollars**" and "**US$**" are to the lawful currency of the United States of America, references to "**Hong Kong dollars**", "**HK dollars**" and "**HK$**" are to the lawful currency of Hong Kong, references to "**CNY**" or "**RMB**" are to Renminbi, the lawful currency of the PRC and references to **"Euro**" are to the lawful currency of member states of the European Union ("**Member States**") that adopt the single currency introduced in accordance with the Treaty establishing the European Community, as amended from time to time. For convenience only and unless otherwise noted, all translations in this Offering Memorandum from HK$ into US$ were made at the rate of HK$7.8128 to US$1.00, based on the noon buying rate as set forth in the H.10 statistical release of the US Federal Reserve Board on 29 December 2017. No representation is made that the HK dollar amounts referred to in this Offering Memorandum could have been or could be converted into US dollars at any particular rate or at all.

Unless the context otherwise requires, references in this Offering Memorandum to the "**Terms and Conditions of the Notes**" and "**Terms and Conditions of the Notes**" are to the terms and conditions governing the Notes and the Notes, as respectively set out in "Terms and Conditions of the Notes" and "Terms and Conditions of the Notes" (collectively, the "**Terms and Conditions**").

In this Offering Memorandum, the Guarantor's interests in its project companies include interests held through its associates and joint ventures. In addition, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding. References to information in billions of units are to the equivalent of a thousand million units. References to "**Macau**" are to the Macau Special Administrative Region of the People's Republic of China, references to "**Mainland China**", "**China**" and the "**PRC**" are to the People's Republic of China, excluding Hong Kong, Macau and Taiwan and references to "**US**" are to the United States of America.

FORWARD-LOOKING STATEMENTS

This Offering Memorandum includes "forward-looking statements." All statements other than statements of historical fact contained in this Offering Memorandum, including, without limitation, those regarding the Guarantor's and the Group's future financial position and results of operations, strategy, plans, objectives, goals and targets, future developments in the markets where the Guarantor or the Group participates or is seeking to participate, and any statements preceded by, followed by or that include the words "believe", "expect", "aim", "intend", "will", "may", "anticipate", "seek", "should", "estimate" or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond the Guarantor's and the Group's control, which may cause its actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding the Guarantor's and the Group's present and future business strategies and the environment in which the Guarantor or the Group will operate in the future. Important factors that could cause the Guarantor's or the Group's actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, the following:

- its business and operating strategies;
- its capital expenditure plans;
- various business opportunities that the Group may pursue;
- its operations and business prospects;
- its financial condition and results of operations;
- availability and charges of bank loans and other forms of financing;
- the industry outlook generally;
- changes in political, economic, legal, regulatory and social conditions in the PRC and elsewhere;
- changes in competitive conditions and its ability to compete under these conditions;
- changes in currency exchange rates; and
- other factors beyond its control.

Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "Investments Considerations" and elsewhere in this Offering Memorandum. The Issuer and the Guarantor caution investors not to place undue reliance on these forward-looking statements which reflect their managements' view only as of the date of this Offering Memorandum. Neither the Issuer nor the Guarantor undertakes any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Offering Memorandum might not occur.

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SUMMARY OF THE OFFERING

The following is a brief summary of the terms of the offering and is qualified in its entirety by the remainder of this Offering Memorandum. Words and expressions defined in "Terms and Conditions of the Notes" and "Terms and Conditions of the Notes" below shall have the same meanings in this summary.

Issuer	CMHI Finance (BVI) Co., Ltd
Guarantor	China Merchants Port Holdings Company Limited (招商局港口控股有限公司)
Notes	US$ per cent. Guaranteed Notes due
Notes	US$ per cent. Guaranteed Notes due
Issue Price	per cent. for the Notes per cent. for the Notes
Issue Date	2018
Maturity Date	for the Notes for the Notes
Interest	The Notes will bear interest at the rate of per cent. per annum payable semi-annually in arrear on and in each year, commencing . See "Terms and Conditions of the Notes — Interest". The Notes will bear interest at the rate of per cent. per annum payable semi-annually in arrear on and in each year, commencing . See "Terms and Conditions of the Notes — Interest".
Status of the Notes and the Guarantee	Each series of the Notes constitutes direct, general, unsubordinated, unconditional and unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application. The Guarantee of the Notes constitutes direct, general, unsubordinated, unconditional and unsecured obligations of the Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured obligations of the Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application. The Guarantor is a holding company, and accordingly, payments under the Guarantee are effectively subordinated to all existing and future liabilities of each of the Guarantor's subsidiaries (other than the Issuer). See "Investments Considerations — Risks Relating to the Issuer and the Guarantor."
Negative Pledge	The Notes contain a negative pledge provision as further described in Condition 3.1 of the Terms and Conditions of the Notes.
Use of Proceeds	The net proceeds of the issue of the Notes will be used for general corporate purposes by the Group, including the repayment of existing indebtedness. See "Use of Proceeds."

Taxation	All payments of principal, premium (if any) and interest in respect of the Notes and the Coupons by or on behalf of the Issuer or the Guarantor shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied, collected, withheld or assessed by or on behalf of the British Virgin Islands, Hong Kong or the PRC or any political subdivision or any authority thereof or therein having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event, the Issuer or, as the case may be, the Guarantor shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, subject to certain exceptions. See "Terms and Conditions of the Notes — Taxation" and "Terms and Conditions of the Notes — Taxation".
Redemption for Tax Reasons	The Notes may be redeemed at the option of the Issuer in whole, but not in part, at their principal amount together with accrued interest, in the event that the Issuer or the Guarantor would be required to pay additional amounts as provided or referred to in Condition 7 in respect of the Notes as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands, Hong Kong or the PRC or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation thereof and such obligation cannot be avoided by the Issuer or the Guarantor taking reasonable measures available to it. See "Terms and Conditions of the Notes — Redemption and Purchase — Redemption for Tax Reasons" and "Terms and Conditions of the Notes — Redemption and Purchase — Redemption for Tax Reasons".
Redemption of the Notes upon a Change of Control Triggering Event	Not later than 30 days following a Change of Control Triggering Event, the Issuer must make an offer to purchase all outstanding Notes at a purchase price equal to 101 per cent. of their principal amount, together with interest accrued to, but excluding, the Offer to Purchase Payment Date. See "Terms and Conditions of the Notes — Redemption and Purchase — Redemption for Change of Control" and "Terms and Conditions of the Notes — Redemption and Purchase — Redemption for Change of Control".
Covenants	The terms and conditions governing the Notes and the Notes will limit the ability of the Issuer and the Guarantor to, among other things: • create security interests; and • enter into agreements that restrict the ability of Material Subsidiaries to pay dividends. These covenants and other restrictions are subject to important qualifications and exceptions described in the "Terms and Conditions of the Notes" and "Terms and Conditions of the Notes".

Event of Default . . . .

Upon the occurrence of certain events (such as cross-default and consolidation, merger or sale of assets) as described in Condition 8 of the Terms and Conditions of the Notes and the Terms and Conditions of the Notes, upon notice in writing addressed to the Issuer and the Guarantor and delivered to the Issuer and the Guarantor or to the Specified Office (as defined in the Agency Agreement) of the Fiscal Agent, the holder of any Note may declare the Note of that series to be immediately due and payable, whereupon it shall become immediately due and payable at its principal amount together with accrued interest without further action or formality. See "Terms and Conditions of the Notes — Events of Default" and "Terms and Conditions of the Notes — Events of Default".

Transfer Restrictions . . . .

The Notes will not be registered under the Securities Act or any state securities laws of the United States and will be subject to customary restrictions on transfer and resale. See "Subscription and Sale."

Form and Denomination . . . . . .

The Notes will be issued in bearer form in the denomination of US$200,000 and integral multiples of US$1,000 in excess thereof, with Coupons attached at the time of issue. Each series of Notes will initially be represented by a Temporary Global Note, without coupons, which will be deposited with a common depositary on behalf of Euroclear and Clearstream. Each Temporary Global Note will be exchangeable in whole or in part not earlier than 40 days after the Issue Date for a Permanent Global Note, without coupons, upon prior certification as to non-US beneficial ownership thereof or otherwise as required by US Treasury Regulations. Each purchase, sale and transfer of the Notes may only be effected through accounts at Euroclear and Clearstream. The Permanent Global Note will be exchangeable for Definitive Notes in bearer form in the limited circumstances set out in it.

The securities codes for the Notes are as follows:

Common Code:	185679942
ISIN:	XS1856799421

The securities codes for the Notes are as follows:

Common Code:	185680045
ISIN:	XS1856800450

Legal Entity Identifier . . . .

549300KTVUL1BXLNPZ11

Governing Law . . . .

English law

Ratings . . . .

The Notes are expected to be rated "Baa1" by Moody's and "BBB" by S&P. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the relevant rating organisation. Prospective investors should evaluate each rating independently of any other rating of each series of Notes or other securities of the Issuer.

Further Issues	The Issuer may from time to time, without the consent of the Noteholders or Couponholders, create and issue further notes having the same terms and conditions as the Notes of that series in all respects (or in all respects except for the first payment of interest and the NDRC Post-issue Filing) so as to form a single series with the Notes of that series. See "Terms and Conditions of the Notes — Further Issues" and "Terms and Conditions of the Notes".
Fiscal Agent and Paying Agent .	The Hongkong and Shanghai Banking Corporation Limited
Listing.	Application has been made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Notes by way of debt issues to Professional Investors only and such permission is expected to become effective on or about 2018. A confirmation of the eligibility for the listing of the Notes has been received from the Hong Kong Stock Exchange.
Investments Considerations	For a discussion of certain factors that should be considered in investing in the Notes, see "Investments Considerations."
Substitution	The Issuer may at any time substitute, without the consent of the Noteholders or the Couponholders, an Affiliate of the Issuer to assume liability for the due and punctual payment of all payments and the performance of all the Issuer's other obligations under, or in respect of, the Notes then outstanding, provided that certain conditions as set out in Condition 14.1 of the Terms and Conditions of the Notes and the Terms and Conditions of the Notes are satisfied. The Guarantor may at any time substitute, without the consent of the Noteholders or the Couponholders, any entity which, following an amalgamation, reconstruction or otherwise, has vested in or imposed on it all or substantially all of the undertakings, properties or assets of the Guarantor, including obligations and liabilities under the Guarantee of the Notes, to assume liability for the due and punctual payment of all payments and the performance of all the Guarantor's other obligations under the Guarantee of the Notes, provided that certain conditions as set out in Condition 14.2 of the Terms and Conditions of the Notes and the Terms and Conditions of the Notes are satisfied. Not more than 30 nor less than 15 days prior to the effective date of the substitution by the New Issuer or the New Guarantor, the Issuer or the Guarantor shall procure the notification to the Noteholders of the substitution. See "Terms and Conditions of the Notes — Substitution" and "Terms and Conditions of the Notes — Substitution".

SUMMARY FINANCIAL INFORMATION

The following tables set forth the summary consolidated financial information of the Guarantor as at the dates and for the periods indicated.

The summary consolidated financial information as at and for the year ended 31 December 2015 set forth below is extracted from the Guarantor's published audited consolidated financial statements as at and for the year ended 31 December 2016, and the summary consolidated financial information as at and for the years ended 31 December 2016 and 2017 set out below is extracted from the Guarantor's published audited consolidated financial statements as at and for the year ended 31 December 2017. The financial statements as at and for the years ended 31 December 2016 and 2017 have been audited by Deloitte Touche Tohmatsu, Certified Public Accountants, and are included elsewhere in this Offering Memorandum. The summary consolidated financial information should be read in conjunction with such published audited consolidated financial statements and the notes thereto.

The Guarantor's consolidated financial statements are prepared and presented in accordance with HKFRS.

*In connection with the material asset reorganisation involving Shenzhen Chiwan and pursuant to the relevant PRC regulatory requirements applicable to Shenzhen Chiwan, the Guarantor published an announcement on 15 June 2018 on the Hong Kong Stock Exchange with audited pro forma consolidated financial information of the Guarantor and its subsidiaries excluding Shenzhen Chiwan and its subsidiaries for the two years and three months ended 31 March 2018 (the "**PRC GAAP Consolidated Financial Information**," available at http://www.hkexnews.hk/listedco/listconews/SEHK/2018/0615/LTN201806151085.pdf). The PRC GAAP Consolidated Financial Information has been prepared on the basis set out therein in conformity with the PRC GAAP. PRC GAAP differs in certain material respects from HKFRS. In addition, the assumptions used in preparing the PRC GAAP Consolidated Financial Information may not prove to be accurate, and other factors may also affect the Guarantor's financial condition and results of operations. As such, the PRC GAAP Consolidated Financial Information are not directly comparable with the consolidated financial information as at and for the years ended 31 December 2016 and 2017 included elsewhere in this Offering Memorandum which is prepared on HKFRS. Therefore, potential investors are cautioned to take into account such incomparability and not to place undue reliance on the PRC GAAP Consolidated Financial Information and are advised to consult their respective independent financial advisers if in doubt.*

Consolidated Statements of Profit or Loss

	Years ended 31 December		
	2015	2016	2017
	HK$'million	HK$'million	HK$'million
Revenue	8,233	7,976	8,692
Cost of sales	(4,602)	(4,621)	(5,251)
Gross profit	3,631	3,355	3,441
Other income and other gains, net	339	1,561	870
Administrative expenses	(989)	(1,019)	(1,170)
Operating profit	2,981	3,897	3,141
Finance income	158	60	135
Finance costs	(858)	(960)	(1,303)
Finance costs, net	(700)	(900)	(1,168)
Share of profits less losses of			
Associates	3,890	3,389	5,087
Joint ventures	144	297	385
	4,034	3,686	5,472
Profit before taxation	6,315	6,683	7,445
Taxation	(790)	(477)	(744)
Profit for the year	5,525	6,206	6,701
Attributable to:			
— Equity holders of the Company	4,808	5,494	6,028
— Non-controlling interests	717	712	673
Profit for the year	5,525	6,206	6,701
Dividends	1,998	2,282	6,914
Earnings per share for profit attributable to equity holders of the Company			
— Basic (HK cents)	155.07	175.58	183.90
— Diluted (HK cents)	154.91	175.58	183.90

Consolidated Statements of Financial Position

	As at 31 December		
	2015	2016	2017
	HK$'million	HK$'million	HK$'million
Assets			
Non-current assets			
Goodwill	2,973	2,791	3,628
Intangible assets	5,660	5,407	5,925
Property, plant and equipment	19,570	18,459	30,880
Investment properties	287	7,455	8,411
Land use rights	7,545	7,265	12,851
Interests in associates	37,953	43,020	43,314
Interests in joint ventures	9,041	8,909	9,750
Other financial assets	5,883	3,350	3,689
Other non-current assets	1,110	395	400
Deferred tax assets	41	49	51
	90,063	97,100	118,899
Current assets			
Inventories	77	77	99
Debtors, deposits and prepayments	1,916	2,296	3,705
Taxation recoverable	—	3	1
Cash and bank balances	10,293	3,637	9,247
	12,286	6,013	13,052
Total assets	102,349	103,113	131,951

	As at 31 December		
	2015	2016	2017
	HK$'million	HK$'million	HK$'million
Equity			
Capital and reserves attributable to equity holders of the Company			
Share capital	18,994	19,548	38,207
Mandatory convertible securities	15,224	15,219	—
Reserves	33,181	29,434	33,306
Proposed dividend	1,429	1,707	1,934
	68,828	65,908	73,447
Non-controlling interests	7,821	7,830	16,194
Total equity	76,649	73,738	89,641
Liabilities			
Non-current liabilities			
Loans from shareholders	664	279	59
Other financial liabilities	16,681	16,793	22,233
Other non-current liabilities	1,234	1,186	1,851
Deferred tax liabilities	2,333	1,973	2,638
	20,912	20,231	26,781
Current liabilities			
Creditors and accruals	2,582	3,497	8,999
Loans from shareholders	311	399	120
Other financial liabilities	1,489	4,963	6,148
Taxation payable	406	285	262
	4,788	9,144	15,529
Total liabilities	25,700	29,375	42,310
Total equity and liabilities	102,349	103,113	131,951
Net current assets/(liabilities)	7,498	(3,131)	(2,477)
Total assets less current liabilities	97,561	93,969	116,422

TERMS AND CONDITIONS OF THE NOTES

The US$ per cent. Guaranteed Notes due (the "**Notes**", which expression includes any further notes issued pursuant to Condition 13 (Further Issues) and forming a single series therewith) of CMHI Finance (BVI) Co., Ltd (the "**Issuer**") are the subject of (a) a deed of guarantee dated 2018 (as amended or supplemented from time to time, the "**Deed of Guarantee**") entered into by China Merchants Port Holdings Company Limited (招商局港口控股有限公司) (the "**Guarantor**"), (b) a deed of covenant dated 2018 (as amended or supplemented from time to time, the "**Deed of Covenant**") and (c) an agency agreement dated 2018 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, the Guarantor, The Hongkong and Shanghai Banking Corporation Limited as fiscal agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes) and the paying agents named therein (together with the Fiscal Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes). Certain provisions of these Conditions are summaries of the Deed of Guarantee, the Deed of Covenant and the Agency Agreement and subject to their detailed provisions. The holders of the Notes (the "**Noteholders**") and the holders of the related interest coupons (the "**Couponholders**" and the "**Coupons**", respectively) are bound by, and are deemed to have notice of, all the provisions of the Deed of Guarantee, the Deed of Covenant and the Agency Agreement applicable to them. Copies of the Deed of Guarantee, the Deed of Covenant and the Agency Agreement are available for inspection by Noteholders during normal business hours at the Specified Offices (as defined in the Agency Agreement) of each of the Paying Agents, the initial Specified Offices of which are set out below.

1. FORM, DENOMINATION AND TITLE

The Notes are in bearer form in the denominations of US$200,000 and integral multiples of US$1,000 in excess thereof, with Coupons attached at the time of issue. Title to the Notes and the Coupons will pass by delivery. The holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such holder. No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

2. STATUS AND GUARANTEE

2.1 Status of the Notes

The Notes constitute direct, general, unsubordinated, unconditional and unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

2.2 Guarantee of the Notes

The Guarantor has in the Deed of Guarantee unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes. This guarantee (the "**Guarantee of the Notes**") constitutes direct, general, unsubordinated, unconditional and unsecured obligations of the Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured obligations of the Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

3. COVENANTS

3.1 Negative Pledge

(a) So long as any Note remains outstanding (as defined in the Agency Agreement), the Issuer will not create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital).

(b) So long as any Note remains outstanding:

(i) the Guarantor will not create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Investment Securities or any Guarantee of any Investment Securities; and

(ii) subject to Condition 3.1(a) in the case of the Issuer, the Guarantor shall procure that none of its Subsidiaries other than a Listed Subsidiary will create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Investment Securities or any Guarantee of any Investment Securities,

unless (in the case of paragraphs (b)(i) or (ii) above), at the same time or prior thereto, the Notes and the Guarantor's obligations under the Guarantee of the Notes are (i) secured equally and rateably therewith or (ii) have the benefit of such other security, guarantee, indemnity or other arrangement as may be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of Noteholders.

3.2 No Restrictions on Dividends by Material Subsidiaries

So long as any Note remains outstanding, the Guarantor shall procure that none of its Material Subsidiaries (as defined in Condition 8 (Events of Default)) will create or permit to subsist any restriction on the payment of dividends from such Material Subsidiary to its shareholders, other than any such restriction contained in the legal documentation entered into by such Material Subsidiary as borrower in connection with a Project Financing.

3.3 Maintenance of Ownership of Issuer

So long as any Note remains outstanding, the Guarantor will maintain direct or indirect beneficial ownership of all of the Issuer's share capital.

3.4 Limitation on Issuer's Activities

So long as any Note remains outstanding, the Issuer will not conduct any business or any activities other than the raising of debt financing and the lending of the proceeds thereof to the Guarantor and/or any of its other Subsidiaries and any other activities reasonably incidental thereto.

3.5 Notification to NDRC

The Guarantor undertakes to file or cause to be filed with the National Development and Reform Commission of the PRC (the "**NDRC**") the requisite information and documents within the prescribed timeframe after the Issue Date in accordance with the Circular on Promoting the Reform of the Filing and Registration System on the Issuance by Enterprises of Foreign Debt (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號) issued by the NDRC and which came into effect on 14 September 2015, and any implementation rules as issued by the NDRC from time to time (the "**NDRC Post-issue Filing**").

The Guarantor shall within 10 PRC Business Days after submission of such NDRC Post-issue Filing give notice to the Fiscal Agent in accordance with Condition 15 of the same. The Fiscal Agent shall have no obligation to monitor and ensure the completion of the NDRC Post-issue Filing on or before the deadline referred to above or to verify the accuracy, validity and/or genuineness of any documents in relation to or in connection with the NDRC Post-issue Filing, and shall not be liable to the Noteholders or any other person for not doing so.

In these Conditions:

"**Guarantee**" means, in relation to any indebtedness of any Person, any obligation of another Person to pay such indebtedness including (without limitation):

(a) any obligation to purchase such indebtedness;

(b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such indebtedness;

(c) any indemnity against the consequences of a default in the payment of such indebtedness; and

(d) any other agreement to be responsible for such indebtedness;

"**Hong Kong**" means the Hong Kong Special Administrative Region of the People's Republic of China;

"**HKFRS**" means Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants;

"**Hong Kong Stock Exchange**" means The Stock Exchange of Hong Kong Limited;

"**Investment Securities**" means any present or future indebtedness which is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which (i) is offered, issued or distributed whether by way of public offer, private placing, acquisition consideration or otherwise and whether issued for cash or in whole or in part for a consideration other than cash and (ii) is, or is capable of being, listed, quoted, dealt in or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market). For the avoidance of doubt, "**Investment Securities**" does not include secured or unsecured transferable loan certificates which are exclusively traded between banks or similar licensed or registered financial institutions;

"**Listed Subsidiary**" means, at any time, any Subsidiary of the Guarantor the ordinary voting shares of which are at such time listed on the Hong Kong Stock Exchange or any other recognised stock exchange;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**Project Financing**" means any financing of the acquisition, construction or development of any properties or assets in connection with a project if (i) by the terms of such financing it is expressly **provided that** the holders of the resulting Indebtedness (as defined in Condition 8 (Events of Default)) look to the properties or assets financed and the revenues to be generated by the operation of, or loss of or damage to, such properties or assets as the sole source of repayment for the moneys advanced and payment of interest thereon and (ii) such financing is not guaranteed by the Guarantor or any Subsidiary of the Guarantor;

"**Security Interest**" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction; and

"**Subsidiary**", in relation to any Person, means any company or other business entity of which that Person owns or controls (either directly or through one or more other Subsidiaries) more than 50 per cent. of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such company or other business entity or any company or other business entity which at any time has its accounts consolidated with those of that person or which, under the laws or regulations of Hong Kong, or HKFRS, should have its financial statement consolidated with those of that Person.

4. INTEREST

Subject as provided in Condition 6 (Payments), the Notes bear interest from   (the "**Issue Date**") at the rate of   per cent. per annum, (the "**Rate of Interest**") payable in equal instalments semi-annually in arrear on   and   in each year (each, an "**Interest Payment Date**"), commencing   .

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal or premium (if any) is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable on each Interest Payment Date shall be US$ in respect of each Note of US$200,000 denomination and US$ in respect of each Note of US$1,000 denomination. If interest is required to be paid in respect of a Note on any other date, it shall be calculated by applying the Rate of Interest to the principal amount of such Note, multiplying the product by the relevant Day Count Fraction and rounding the resulting figure to the nearest cent (half a cent being rounded upwards), where "**Day Count Fraction**" means, in respect of any period, the number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months).

5. REDEMPTION AND PURCHASE

5.1 Scheduled redemption

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on subject as provided in Condition 6 (Payments).

5.2 Redemption for tax reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their principal amount, together with interest accrued to, but excluding, the date fixed for redemption, if:

(a) (A) the Issuer has or will become obliged to pay, or cause to be paid, additional amounts as provided or referred to in Condition 7 (Taxation) as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands or the People's Republic of China (the "**PRC**") or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment is proposed and becomes effective on or after ; and (B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, which may include the substitution of another entity for the Issuer as principal debtor in respect of the Notes if such substitution is reasonable; or

(b) (A) the Guarantor has or (if a demand was made under the Guarantee of the Notes) would become obliged to pay, or cause to be paid, additional amounts as provided or referred to in Condition 7 (Taxation) or the Guarantee of the Notes, as the case may be, as a result of any change in, or amendment to, the laws or regulations of Hong Kong or the PRC or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment is proposed and becomes effective on or after ; and (B) such obligation cannot be avoided by the Guarantor taking reasonable measures available to it;

provided, **however**, **that** no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor would be obliged to pay such additional amounts if a payment in respect of the Notes were then due or (as the case may be) a demand under the Guarantee of the Notes were then made.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver or procure that there is delivered to the Fiscal Agent:

(i) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and

(ii) an opinion of independent legal or tax advisers of recognised standing to the effect that such change or amendment has occurred (irrespective of whether such change or amendment is then effective).

Upon the expiry of any such notice as is referred to in this Condition 5.2, the Issuer shall be bound to redeem the Notes in accordance with this Condition 5.2.

5.3 Redemption for Change of Control

Not later than 30 days following a Change of Control Triggering Event, the Issuer will make an Offer to Purchase all outstanding Notes (a "**Change of Control Offer**") at a purchase price equal to 101 per cent. of their principal amount, together with interest accrued to, but excluding, the Offer to Purchase Payment Date. The Issuer and the Guarantor will, in a timely manner, repay all Indebtedness (as defined in Condition 8 (Events of Default)) or obtain consents as necessary under, or terminate, agreements or instruments that would otherwise prohibit a Change of Control Offer being made pursuant to this Condition 5.3.

As used in this Condition 5.3:

"**Affiliate**" of any Person means any entity controlled, directly or indirectly, by such Person, any entity that controls such Person, directly or indirectly, or any entity under common control with such Person. For this purpose, "**control**" means ownership of a majority of the voting power of a person or power to direct or cause the direction of the management and policies of a person, whether by contract or otherwise;

"**Business Day**" means any day which is not a Saturday, Sunday, legal holiday or other day on which banking institutions in Hong Kong or in London or in The City of New York (or in any other place in which payments on the Notes are to be made) are authorised by law or governmental regulation to close;

"**Change of Control**" means the occurrence of one or more of the following events:

(a) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of the Guarantor and its Subsidiaries, taken as a whole, to any "person" or "group" (within the meaning of Section 13(d) of the Exchange Act), other than the Guarantor or any of its Subsidiaries or one or more Permitted Holders; or

(b) the Guarantor consolidates with, or merges with or into, any Person (other than any Permitted Holder), or any Person (other than any Permitted Holder) consolidates with, or merges with or into, the Guarantor, in any such event pursuant to a transaction in which any of the outstanding Voting Stock of the Guarantor or such other Person is converted into or exchanged for cash, securities or other property, other than any such transaction where the shares of the Voting Stock of the Guarantor outstanding immediately prior to such transaction constitute, or are converted into or exchanged for, a majority of the outstanding shares of Voting Stock of the surviving Person immediately after giving effect to such transaction; or

(c) the consummation of any transaction or series of related transactions (including, without limitation, any merger or consolidation) the result of which is that any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act), other than any Permitted Holder, becomes the "beneficial owner" (as such term is used in Rule 13d-3 of the Exchange Act), directly or indirectly, of more than 50 per cent. of the outstanding Voting Stock of the Guarantor, measured by voting power rather than number of shares; or

(d) the adoption of a plan relating to the liquidation or dissolution of the Guarantor;

"**Change of Control Triggering Event**" means the occurrence of both a Change of Control and a Rating Decline;

"**CMG**" means China Merchants Group Limited;

"**Exchange Act**" means the United States Securities Exchange Act of 1934, as amended;

"**Investment Grade**" means a rating of "AAA", "AA", "A" or "BBB" as modified by a "+" or "-" indication, or an equivalent rating representing one of the four highest rating categories, by S&P or a rating of "Aaa", or "Aa", "A" or "Baa" as modified by a "1", "2" or "3" indication, or an equivalent rating representing one of the four highest rating categories, by Moody's or the equivalent ratings of any internationally recognised securities rating agency or agencies, as the case may be, which shall have been designated by the Issuer as having been substituted for S&P or Moody's or both, as the case may be;

"**Offer to Purchase**" means an offer to purchase Notes by the Issuer from the Noteholders commenced by the Issuer giving a notice to the Fiscal Agent, the Paying Agents and each Noteholder stating:

(a) the Condition pursuant to which the offer is being made;

(b) the purchase price and the date of purchase (which shall be a Business Day no earlier than 30 days nor later than 60 days from the date such notice is given) (the "**Offer to Purchase Payment Date**");

(c) that any Note not validly tendered will continue to accrue interest pursuant to its terms;

(d) that, unless the Issuer defaults in the payment of the purchase price, any Note accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest on and after the Offer to Purchase Payment Date;

(e) that Noteholders electing to have a Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, accompanied by a duly signed and completed notice of acceptance of the Offer to Purchase (for the time being current) available from the Specified Office of any Paying Agent, to any Paying Agent at the address specified in the notice prior to the close of business on the third Business Day immediately preceding the Offer to Purchase Payment Date;

(f) that Noteholders will be entitled to withdraw their election if the relevant Paying Agent receives, not later than the close of business on the third Business Day immediately preceding the Offer to Purchase Payment Date, a facsimile transmission or letter setting forth the name of such Noteholder, the principal amount of Notes delivered for purchase and a statement that such Noteholder is withdrawing his election to have such Notes purchased; and

(g) that, for the avoidance of doubt, any Note presented without all unmatured Coupons relating thereto will be subject to the provisions of Condition 6.5 (Deduction for unmatured Coupons).

On the Offer to Purchase Payment Date, the Issuer shall deposit with the Paying Agent money sufficient to pay the purchase price of all Notes so accepted. The Issuer will publicly announce the results of an Offer to Purchase as soon as practicable after the Offer to Purchase Payment Date;

"**Permitted Holders**" means CMG and/or any Affiliate of CMG;

"**Rating Agencies**" means (1) Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors ("**S&P**"), (2) Moody's Investors Service, Inc., a subsidiary of Moody's Corporation, and its successors ("**Moody's**") and (3) if S&P or Moody's or both shall not make a rating of the Notes publicly available, an internationally recognised securities rating agency or agencies, as the case may be, selected by the Issuer, which shall be substituted for S&P or Moody's or both, as the case may be;

"**Rating Date**" means that date which is 90 days prior to the earlier of (1) a Change of Control and (2) a public notice of the occurrence of a Change of Control or of the intention by the Guarantor or any other Person or Persons to effect a Change of Control;

"**Rating Decline**" means the occurrence on, or within six months after, the date, or public notice of the occurrence of, a Change of Control or the intention by the Guarantor or any other Person or Persons to effect a Change of Control (which period shall be extended so long as the rating of the Notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies) of any of the events listed below:

(a) in the event the Notes are rated by both of the Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by either Rating Agency shall be below Investment Grade;

(b) in the event the Notes are rated by either, but not both, of the Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by either Rating Agency shall be below Investment Grade; or

(c) in the event the Notes are rated by both of the Rating Agencies on the Rating Date as below Investment Grade, the rating of the Notes by either Rating Agency shall be below Investment Grade; and

"**Voting Stock**" means, in relation to any Person, the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such Person.

The Agents shall not be required to take any steps to ascertain whether a Change of Control has occurred and shall not be responsible or liable to the Noteholders, the Issuer, the Guarantor or any other person for any loss arising from any failure to do so.

5.4 No other redemption

The Issuer shall not be entitled to redeem the Notes otherwise than as provided in this Condition 5.

5.5 Purchase

The Issuer, the Guarantor or any of the Guarantor's Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price, **provided that** all unmatured Coupons are purchased therewith.

5.6 Cancellation

All Notes so redeemed or purchased by the Issuer, the Guarantor or any of the Guarantor's Subsidiaries and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

6. PAYMENTS

6.1 Principal and Premium

Save as provided in paragraph 6.3 (Payments in New York City) below, payments of principal and premium (if any) shall be made only against presentation and (**provided that** payment is made in full) surrender of Notes at the Specified Office of any Paying Agent outside the United States by US dollar cheque drawn on, or by transfer to a US dollar account maintained by the payee with, a bank in New York City.

6.2 Interest

Save as provided in paragraph 6.3 (Payments in New York City) below, payments of interest shall, subject to paragraph 6.7 (Payments other than in respect of matured Coupons) below, be made only against presentation and (**provided that** payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph 6.1 (Principal and Premium) above.

6.3 Payments in New York City

Payments of principal, premium (if any) or interest may be made at the Specified Office of a Paying Agent in New York City if (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest on the Notes in US dollars when due, (ii) payment of the full amount of such interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law.

6.4 Payments subject to fiscal laws

All payments are subject in all cases to (i) any applicable fiscal or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 7 (Taxation) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "Code") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 7 (Taxation)) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

6.5 Deduction for unmatured Coupons

If a Note is presented (including for the purposes of redemption or purchase) without all unmatured Coupons relating thereto, then:

(a) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; **provided**, **however**, **that** if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;

(b) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:

    (i) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; **provided**, **however**, **that** where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

(ii) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; **provided**, **however**, **that**, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph 6.1 (Principal and Premium) above against presentation and (**provided that** payment is made in full) surrender of the relevant missing Coupons not later than ten years after the Relevant Date (as defined in Condition 7 (Taxation)) for the relevant payment of principal. No payments will be made in respect of void coupons.

6.6 Payments on business days

If the due date for payment of any amount in respect of any Note or Coupon is not a business day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding business day in such place and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, "**business day**" means, in respect of any place of presentation, any day on which banks are open for presentation and payment of bearer debt securities and for dealings in foreign currencies in such place of presentation and on which Euroclear and Clearstream, Luxembourg are operating and, in the case of payment by transfer to a US dollar account as referred to above, on which dealings in foreign currencies may be carried on both in Hong Kong, London and New York City and in such place of presentation.

6.7 Payments other than in respect of matured Coupons

Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Paying Agent outside the United States (or in New York City if permitted by paragraph 6.3 (Payments in New York City) above).

6.8 Partial payments

If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

7. TAXATION

All payments of principal, premium (if any) and interest in respect of the Notes and the Coupons by or on behalf of the Issuer or the Guarantor shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the British Virgin Islands, Hong Kong or the PRC or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Issuer or (as the case may be) the Guarantor shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note or Coupon presented for payment:

(a) by or on behalf of a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note or Coupon; or

(b) more than 30 days after the Relevant Date except to the extent that the holder of such Note or Coupon would have been entitled to such additional amounts on presenting such Note or Coupon for payment on the last day of such period of 30 days.

In these Conditions, "**Relevant Date**" means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received in New York City by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal, premium or interest shall be deemed to include any additional amounts in respect of principal, premium or interest (as the case may be) which may be payable under this Condition 7 (Taxation).

If the Issuer or the Guarantor becomes subject at any time to any taxing jurisdiction other than the British Virgin Islands, Hong Kong or the PRC respectively, references in these Conditions to the British Virgin Islands, Hong Kong or the PRC shall be construed as references to the British Virgin Islands, Hong Kong or the PRC (as the case may be) and/or such other jurisdiction.

The Agents shall not be responsible for paying any tax, duty, charges, withholding or other payment referred to in this Condition 7 or for determining whether such amounts are payable or the amount thereof, and shall not be responsible or liable for any failure by the Issuer or any Noteholder to pay such tax, duty, charges, withholding or other payment.

8. EVENTS OF DEFAULT

If any of the following events with respect to the Notes occurs and is continuing:

(a) ***Non-payment***: the Issuer fails to pay any amount of principal or premium in respect of the Notes on the due date for payment thereof and such failure continues for a period of seven days, or the Issuer fails to pay any amount of interest in respect of the Notes on the due date for payment thereof and such failure continues for a period of 14 days; or

(b) ***Failure to purchase***: the Issuer or the Guarantor defaults in the performance or observance of any of its obligations under Condition 5.3 (Redemption for Change of Control) in respect of the Notes; or

(c) ***Breach of other obligations***: the Issuer or the Guarantor defaults in the performance or observance of any of its other obligations under or in respect of the Notes, the Deed of Covenant or the Guarantee of the Notes and such default remains unremedied for 30 days after written notice thereof, addressed to the Issuer and the Guarantor by any Noteholder, has been delivered to the Issuer and the Guarantor or to the Specified Office of the Fiscal Agent; or

(d) ***Cross-default of Issuer, Guarantor or any Material Subsidiary***:

  (i) any present or future Indebtedness of the Issuer, the Guarantor or any Material Subsidiary is not paid when due or (as the case may be) within any applicable grace period;

  (ii) any such Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer, the Guarantor or (as the case may be) the relevant Material Subsidiary by reason of any actual default or events of default; or

  (iii) the Issuer, the Guarantor or any Material Subsidiary fails to pay when due any amount payable by it under any Guarantee of any present or future Indebtedness;

  provided that the amount of Indebtedness referred to in sub-paragraph (i)) and/or subparagraph (ii) above and/or the amount payable under any Guarantee referred to in subparagraph (iii) above individually or in the aggregate exceeds US$30,000,000 (or its equivalent in any other currency or currencies); or

(e) ***Unsatisfied judgment***: one or more judgment(s) or order(s) from which no further appeal or judicial review is permissible under applicable law for the payment of an amount in excess of US$20,000,000 (or its equivalent in any other currency or currencies), whether individually or in aggregate, is rendered against the Issuer, the Guarantor or any Material Subsidiary and continue(s) unsatisfied and unstayed for a period of 60 days after the date(s) thereof or, if later, the date therein specified for payment; or

(f) ***Security enforced***: a secured party takes possession of, or a receiver, manager or other similar officer is appointed over, in each case for a continuous period of 60 days or more, the whole or any substantial part of the undertaking, assets and revenues of the Issuer, the Guarantor or any Material Subsidiary; or

(g) ***Insolvency, etc.***: (i) the Issuer, the Guarantor or any Material Subsidiary becomes insolvent or is unable, for a continuous period of 60 days or more, to pay its debts as they fall due, (ii) an administrator or liquidator of the Issuer, the Guarantor or any Material Subsidiary or the whole or a substantial part of the undertaking, assets and revenues of the Issuer, the Guarantor or any Material Subsidiary is appointed (or application for any such appointment is made and has not been discharged or stayed within a period of 60 days or more) or (iii) the Issuer, the Guarantor or any Material Subsidiary makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its Indebtedness or any Guarantee of any Indebtedness given by it; or

(h) ***Cessation of business***: the Issuer, the Guarantor or any Material Subsidiary ceases or threatens to cease to carry on all or any substantial part of its business, except:

(i) in the case of a substitution of the Issuer in accordance with the provisions of Condition 14.1 (Substitution of the Issuer);

(ii) in the case of a substitution of the Guarantor in accordance with the provisions of Condition 14.2 (Substitution of the Guarantor);

(iii) in the case of any Material Subsidiary, where the cessation is for the purpose of and followed by a solvent winding-up, dissolution, reconstruction, merger or consolidation whereby the business, undertaking and assets of such Material Subsidiary are transferred to or otherwise vested in the Guarantor and/or another Subsidiary of the Guarantor;

(iv) in the case of any Material Subsidiary, as a result of a disposal on arm's length terms or with respect to a part of such Material Subsidiary's business or operations which has not contributed to the consolidated operating profit of the Guarantor and its Subsidiaries for at least three consecutive years immediately prior to the day on which this paragraph operates; or

(v) in each case, for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation, each on terms approved by an Extraordinary Resolution of the Noteholders; or

(i) ***Winding up, etc.***: an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer, the Guarantor or any Material Subsidiary except (i) in the case of a substitution of the Issuer in accordance with the provisions of Condition 14.1 (Substitution of the Issuer); (ii) in the case of a substitution of the Guarantor in accordance with the provisions of Condition 14.2 (Substitution of the Guarantor); (iii) in the case of any Material Subsidiary, for a voluntary solvent winding up, liquidation or dissolution in connection with the transfer of all of the business, undertaking and assets of such Material Subsidiary to the Guarantor or another Subsidiary of the Guarantor; or (iv) in each case, for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation, each on terms approved by an Extraordinary Resolution of the Noteholders; or

(j) ***Analogous event***: any event occurs which, under the laws of any relevant jurisdiction, has an analogous effect to any of the events referred to in paragraphs (e) (Unsatisfied judgment) to (i) (Winding up, etc) above; or

(k) ***Unlawfulness***: it is or will become unlawful for the Issuer or the Guarantor to perform or comply with any of its obligations under or in respect of the Notes, the Deed of Covenant or the Deed of Guarantee in respect of the Notes; or

(l) ***Guarantee not in force***: the Guarantee of the Notes is not (or is claimed by the Guarantor not to be) in full force and effect; or

(m) ***Nationalisation***: (i) all or (other than on arm's length terms or with respect to a part of the relevant entity's business or operations which has not contributed to the consolidated operating profit of the Guarantor and its Subsidiaries for at least three consecutive years immediately prior to the day on which this paragraph operates) any substantial part of the undertaking, assets and revenues of the Issuer, the Guarantor or any Material Subsidiary is seized or otherwise appropriated by any person acting under the authority of any national, regional or local government or (ii) the Issuer, the Guarantor or any Material Subsidiary is prevented by any such person from exercising normal control over all or (other than on arm's length terms or with respect to a part of the relevant entity's business or operations which has not contributed to the consolidated operating profit of the Guarantor and its Subsidiaries for at least three consecutive years immediately prior to the day on which this paragraph operates) any substantial part of its undertaking, assets and revenues; or

(n) ***Consolidation, Merger or Sale of Assets***: the Issuer or the Guarantor consolidates with or merges into any other company or entity (except in the case where the Guarantor remains the guarantor of the Notes) or the Issuer or the Guarantor, directly or indirectly, sells, conveys, transfers or leases all or substantially all of its assets to any company or other entity, otherwise than, in the case of the Issuer, in accordance with the provisions of Condition 14.1 (Substitution of the Issuer) or, in the case of the Guarantor, in accordance with the provisions of Condition 14.2 (Substitution of the Guarantor);

then any Note may, by written notice addressed by the holder thereof to the Issuer and the Guarantor and delivered to the Issuer and the Guarantor or to the Specified Office of the Fiscal Agent, be declared immediately due and payable, whereupon it shall become immediately due and payable at its principal amount together with accrued interest without further action or formality.

In these Conditions:

"**Indebtedness**" means any indebtedness of any Person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

(i) amounts raised by acceptance under any acceptance credit facility;

(ii) amounts raised under any note purchase facility;

(iii) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;

(iv) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 60 days; and

(v) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing; and

"**Material Subsidiary**" means, at any time, any Subsidiary of the Guarantor:

(i) whose profit before taxation and exceptional items ("**pre-tax profit**") or (in the case of a Subsidiary of the Guarantor which itself has Subsidiaries and which customarily prepares consolidated financial statements) consolidated pre-tax profit, attributable to the Guarantor, as shown by its latest audited income statement, are at least 10 per cent. of the consolidated pre-tax profit as shown by the latest published audited consolidated income statement of the Guarantor and its Subsidiaries including, for the avoidance of doubt, the Guarantor and its consolidated Subsidiaries' share of profits of Subsidiaries not consolidated and of associated companies and after adjustments for minority interests; or

(ii) whose gross assets or (in the case of a Subsidiary of the Guarantor which has Subsidiaries and which customarily prepares consolidated financial statements) gross consolidated assets attributable to the Guarantor as shown by its latest balance sheet are at least 10 per cent. of the sum of (i) the gross consolidated assets of the Guarantor and its Subsidiaries as shown by the latest published audited consolidated balance sheet of the Guarantor and its Subsidiaries and (ii) the Guarantor and its consolidated Subsidiaries' share of the gross assets (consolidated in the case of a Subsidiary of the Guarantor which itself has Subsidiaries and which customarily prepares consolidated financial statements) (as shown by its latest balance sheet (consolidated, if available)) of each Subsidiary of the Guarantor whose financial statements are not consolidated with the financial statements of the Guarantor and after adjustment for minority interests;

provided that, in relation to (i) and (ii) above:

(A) in the case of a corporation or other business entity becoming a Subsidiary of the Guarantor after the end of the financial period to which the latest consolidated audited financial statements of the Guarantor relate, the reference to the then latest consolidated audited financial statements of the Guarantor for the purposes of the calculation above shall, until consolidated audited financial statements of the Guarantor for the financial period in which the relevant corporation or other business entity becomes a Subsidiary of the Guarantor are published, be deemed to be a reference to the then latest consolidated audited financial statements of the Guarantor adjusted to consolidate the latest financial statements (consolidated in the case of a Subsidiary of the Guarantor which itself has Subsidiaries and which customarily prepares consolidated accounts) of such Subsidiary in such financial statements;

(B) if the financial statements of any Subsidiary of the Guarantor (not being a Subsidiary of the Guarantor referred to in proviso (A) above) are not consolidated with those of the Guarantor, then the determination of whether or not such subsidiary is a Material Subsidiary shall be based on a *pro forma* consolidation of its financial statements (consolidated, if available) with the consolidated financial statements (determined on the basis of the foregoing) of the Guarantor; and

(iii) in relation to any Subsidiary of the Guarantor, each reference in (i), (ii), (A) or (B) above to all or any of the financial statements (consolidated or otherwise) of such Subsidiary shall be deemed to be a reference to the relevant audited financial statements of such Subsidiary if it customarily prepares financial statements which are audited and, if not, to the relevant unaudited financial statements of such Subsidiary which shall be certified by any two directors of such Subsidiary as having been properly prepared in accordance with generally accepted accounting principles applicable to such Subsidiary; or

(iv) any Subsidiary of the Guarantor to which is transferred the whole or substantially the whole of the assets of another Subsidiary of the Guarantor which, immediately prior to such transfer, was a Material Subsidiary, **provided that** the Material Subsidiary which so transfers its assets shall forthwith upon such transfer cease to be a Material Subsidiary and the Subsidiary to which the assets are so transferred shall become a Material Subsidiary at the date on which the first published audited consolidated financial statements of the Guarantor prepared as of a date later than such transfer are issued unless such Subsidiary would continue to be a Material Subsidiary on the basis of such financial statements by virtue of the provisions of paragraphs (i) or (ii) above.

The Agents shall not be required to take any steps to ascertain whether an Event of Default has occurred and shall not be responsible or liable to the Noteholders, the Issuer, the Guarantor or any other person for any loss arising from any failure to do so.

9. PRESCRIPTION

Claims for principal shall become void unless the relevant Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date.

10. REPLACEMENT OF NOTES AND COUPONS

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer and the Guarantor may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

11. PAYING AGENTS

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Paying Agents act solely as agents of the Issuer and the Guarantor and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Paying Agents and their initial Specified Offices are listed below. The Issuer and the Guarantor reserve the right at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor fiscal agent and additional or successor paying agents; **provided**, **however**, **that** the Issuer and the Guarantor shall at all times maintain (a) a fiscal agent and (b) if required, a paying agent in a member state of the European Union that is not obliged to withhold or deduct tax pursuant to European Union Council Directive 2003/48/EC or any law implementing or complying with, or introduced to conform to, such Directive.

Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Noteholders.

12. MEETINGS OF NOTEHOLDERS; MODIFICATION

12.1 Meetings of Noteholders

The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and the Guarantor (acting together) and shall be convened by them upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing more than one half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; provided, however, that certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes, to reduce the amount payable upon a Change of Control Offer, change the time or manner by which a Change of Control Offer may be made or by which the Notes must be purchased pursuant to a Change of Control Offer, to amend the terms of the Guarantee of the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**")) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of holders of not less than 90 per cent. of the aggregate principal amount of the Notes for the time being outstanding will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more holders of the Notes.

12.2 Modification

The Notes, these Conditions, the Deed of Covenant and the Deed of Guarantee may be amended without the consent of the Noteholders or the Couponholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is not materially prejudicial to the interests of the Noteholders.

13. FURTHER ISSUES

The Issuer may from time to time, without the consent of the Noteholders or the Couponholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest and the NDRC Post-issue Filing) so as to form a single series with the Notes.

14. SUBSTITUTION

14.1 Substitution of the Issuer

The Issuer may at any time substitute, without the consent of the Noteholders or the Couponholders, an Affiliate of the Issuer (such substituted company being hereinafter called the "**New Issuer**") to assume liability for the due and punctual payment of all payments and the performance of all the Issuer's other obligations under, or in respect of, the Notes then outstanding. Upon any such substitution, the New Issuer shall succeed to the rights and obligations of the Issuer (or any previous assuming company) under the Notes and the Issuer (or any previous substitute) shall be released from its liability on the Notes. Such substitution shall be permitted only if, in addition to assuming the obligations of the Issuer (or of any previous substitute) under the Notes:

(a) the New Issuer shall, by means of a deed poll (the "**Issuer Substitution Deed Poll**"), agree to indemnify each Noteholder and Couponholder against (A) any taxes, duties, fees, assessments or governmental charges of whatever nature which are imposed on such holder with respect of such Note, and which would not have been so imposed had such substitution not been made, (B) any taxes, duties, fees, assessments or governmental charges of whatever nature imposed on or relating to such substitution and (C) any costs or expenses of the act of such substitution;

(b) if the New Issuer is not the Guarantor, the Guarantor shall, in the Issuer Substitution Deed Poll, unconditionally guarantee all payments in respect of the Notes;

(c) each of the New Issuer and (if the New Issuer is not the Guarantor) the Guarantor shall, jointly and severally, warrant, by means of the Issuer Substitution Deed Poll, that all necessary governmental approvals and consents for the assumption by the New Issuer of its obligations and the giving and implementation of the Guarantor's guarantee have been obtained and are in full force and effect and the obligations of the New Issuer under the Notes and of the Guarantor under its guarantee to guarantee payments in respect of the Notes (if applicable) are legal, valid, binding and enforceable in accordance with their terms;

(d) the New Issuer shall have obtained legal opinions (which are capable of being relied upon by each of the Paying Agents and the Noteholders and contain no more than customary assumptions or qualifications) from independent legal advisers of recognised standing in the country of incorporation of the New Issuer (if the New Issuer is not the Guarantor), Hong Kong and England that all the provisions of this Condition 14.1 have been complied with, that the obligations of the New Issuer and (if the New Issuer is not the Guarantor) of the Guarantor in respect of the Notes, the Guarantee of the Notes and the Issuer Substitution Deed Poll, as the case may be, are legal, valid, binding and enforceable and that all consents and approvals as aforesaid have been obtained;

(e) immediately after giving effect to such substitution, no event which is, or with the passage of time or the giving of notice or both would be, one of those circumstances described in Condition 8 (Events of Default) shall have occurred and be continuing; and

(f) the New Issuer shall have obtained confirmation from the Hong Kong Stock Exchange that the Notes will continue to be listed on the Hong Kong Stock Exchange.

Not more than 30 nor less than 15 days prior to the effective date of the substitution by the New Issuer, the Issuer shall procure the notification to the Noteholders, in accordance with Condition 15 (Notices), of the substitution, stating that copies or, pending execution thereof, final drafts of the Issuer Substitution Deed Poll and other relevant documents and of the legal opinions are available for inspection by Noteholders at the specified offices of the Paying Agents. The originals of the Issuer Substitution Deed Poll and other documents will be delivered to the Fiscal Agent to hold until there are no claims outstanding in respect of the Notes.

Upon the substitution of the Issuer becoming effective, references (if any) in Condition 5 (Redemption and Purchase) and Condition 7 (Taxation) to the "British Virgin Islands" shall be deemed to include references to the country of incorporation and, if different, the country of tax residence of the New Issuer.

14.2 Substitution of the Guarantor

The Guarantor may at any time substitute, without the consent of the Noteholders or the Couponholders, any entity which, following an amalgamation, reconstruction or otherwise, has vested in or imposed on it all or substantially all of the undertakings, properties or assets of the Guarantor, including obligations and liabilities under the Guarantee of the Notes (such substituted company being hereinafter called the "**New Guarantor**"), to assume liability for the due and punctual payment of all payments and the performance of all the Guarantor's other obligations under the Guarantee of the Notes. Upon any such substitution, the New Guarantor shall succeed to the rights and obligations of the Guarantor (or any previous assuming company) under the Guarantee of the Notes and the

Guarantor (or any previous substitute) shall be released from its liability on the Guarantee of the Notes. Such substitution shall be permitted only if, in addition to assuming the obligations of the Guarantor (or of any previous substitute) under the Guarantee of the Notes:

(a) the New Guarantor shall, by means of a deed poll (the "**Guarantor Substitution Deed Poll**"), agree to indemnify each Noteholder and Couponholder against (A) any taxes, duties, fees, assessments or governmental charges of whatever nature which are imposed on such holder, and which would not have been so imposed had such substitution not been made, (B) any taxes, duties, fees, assessments or governmental charges of whatever nature imposed on or relating to such substitution and (C) any costs or expenses of the act of such substitution;

(b) the New Guarantor shall warrant, by means of the Guarantor Substitution Deed Poll, that all necessary governmental approvals and consents for the assumption by the New Guarantor of its obligations have been obtained and are in full force and effect and the obligations of the New Guarantor under the Guarantee of the Notes are legal, valid, binding and enforceable in accordance with their terms;

(c) the New Guarantor shall have obtained legal opinions (which are capable of being relied upon by each of the Paying Agents and the Noteholders and contain no more than customary assumptions or qualifications) from independent legal advisers of recognised standing in the country of incorporation of the New Guarantor and England that all the provisions of this Condition 14.2 have been complied with, that the obligations of the New Guarantor in respect of the Guarantee of the Notes and the Guarantor Substitution Deed Poll are legal, valid, binding and enforceable and that all consents and approvals as aforesaid have been obtained;

(d) immediately after giving effect to such substitution, no event which is, or with the passage of time or the giving of notice or both would be, one of those circumstances described in Condition 8 (Events of Default) shall have occurred and be continuing; and

(e) the Issuer shall have obtained confirmation from the Hong Kong Stock Exchange that the Notes will continue to be listed on the Hong Kong Stock Exchange.

Not more than 30 nor less than 15 days prior to the effective date of the substitution by the New Guarantor, the Guarantor shall procure the notification to the Noteholders, in accordance with Condition 15 (Notices), of the substitution, stating that copies, or pending execution thereof final drafts, of the Guarantor Substitution Deed Poll and other relevant documents and of the legal opinions are available for inspection by Noteholders at the specified offices of the Paying Agents. The originals of the Guarantor Substitution Deed Poll and other documents will be delivered to the Fiscal Agent to hold until there are no claims outstanding in respect of the Notes.

Upon the substitution of the Guarantor becoming effective, references (if any) in Condition 5 (Redemption and Purchase) and Condition 7 (Taxation) to "Hong Kong" shall be deemed to be replaced by references to the country of incorporation and, if different, the country of tax residence of the New Guarantor.

As used in this Condition 14:

"**Affiliate**" of any person means any entity controlled, directly or indirectly, by such person, any entity that controls such person, directly or indirectly, or any entity under common control with such person. For this purpose, "**control**" means ownership of a majority of the voting power of a person or power to direct or cause the direction of the management and policies of a person, whether by contract or otherwise.

15. NOTICES

Notices to the Noteholders shall be valid if published in a leading English language daily newspaper having general circulation in Asia (which is expected to be *The Asian Wall Street Journal*) or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Asia. Any such notice shall be deemed to have been given on the date of first publication. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

So long as the Global Notes are held in its entirely on behalf of Euroclear and Clearstream, Luxembourg any notice to the Noteholders shall be validly given by the delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by the relevant clearing system to entitled accountholders in substitution for notification as required by the Conditions and shall be deemed to have been given on the date of delivery to such clearing system.

16. CURRENCY INDEMNITY

If any sum due from the Issuer in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer and the Guarantor or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

17. GOVERNING LAW AND JURISDICTION

17.1 Governing law

The Notes and any non-contractual obligations arising out of or in connection with the Notes are governed by English law.

17.2 English courts

The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising from or connected with the Notes (including any non-contractual obligation arising out of or in connection with the Notes).

17.3 Appropriate forum

Each of the Issuer and the Guarantor agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

17.4 Rights of the Noteholders to take proceedings outside England

*C*ondition 17.2 (English courts) is for the benefit of the Noteholders only. As a result, nothing in this Condition 17 prevents any Noteholder from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, Noteholders may take concurrent Proceedings in any number of jurisdictions.

17.5 Process agent

Each of the Issuer and the Guarantor agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Cogency Global (UK) Limited at 6 Lloyds Avenue, Unit 4CL, London EC3N 3AX or, if different, its registered office for the time being or at any address of the Issuer in Great Britain at which process may be served on it in accordance with the Companies Act 2006. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer or the Guarantor, the Issuer or, as the case may be, the Guarantor shall, on the written demand of any Noteholder addressed to the Issuer or, as the case may be, the Guarantor and delivered to the Issuer or, as the case may be, the Guarantor or to the Specified Office of the Fiscal Agent, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Noteholder shall be entitled to appoint such a person by written notice addressed to the Issuer or, as the case may be, the Guarantor and delivered to the Issuer or, as the case may be, the Guarantor or to the Specified Office of the Fiscal Agent. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.

17.6 Waiver of immunity

To the extent that the Issuer or the Guarantor may in any jurisdiction be entitled to claim for itself or its assets or revenues any immunity (on the grounds of sovereignty or otherwise) from suit, execution, attachment (whether in aid of execution, before judgement or otherwise) or other legal process, each of the Issuer and the Guarantor agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

TERMS AND CONDITIONS OF THE NOTES

The terms and conditions of the Notes will be identical to those under "Terms and Conditions of the Notes" except as set out below. Reference to the "Notes" shall be construed as reference to the Notes.

1. The principal amount of the Notes shall be U.S.$.

2. In Condition 4.1, the interest rate of the Notes shall be per cent. per annum.

3. In Condition 5.1, the date of scheduled redemption shall mean .

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Each Temporary Global Note and each Permanent Global Note contain provisions which apply to the Notes of the relevant series while they are in global form, some of which modify the effect of the terms and conditions of the Notes set out in this Offering Memorandum. The following is a summary of certain of those provisions:

Exchange

Each series of Notes will initially be in the form of a Temporary Global Note which will be deposited on or around the Issue Date with a common depositary for Euroclear and Clearstream. Each Temporary Global Note will be exchangeable in whole or in part for interests in a Permanent Global Note not earlier than 40 days after the Issue Date upon certification as to non-US beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-US beneficial ownership.

Each Permanent Global Note will become exchangeable in whole, but not in part, for the Notes in definitive form in the denomination of US$200,000 and integral multiples of US$1,000 in excess thereof at the request of the bearer of such Permanent Global Note if (a) Euroclear or Clearstream is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention to cease business permanently or (b) any of the circumstances described in Condition 8 (Events of Default) occurs.

Whenever any Permanent Global Note is to be exchanged for Definitive Notes of the relevant series, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons attached, in an aggregate principal amount equal to the principal amount of such Permanent Global Note to the bearer of such Permanent Global Note against the surrender of such Permanent Global Note at the specified office of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

(a) Definitive Notes of the relevant series have not been delivered by 5:00 p.m. (London time) on the 30th day after the bearer has duly requested exchange of the Permanent Global Note of the relevant series for Definitive Notes; or

(b) the Permanent Global Note of the relevant series (or any part of it) has become due and payable in accordance with the Conditions or the date for final redemption of such Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of such Permanent Global Note on the due date for payment,

then such Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5:00 p.m. (London time) on such 30th day (in the case of (a) above) or at 5:00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of such Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of such Permanent Global Note or others may have under a deed of covenant dated 2018 (the "**Deed of Covenant**") executed by the Issuer). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream as being entitled to an interest in the relevant Permanent Global Note will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before such Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of the Notes they were shown as holding in the records of Euroclear and/or Clearstream (as the case may be).

In addition, each Temporary Global Note and each Permanent Global Note will contain provisions which modify the Terms and Conditions of the relevant series as they apply to the Temporary Global Note and the Permanent Global Note. The following is a summary of certain of those provisions:

Payments

All payments in respect of a Temporary Global Note and a Permanent Global Note will be made against presentation and (in the case of payment of the principal in full with all interest accrued thereon) surrender of such Temporary Global Note or (as the case may be) such Permanent Global Note at the Specified Office of any Paying Agent and will be effective to satisfy and discharge the liabilities of the Issuer in respect of the Notes of the relevant series. On each occasion on which a payment of principal or interest is made in respect of a Temporary Global Note or (as the case may be) a Permanent Global Note, the Issuer shall procure that the same is noted in a schedule thereto.

Notices

Notwithstanding Condition 15 (Notices), while all the Notes of the relevant series are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are) deposited with a common depositary for Euroclear and Clearstream, notices to the Noteholders of the relevant series may be given by delivery of the relevant notice to Euroclear and Clearstream and, in any case, such notices shall be deemed to have been given to the Noteholders of the relevant series in accordance with Condition 15 (Notices) on the date of delivery to Euroclear and Clearstream.

INVESTMENT CONSIDERATIONS

Before purchasing the Notes, prospective investors should be aware that there are various risks involved in an investment in the Notes, including those described below. Additional considerations and uncertainties not presently known to the Issuer or the Guarantor, or which the Issuer or the Guarantor currently deem immaterial, may also have an adverse effect on an investment in the Notes. Prospective investors should carefully consider these risks, together with the other information in this Offering Memorandum, before deciding to invest in the Notes.

Risks Relating to the Group's Business

The performance of the Group's ports and ports-related businesses is dependent on future economic growth in the PRC and globally

The growth of the Group's ports and ports-related businesses is largely dependent upon the continuation of economic development and growth in the PRC, which the Guarantor expects will, in turn, increase demand for its ports and ports-related services. Although the PRC has experienced rapid economic development over the past 30 years, the rate of the PRC's GDP growth has decreased since the second half of 2013 and this has raised market concerns that the historic rapid growth of the economy of the PRC may not be sustainable. According to the National Statistics Bureau of China, the annual growth rate of the PRC's GDP in 2015 slowed down to 6.9 per cent. on a year-on-year basis compared to 7.3 per cent. in 2014, and it further decreased to 6.7 per cent. for 2016, which was the slowest annual GDP growth rate recorded in 26 years. For the year ended 31 December 2017, China's GDP growth rate slightly increased to 6.9 per cent. Such developments have been reflected in the PRC's credit ratings. On 24 May 2017, Moody's Investors Service downgraded the PRC's long-term local currency and foreign currency issuer ratings to A1 from Aa3 and changed the outlook from stable to negative. On 21 September 2017, Standard & Poor's Ratings Services cut the PRC's credit rating by one notch from AA- to A+, citing increasing economic and financial risks from a prolonged period of strong credit growth. A sustained period of slower economic growth in the PRC generally or in the particular areas in which the Group's operations and investments are located could have a material adverse effect on the financial condition and operating results of the Group as well as on its prospects to identify, invest in and develop new projects and businesses.

The future performance of the PRC's economy is not only affected by the economic and monetary policies of the PRC government, but it is also exposed to material changes in global economic and political environments as well as the performance of certain major developed economies in the world, such as the United States and the European Union. In recent years, there have been heightened trade and geopolitical tensions among the United States and other nations, including the PRC. The Group's revenue is particularly affected by the outlook for the global shipping industry, as overcapacity (due to the addition of new ships to the global fleet) and any reduction in shipping routes may affect the number of visits to the ports operated by the Group. Any slowdown or disruption in global economic growth or that of any of its trading partners could have an adverse effect on the Group's business, financial condition and operating results.

In 2008, the global credit markets experienced significant dislocation and uncertainty as a result of liquidity disruptions in the US credit and sub-prime residential mortgage markets since the second half of 2007. Such events together with other related events, including the collapse of a number of financial institutions around the same time, triggered an economic slowdown in the United States and other important economies around the world, substantial volatility in financial markets globally, fluctuations in foreign currency exchange rates and volatility and tightening of liquidity in global financial markets.

Additionally, during 2011, the long-term structural deficits in numerous European nations coupled with the deterioration of the economic outlook led weaker European Union nations to a liquidity and solvency crisis. Although Eurozone leaders have made numerous attempts to solve this debt crisis, to date a sustainable long-term solution has not been implemented and much uncertainty remains. The crisis has had a negative impact on many European countries. On 13 January 2012, nine European nations had their credit ratings downgraded by S&P by at least one notch. On 20 December 2013, S&P further downgraded the European Union's credit rating and on 23 May 2014, Greece's credit rating was downgraded by Fitch. Failure to successfully resolve the debt crisis could lead to the voluntary exit or expulsion of certain countries from the Euro currency block and/or a collapse of the Eurozone financial system, which would be a deeply disruptive global economic event.

More recently, on 23 June 2016, the United Kingdom voted in a national referendum to withdraw from the European Union and served its formal withdrawal notification to the European Union on 29 March 2017. There is substantial uncertainty relating to the implementation of the United Kingdom's exit, as well as its impact on the economic conditions of the United Kingdom and other parts of the world (such as the PRC). Such uncertainty has led to concerns that the United Kingdom's exit from the European Union could adversely impact global economic growth, leading to, amongst other things, decreases in global stock exchange indices, increased foreign exchange volatility and a possible economic recession.

Such political uncertainty and any resulting prolonged economic downturn could weaken global trade, hamper trade relations with the PRC, and result in another global recession which may, in turn, result in a decrease in container throughput at the Group's ports and a reduced demand for the Group's bonded logistics services. There can be no assurance that the Group's business, financial position and operating results, as well as its future prospects, will not be materially and adversely affected by such an economic downturn.

Ports and ports-related businesses are cyclical in nature

The Group's core business comprises the ownership, operation and management of ports and the provision of ports-related services. The global port industry has been cyclical and subject to seasonal fluctuations, experiencing volatility in revenues, profitability and asset values resulting from changes in the supply of and demand for ports and ports-related services. The demand for ports and ports-related services is influenced by global and regional economic conditions, developments in international trade, changes in seaborne and other transportation patterns, weather patterns, armed conflicts, canal closures, foreign exchange fluctuations, embargoes and strikes, among other factors. Throughput and tariffs at container terminals and general and bulk cargo terminals fluctuate in response to the volume of containerised and general and bulk cargo trade, which is influenced by many factors, including the demand for containerised and general and bulk cargo trade, general economic conditions, developments in the major world economies that influence trade patterns and competition from alternative modes of transportation.

Increasing competition from other existing port terminal operators and new port terminal operators may adversely affect the Group's business growth and financial conditions

The Group faces competition from other port terminal operators within surrounding ports to its own ports operations in the Pearl River Delta, Yangtze River Delta, Bohai Rim, the south-eastern region and the south-western region of mainland China. The dilution of the Group's market share as a result of the competition from surrounding port terminal operators in other nearby ports may adversely affect its business.

Since the promulgation of the Foreign Investment Industrial Guidance Catalogue in 2002 which removed the requirement that Chinese partners must hold the majority of shares in foreign investment enterprises ("**FIE**") engaging in port terminal services, there has been an increase in the diversification of investors in container terminals, investments, and mergers and acquisitions activities by foreign investors in the port terminal industry. China's accession to the World Trade

Organisation and the promulgation of various laws and regulations on international maritime transport and ports in the PRC lowered the entry barriers into the port terminal industry. Thus, there may be more enterprises, in particular FIEs, entering the port terminal industry which may intensify competition.

The Group may be unsuccessful in completing and managing future investments, strategic co-operations and/or acquisitions

In connection with the implementation of its business strategy to focus on ports and ports-related services as its core business, the Group has in recent years pursued a port development strategy of "exploring overseas markets while optimising domestic layout" with an aim to foster new sources for business growth. As part of such expansion plans, the Group considers investment, co-operation and acquisition opportunities in the PRC and overseas that will complement its core ports portfolio and capabilities, and assist in expanding the market share for its ports operations. The ability of the Group to grow by investment in and/or acquisition of its target businesses or form strategic co-operations is dependent upon, and may be limited by, the availability of attractive projects, its ability to negotiate acceptable commercial, technical and financing terms and the successful receipt of required approvals from relevant regulatory authorities.

Such acquisitions, co-operations and/or investments may expose the Group to potential difficulties that could prevent it from achieving the strategic objectives for the acquisitions, co-operations and/or investments or harm its ability to achieve anticipated levels of profitability. These difficulties include:

- diversion of management's attention from the normal operation of the Group's business;
- increases in the Group's expenses and working capital requirements, which reduces its return on invested capital;
- potential increases in debt, which increase the Group's costs as a result of higher interest payments;
- exposure to unanticipated contingent liabilities to acquired companies;
- possibility that acquired businesses may not grow or deliver regular profitability as anticipated;
- difficulties with co-operating with new strategic partners; and
- difficulties or delays in integrating acquired businesses into the Group's existing operations, which may prevent it from achieving, or may reduce, the anticipated synergies.

Any acquisitions that may be made by the Group in the future would face similar potential difficulties. If the Group is not able to successfully manage these potential difficulties, its acquisitions might not result in any material revenues or other anticipated benefits.

Despite the Group's identification of a number of favourable opportunities, the Group's ability to continue to develop further ports projects will depend on it being able to reach agreements with potential joint venture partners on terms satisfactory to the Group and to enter into binding contracts with such parties. There can be no assurance that the Group will be able to identify suitable investment, co-operation and acquisition targets, complete the investments, co-operations and acquisitions on satisfactory terms or, if any such investments and acquisitions are consummated, satisfactorily integrate the acquired businesses. Any failure of the Group to implement its expansion plans through investments, strategic co-operations and/or acquisitions could have a material and adverse effect on the Group's business, financial position and operating results, as well as its future prospects.

The Group may not successfully manage its growth

As the Group pursues its growth strategy, it must continue to improve its managerial, technical, operational and other resources, and to implement an effective management information system. In addition, the Group plans to strengthen management control of its subsidiaries, associates and joint ventures. In order to fund the Group's on-going operations and its future growth, the Group needs to have sufficient internal sources of liquidity or access to additional financing from external sources. Further, the Group will be required to manage relationships with a greater number of customers, suppliers, contractors, service providers, lenders and other third parties. There can be no assurance that the Group will not experience issues such as capacity and capital constraints, construction delays, operational difficulties at new facilities or difficulties in upgrading or expanding existing facilities and training an increasing number of personnel to manage and operate those facilities. In particular, failure of the Group to implement its expansion plans in a timely manner could adversely affect its ability to maintain, expand and diversify its revenue base and to maintain its profitability. Additionally, there can be no assurance that such expansion plans will not adversely affect the Group's existing operations by, for instance, subjecting it to substantial additional costs that may decrease profitability, which would have a material adverse effect on its business, financial condition, operating results and future prospects.

The Group is subject to non-wholly owned investment risks

A significant portion of the ports and other operations of the Group are conducted through non-wholly owned subsidiaries, joint ventures and associates. Co-operation and agreement among the Group's investment partners on its existing or any future projects are important factors for the smooth operation and financial success of such projects. The Group's investment partners may (i) have economic or business interests or goals that are inconsistent with those of the Group, (ii) be unable or unwilling to fulfil their obligations under the relevant joint venture or other agreements or (iii) experience financial or other difficulties. Further, the Group may not be able to control the decision-making process of these investments without reference to its investment partners (including decisions relating to the distribution of profits) and, in some cases, it does not have majority control of the joint ventures and associates. The Group does, however, through contractual provisions or representatives appointed by it, typically have the ability to influence certain material decisions. Although the Group has to date worked generally fine with its investment partners, there can be no assurance that its investment partners will act in ways which are consistent with the interest of the Group, that such investment partners will be able and willing to fulfil its obligations under the relevant shareholders' agreements or other agreements, or that disputes among the partners will not arise in the future that could adversely affect such projects.

The Group is exposed to certain risks in respect of the development and construction of new terminals and port facilities

The Group has existing plans to develop a number of projects. The actual timing of completion, the development of capacity of the terminals and the revenues obtained from such developments may be affected by a number of factors beyond the Group's control. These may include general economic conditions in the countries where the developments are located, and, in particular, the areas in and around such developments, as well as changes in the volume of international trade. The development of port facilities also faces other risks commonly associated with infrastructure projects, which include shortages or delays in the supply of labour, materials and equipment, cost overruns, natural disasters, accidents or other unforeseen circumstances. The Group therefore cannot guarantee that the new developments would be completed on schedule or within the current estimated budget. Furthermore, the Group cannot assure investors that the potential revenues generated from these new developments would be sufficient to cover the costs associated with their construction.

The Group may be adversely affected by the performance of its contractors

The Group engages contractors for the development of its port projects and the related infrastructure. There can be no assurance that the services rendered by the Group's contractors or subcontractors will always be satisfactory or meet the Group's quality and safety standards. If the performance of any contractor is not satisfactory, the Group may need to replace them or take other actions to remedy the situation, which could adversely affect the cost and construction progress of its projects. Further, the completion of the Group's projects may be delayed, and the Group may incur additional costs in some cases due to a contractor's financial or other difficulties. In addition, in some jurisdictions there may be a shortage of contractors that meet the Group's quality requirements. Contractors may undertake projects for other companies, engage in risky or unsound practices or encounter financial or other difficulties, which may affect their ability to complete their work for the Group on time or within budget. Any of these factors may have a material adverse effect on the Group's business, financial condition and results of operations.

The Group is required to comply with extensive environmental, health and safety laws and regulations and quality control standards and the compliance of which may be onerous or expensive

The Group is required to comply with extensive environmental, health and safety laws and regulations promulgated by the both the PRC and other foreign governments in the jurisdictions where the Group has operations, as well as quality control standards. Given the magnitude and complexity of these laws and regulations, compliance with them or the establishment of effective monitoring systems may be onerous or require a significant amount of financial and other resources. If the Group fails to comply with these laws and regulations and industry standards applicable to its operations, it could be subject to suspension of its operations, failed evaluation when a project is delivered for review, substantial penalties, fines, suspension or revocation of its licences or permits, termination of government contracts, administrative proceedings or litigation. Such events could have a material and adverse impact on its business, results of operations, financial condition and reputation. There can also be no assurance that the PRC government or other foreign governments will not impose additional or more onerous laws or regulations, compliance with which may cause the Group to incur significantly increased costs, which the Group may not be able to pass on to its customers.

The Group may be affected by changes in labour laws and regulations

Beginning in 2008, the PRC government began to implement new labour contract laws, which include certain requirements for insurance, training, minimum periods for vacation and leave as well as other labour protections to be provided by companies for their employees. PRC companies are now required to enter into definitive employment contracts with all their employees to cover these requirements. These new labour laws and regulations, and any revisions from time to time, may have an impact on the cost of labour in the PRC. The Group is unable to predict the future costs or other future effects of labour laws on its operations. Furthermore, any changes in the labour laws may increase the Group's costs, which could impact its business, financial condition and results of operations.

The Group's businesses require substantial capital investment

The Group requires additional financing to fund capital expenditures, to support the future growth of its business and/or to refinance existing debt obligations. The Group's core businesses require substantial capital investment, particularly for the acquisition of new ports and the development and expansion of ports facilities. The Guarantor has historically required and expects that in the future it will continue to require substantial external financing to fund its capital expenditures. China Merchants Group Limited ("**CMG**"), the Group's parent company, is not obligated to provide financial support to the Guarantor and there can be no assurance that it will do so. The Guarantor's ability to arrange for external financing and the cost of such financing are dependent on numerous factors, including general economic and capital market conditions, interest rates, credit availability from banks or other lenders, investor confidence in the Guarantor, success of the Group's businesses, provisions of tax and securities laws that may be applicable to the Guarantor's efforts to raise capital and political and economic conditions in Hong Kong and the PRC generally. There can be no assurance that additional financing, on either a short-term or a long-term basis, will be made available or, if available, that such financing will be obtained on terms favourable to the Group.

Substantial indebtedness may restrict the Group's business activities and increase its exposure to various operational risks

The Group relies on bank loans and proceeds from bond issuances to satisfy a portion of its capital requirements and the Group has a significant amount of outstanding indebtedness. As at 31 December 2017, the Guarantor's total indebtedness (comprising loans from shareholders, bank borrowings, loans from a non-controlling equity holder of subsidiary, loans from a fellow subsidiary, loans from an associate, amounts due to fellow subsidiaries and notes payable) was approximately HK$28,753 million, of which approximately HK$6,461 million would become due within 12 months.

Substantial indebtedness could impact on the Group's business in a number of ways, including:

- requiring the Group to divert its operating cash flow to service the Group's indebtedness;
- increasing the Group's finance costs, thus affecting its overall profits;
- decreasing the Group's financial flexibility in carrying on its business or responding to unexpected market changes;
- limiting, together with the financial and other restrictive covenants of its indebtedness, among other things, the Group's ability to borrow additional funds; and
- increasing the Group's vulnerability to adverse general economic and industry conditions.

Certain financing contracts entered into by members of the Group contain operational and financial restrictions that prohibit the borrower from incurring additional indebtedness unless it is able to satisfy certain financial ratios, restrict the borrower from creating security or granting guarantees or prohibit the borrower from changing its business and corporate structure, without the lender's prior consent. Such restrictions may negatively affect the relevant companies' ability to respond to changes in market conditions, pursue the business opportunities the Group believes to be desirable, to obtain future financing, fund capital expenditures, or withstand a continuing or future downtown in the Group's business. Any of these factors could materially and adversely affect the Group's ability to satisfy its obligations under outstanding financial obligations, such as the Notes issued by the Issuer.

If the Issuer or any of the Group's relevant subsidiaries are unable to comply with the restrictions (including restrictions on future investments) and covenants in its current or future debt obligations and other financing agreements, a default under the terms of such agreements may occur. In the event of a default under such agreements, creditors may be entitled to terminate their commitments granted to the Group accelerate the debt and declare all amounts borrowed due and payable or terminate the agreements, depending on the provisions of the relevant agreements. Some financing agreements of the Group contain cross-acceleration or cross-default provisions. Creditors under these financing agreements can require the Group to immediately repay their loans or declare a default of the borrower as a result of the acceleration or default of other financing agreements by any other member of the Group. If any of these events occur, there can be no assurance that the Group will be able to obtain the lenders' waiver in a timely manner or that the assets and cash flow of the Group would be sufficient to repay in full all of its respective debts as they become due, or that the Group would be able to find alternative financing. Even if the Group could obtain alternative financing, there can be no assurance that it would be on terms that are favourable or acceptable to the Group.

The Group is subject to project development and approval risks

There are a number of construction, financing, operating and other risks associated with the Group's project developments in the PRC, Hong Kong and other regions. Such projects typically require substantial capital expenditures during the construction phase and usually take many months, sometimes years, before they become operational and generate revenue. The time required to complete construction, and the associated costs, may be adversely affected by many factors, including but not limited to shortages of materials, equipment and labour, adverse weather conditions, natural disasters, labour disputes, disputes with sub-contractors, accidents, changes in governmental policies, unforeseen mechanical, technical, engineering, design, environmental or geological problems and other circumstances that are beyond the Group's control. Any of these could give rise to delays in the completion of construction and/or cost overruns.

As certain of the Group's operations are highly regulated in the jurisdictions where they are carried out, government approvals, permits, licences or consents need to be obtained and maintained. Delays in the process of obtaining or maintaining, or a failure to obtain or maintain, the requisite licences, consents, permits or approvals from government agencies or authorities can also increase the cost or delay or disrupt the operations of the Group's businesses, which will materially and adversely affect the financial performance of the Group's business operations. Although the majority of the Group's infrastructure projects have been completed on schedule, there can be no assurance that this will remain the same or future infrastructure projects will be completed on time and generate satisfactory returns, or at all. Finally, the acquisition or transfer of interests in such projects may be subject to governmental approvals, which can affect the Group's ability to dispose of such projects.

The Group's insurance policies may not be adequate and the Group is subject to uninsured risks
The Group maintains insurance policies covering both its assets and employees in line with general business practices in the PRC and Hong Kong in the relevant industries, with policy specifications and insured limits which the Group believes are adequate. Risks insured against include fire, lightning, flooding, theft, vandalism and public liability. There are, however, certain types of losses (such as from wars, acts of terrorism or acts of God, business interruption, property risks and third party (public) liability) that generally are not insured because they are either uninsurable or not economically insurable. Should an uninsured loss or a loss in excess of insured limits occur, the Group could lose capital invested in the relevant property, as well as anticipated future revenue and, in the case of debt that is with recourse to the Group, the Group may remain liable for financial obligations related to the relevant property. Any such loss could adversely affect the operating results and financial condition of the Group. In addition, insurance companies typically seek to exclude insurance risks and claims relating to terrorism or natural disasters and as a result, the Group's insurance policies do not cover damages and losses arising from acts of terrorism or natural disasters.

The Group operates in highly competitive industries in PRC
Many of the Group's activities are carried on in highly competitive industries. The Group's ports operations face competition from both international and local operators on factors such as location, facilities and supporting infrastructure, service and price. The Group also competes with both local and international companies in capturing new business opportunities in the PRC. Some of these companies have significant financial resources, marketing and other capabilities. In the PRC, some of the local companies have extensive local knowledge and business relationships and a longer operational track record in the relevant local markets than the Group. The international companies are able to capitalise on their overseas experience to compete in the PRC markets. As a result, there can be no assurance that the Group will be able to compete successfully in the future against its existing or potential competitors. See also "Description of the Guarantor — Competition." No assurance can be given that increased competition with respect to the Group's activities may not have a material adverse effect on the financial condition and operating results of the Group.

The Group's international operations subject it to various business, economic, political, regulatory and legal risks
Pursuant to the Group's strategic vision of becoming "a world's leading comprehensive port service provider", the Group has invested, and plans to continue investing, in overseas markets in the future. In recent years, the Group and its associates, joint ventures and affiliates, as applicable, have expanded its ports operation to overseas markets through its respective acquisitions of various interests, including Tin-Can Island Container Terminal Limited ("**TICT**") in Nigeria, Port de Djibouti S.A. ("**PDSA**") in Djibouti, and Terminal Link SAS ("**Terminal Link**") in France, Kumport Liman Hizmetleri ve Lojistik Sanayi ve Ticaret A.Ş. ("**Kumport**") in Turkey and Port of Newcastle ("**PON**") in Australia, the South Container Terminal in Colombo, Sri Lanka by Colombo International Container Terminals Limited ("**CICT**"), the Hambantota Port in Hambantota, Sri Lanka by Hambantota

International Port Group (Private) Limited ("**HIPG**"), Lome' Container Terminal in Togo by Lome' Container Terminal S.A ("**LCT**") and TCP Participações S.A. ("**TCP**") in Brazil, together which operate, develop and invest in a port network comprising of more than 30 container and bulk cargo terminals in 18 countries and regions across six continents. The implementation of this strategy has subjected the Group to, among other things, economic and political conditions in foreign countries, including the imposition of government controls, political and economic instability, trade restrictions, changes in tariffs, laws and policies affecting trade and investment, the lack of development of local infrastructure, labour unrest and difficulties in staffing, co-ordinating communications among and managing international operations, fluctuations in currency exchange rates and earnings, expatriation restrictions, difficulties in obtaining export licences, and misappropriation of intellectual property.

The continuation of the Group's overseas expansion plans may place a significant strain on its management, operational and financial resources. There can be no assurance that the Group's existing or future management, operational and financial systems, procedures and controls will be adequate to support its future operations or that the Group will be able to recruit, retain and motivate its personnel or establish or develop business relationships beneficial to its future operations. Failure of the Group to manage growth effectively could have a material adverse effect on its businesses, operating results and financial condition. If the Group cannot successfully manage the risk and challenges generally associated with multinational operations, it may have to dedicate resources to resolving issues arising from its future international operations at the expense of its current PRC and Hong Kong operations.

Individual countries in which the Group may invest and develop projects in the future may also have particular risks. In addition, some countries in which the Group may intend to invest and operate may experience periods of slow or negative growth, high inflation, significant currency devaluations or limited availability of foreign exchange. Furthermore, in countries such as the PRC, governmental authorities exercise significant influence over many aspects of the economy and their actions could have a significant effect on the Group's operations and on the Group's intended international operations.

The ordinary operations of port operators could be adversely affected by damage to port facilities caused by weather, natural disasters or terrorist attacks, or other events beyond their control

Similar to many other businesses, the Group's normal operations could be adversely affected or disrupted, and its port facilities could be damaged, by weather, terrorist attacks, natural disasters (such as earthquake, flood, snow, fire, typhoons or other natural disaster or other force majeure events) or other events, including, but not limited to:

- invasion, acts of foreign enemies, rebellion, revolution, insurrection, military or usurped power, war and radioactive contamination;

- riot or commotion;

- denial of the use of any railway, port, airport, shipping service or other means of public transport; and

- strike or lock-out or other industrial action by workers or employers.

These events would adversely affect the ordinary operations of the shipping industry and international trade, which would, in turn, adversely affect the Group's business and could cause disruption to its operations in part or in whole therefore potentially materially and adversely affecting its financial condition and operating results.

Changes in interest rates could significantly affect the Group's financial condition and operating results

The Group is exposed to interest rate risk on its floating rate borrowings and on additional debt financing that may be periodically needed for its capital expenditures. As at the date of this Offering Memorandum, all of the debt securities of the Group are floating rate obligations other than: (i) the US$200 million 3.50% guaranteed notes due 2020 issued by China Merchants Finance Company Limited, a wholly-owned subsidiary of the Guarantor on 3 August 2015, (ii) the US$500 million 5.00% guaranteed notes due 2022 issued by China Merchants Finance Company Limited, a wholly-owned subsidiary of the Guarantor, on 4 May 2012, (iii) the US$500 million 4.75% guaranteed notes due in 2025 issued by China Merchants Finance Company Limited, a wholly-owned subsidiary of the Guarantor on 3 August 2015, (iv) the RMB2,500 million 4.89% notes due 2022 issued by the Guarantor on 19 April 2017 and (v) the RMB500 million 5.15% notes due 2021 issued by the Guarantor on 6 February 2018. Any upward fluctuations in interest rates would increase the cost of both existing and new debt of the Group which in turn could adversely impact the financial condition, operating results, planned capital expenditures and cash flows of the Group.

Risks Relating to the Issuer and the Guarantor

Payments under the Guarantee are structurally subordinated to all existing and future liabilities and obligations of each of the Guarantor's subsidiaries (other than the Issuer), associates and joint ventures

The Issuer was established by the Guarantor specifically for the purpose of issuing the Notes and will on-lend the entire proceeds from the issue of the Notes to the Guarantor, who may in turn on-lend to other members of the Group. The Issuer does not and will not have any business activities other than the issue of the Notes and such on-lending, and its ability to make payments under the Notes will depend on its receipt of timely payments under such loan from the Guarantor.

The Guarantor is a holding company and, accordingly, payments under the Guarantee are structurally subordinated to all existing and future liabilities and obligations of each of the Guarantor's subsidiaries (other than the Issuer), associates and joint ventures. Claims of creditors of such companies will have priority as to the assets of such companies over the Guarantor and its creditors, including holders of the Notes seeking to enforce the Guarantee. The Guarantor's obligations under the Guarantee will not be guaranteed by any of its subsidiaries. The Notes do not contain any restrictions on the ability of the Guarantor's subsidiaries (other than the Issuer) to incur additional unsecured indebtedness.

The Guarantor's ability to make payments on the Guarantee depends upon receipt of distributions from its subsidiaries, associated companies and joint ventures

The Guarantor's ability to make payments on the Guarantee, which is solely an obligation of the Guarantor, and to make payments to the Issuer to fund payments on the Notes, depends upon the receipt of dividends, distributions, interest or advances from its wholly-owned or partly-owned subsidiaries, associates and joint ventures. The ability of the subsidiaries, associates and joint ventures of the Guarantor to pay dividends and other amounts to the Guarantor may be subject to their profitability and to applicable laws and regulations. Furthermore, under applicable PRC laws, rules and regulations, payment of dividends by our PRC subsidiaries is permitted only out of their retained earnings, if any, determined in accordance with PRC accounting standards. Under PRC laws, rules and regulations, all of our PRC subsidiaries are required to set aside at least 10% of their after-tax profit based on PRC accounting standards each year to their respective statutory capital reserve funds until the accumulative amount of such reserves reaches 50% of their respective registered capital. As a result, all of our PRC subsidiaries are restricted in their ability to transfer a portion of their net income to us whether in the form of dividends, loans or advances. The outstanding indebtedness of the subsidiaries, associates and joint ventures of the Guarantor may contain covenants restricting the ability of such entity to pay dividends in certain circumstances for so long as such indebtedness remains outstanding. Moreover, the Guarantor's percentage interests in its subsidiaries, associates and joint ventures could be reduced in the future.

China Merchants Group Limited is the controlling shareholder of the Group

CMG, a state-owned enterprise directly under the regulatory jurisdiction of the PRC government, directly and indirectly controls or holds equity interests in a diverse range of businesses including logistics, shipping, financial services, toll roads and properties. CMG, directly and indirectly, including through China Merchants Union (BVI) Limited ("**CMU**"), has the power to direct voting right over approximately 61.81% of the total issued share capital of the Guarantor and, as a result, the PRC government indirectly controls the Guarantor. For example, CMG and CMU influence the Guarantor's overall corporate planning, including new acquisitions, the appointment of the Guarantor's Board of Directors and senior management and the Guarantor's capital expenditure and budgeting.

Although the Guarantor believes that its relationship with CMG provides it with significant business advantages, the relationship results in various related or connected party transactions. CMG is a connected person of the Guarantor for the purposes of the Listing Rules and, accordingly, any transactions entered into between the Guarantor and/or its subsidiaries and CMG and/or its subsidiaries or associates are connected transactions which, unless one of the exemptions is available or relevant waivers are applied for and granted, will be subject to the relevant requirements of Chapter 14A of the Listing Rules. These requirements include the issuance of press notices, the obtaining of independent shareholders' approval at general meetings and disclosure in annual reports and accounts. In addition, the strategic goals and interests of CMG may not always be aligned with the Group's strategies and interests and no assurance can be given that the interests of the Guarantor's controlling shareholders will be the same as those of the holders of the Notes.

Members of the board of Directors of the Guarantor are also officers and directors of CMG

Certain directors of the Guarantor serve as directors or officers of CMG, the major shareholder of the Guarantor. Thus, some of the Directors of the Guarantor will not be exclusively devoted to the businesses of the Group. Although the Listing Rules require that transactions between connected persons be conducted on an arms' length basis, such Directors' positions at CMG may create conflicts of interest. See "Directors and Senior Management."

The Group's future financial position and results of operations may differ materially from that reflected in the PRC GAAP Consolidated Financial Information published elsewhere

In connection with the material asset reorganisation involving Shenzhen Chiwan and pursuant to the relevant PRC regulatory requirements applicable to Shenzhen Chiwan, the Guarantor published an announcement on 15 June 2018 on the Hong Kong Stock Exchange website the PRC GAAP Consolidated Financial Information. In preparing the PRC GAAP Consolidated Financial Information, adjustments have been made to the Group's historical financial information based on currently available information and on assumptions that the Group's management believes are reasonable in order to reflect, on a pro forma basis, the impact of the reorganisation involving Shenzhen Chiwan on the financial results of the Group. The information upon which these adjustments and assumptions has been made is preliminary, and such adjustments and assumptions are difficult to make with complete accuracy. As a result, the actual financial condition and results of operations upon completion of the proposed reorganisation involving Shenzhen Chiwan may not be consistent with, or evident from, the PRC GAAP Consolidated Financial Information. In addition, the assumptions used in preparing the PRC GAAP Consolidated Financial Information may not prove to be accurate, and other factors may also affect the Group's financial condition and results of operations. As such, potential investors are cautioned not to place undue reliance on the PRC GAAP Consolidated Financial Information.

Furthermore, the PRC GAAP Consolidated Financial Information has been audited and prepared on the basis set out therein in conformity with the PRC GAAP. PRC GAAP differs in certain material respects from HKFRS based on which the audited consolidated financial statements of the Guarantor as at and for the years ended 31 December 2016 and 2017 were prepared and presented. As such, potential investors are cautioned to take into account the incomparability caused by such differences and not to place undue reliance on the PRC GAAP Consolidated Financial Information, and are advised to consult their respective independent financial advisers for an understanding of the differences between PRC GAAP and HKFRS and how those differences might affect the financial information contained in this Offering Memorandum.

Risks Relating to the PRC and Hong Kong

The PRC's economic, political and social conditions, as well as government policies, could affect the Group's business

The Group derives a substantial portion of its revenues from its operations in the PRC. The Group's financial condition, operating results and future prospects will, accordingly, be subject to economic, political and legal developments in the PRC, as well as in the economies of the surrounding region. The following conditions and developments in the PRC may materially adversely affect the Group's financial condition, operating results and future prospects:

- inflation, interest rates and general economic conditions;

- the introduction of economic policies to control inflation or stimulate growth, change the rate or method of taxation or impose additional restrictions on currency conversions and remittances abroad, where the government has periodically taken measures to slow economic growth to a more manageable level, in response to concerns about the PRC's historical high growth rate in industrial production, bank credit, fixed investment and money supply;

- the structure of the economy, where the economy has been transitioning from a planned economy to a market-oriented economy, but the government still controls a substantial portion of productive assets, continues to play a significant role in regulating industries through industrial policies and exercises significant control over growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies;

- demographic factors in the PRC which has a rapidly growing population requiring rapid economic growth to assure employment and stability;

- governmental policies, laws and regulations, including, without limitation, those relating to foreign investment anti-trust, or classification of industries, and changes to such policies, laws and regulations and their implementation and interpretation, which could prevent, delay, increase the cost of or otherwise adversely affect the Group's ability to invest in, acquire or divest, develop, operate or manage its facilities;

- certain recent changes in PRC tax law and proposed application and/or interpretation of these laws could increase the Group's PRC tax liability;

- the risk of nationalisation and expropriation of assets;

- currency controls and other regulations, which may affect the Guarantor's ability to receive distributions or other dividends from the Guarantor's subsidiaries or other entities in which it may have any interest, to borrow onshore or offshore where the facility or the relevant subsidiary or entity is located, or to carry out acquisition, divestment and capital expenditure plans; and

- political and other conditions.

While the PRC economy has experienced significant growth in the past 20 years, growth has been uneven, both geographically and among the various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also have a negative effect on the operations of the Group. For example, the Group's financial condition and results of operations may be adversely affected by the PRC government's control over capital investments or any changes in tax regulations, labour regulations or foreign exchange controls that are applicable to the Group.

The PRC economy has been transitioning from a planned economy to a more market-orientated economy. Although, in recent years, the PRC government has implemented measures emphasising the utilisation of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of productive assets in the PRC is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating the development of industries in the PRC by imposing top-down policies. It also exercises significant control over the PRC's economic growth through the allocation of resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

Under the Enterprise Income Tax Law, the Issuer may be classified as a "resident enterprise" of the PRC. Such classification could result in unfavourable tax consequences to the Issuer and its non-PRC Noteholders

Under the Enterprise Income Tax Law (the "**EIT Law**") of the PRC, an enterprise established outside the PRC with a "de facto management body" within the PRC is deemed a "resident enterprise", meaning that it can be treated as a PRC enterprise for enterprise income tax purposes, although dividends paid from one resident enterprise to another may qualify as "tax-exempt income". The implementing rules of the EIT Law define "de facto management" as "substantial and overall management and control over the production and operations, personnel, accounting, and properties" of the enterprise. A circular issued by the State Administration of Taxation ("**SAT**") on 22 April 2009 (the "**Circular 82**") which came into effect as of 1 January 2008 provides that a foreign enterprise controlled by a PRC company or a PRC company group will be treated as a "resident enterprise" with a "de facto management body" located within the PRC if all of the following requirements are satisfied at the same time: (i) the senior management and core management departments in charge of daily operations are located mainly within the PRC; (ii) financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (iii) major assets, accounting books, company seals and minutes and files of board and shareholders' meetings are located or kept within the PRC; and (iv) at least half of the enterprise's directors with voting rights or senior management frequently reside within the PRC.

On 27 July 2011, the State Administration of Taxation promulgated the Provisional Administrative Regulations of Enterprise Income Taxation of a Foreign Enterprise Controlled by a PRC Enterprise or a PRC Enterprise Group ("**Circular 45**") which came into effect as of 1 September 2011, to further prescribe the rules concerning the recognition, administration and taxation of a foreign enterprise "controlled by a PRC enterprise or PRC enterprise group". Circular 45 identifies and defines two ways for a foreign enterprise "controlled by a PRC enterprise or a PRC enterprise group" to be treated as a resident enterprise. First, the foreign enterprise may decide on its own whether its de facto management body is located in the PRC based on the criteria set forth in Circular 82, and, if it makes such determination, it shall apply to the competent tax bureau to be treated as a resident enterprise. Second, the tax authority may determine that the foreign enterprise is a resident enterprise following an investigation.

The Issuer and the Guarantor believe that the Issuer is currently not a "resident enterprise", and as confirmed by the Issuer and the Guarantor, as at the date of this Offering Memorandum, neither the Issuer nor the Guarantor has been notified or informed by the PRC tax authorities that the Issuer is considered as a "resident enterprise" for the purpose of the EIT Law. However, neither the Issuer nor the Guarantor can assure Noteholders that the Issuer will not be deemed a "resident enterprise" under the EIT Law and other applicable implementation regulations and, therefore, be subject to enterprise income tax at a rate of 25% on its global income in the future.

If the Issuer is not considered to be a "resident enterprise" for EIT Law purposes, the payment of interest on the Notes to the overseas Noteholders will not be subject to PRC withholding tax. Under the EIT Law and the implementation regulations thereunder, PRC withholding tax at a rate of 10% is normally applicable to PRC-source income derived by non-PRC resident enterprises or individuals, subject to adjustment by applicable treaty. The EIT Law's implementation regulations further set forth that interest income is viewed as PRC-source income if the enterprise or the establishment that pays or bears the interest is situated in the PRC. If the Issuer is deemed a PRC resident enterprise for tax purposes, interest paid to non-PRC resident Noteholders may be regarded as PRC-sourced and therefore be subject to PRC withholding tax at a rate of 10% for enterprise Noteholders and 20% for individual Noteholders (or a lower treaty rate, if any).

Any gains realised on the transfer of the Notes by such Noteholders may also be subject to PRC income tax at a rate of 10% for enterprise Noteholders or 20% for individual Noteholders, if such gains are regarded as PRC-sourced. According to an arrangement between the PRC and Hong Kong for the avoidance of double taxation, Noteholders who are Hong Kong residents, including both enterprise holders and individual holders, will be exempted from PRC income tax on capital gains derived from a sale or exchange of the Notes.

If a Noteholder, being a non-PRC resident enterprise or non-PRC resident individual, is required to pay any PRC income tax on capital gains on the transfer of the Notes, the value of the relevant Noteholder's investment in the Notes may be materially and adversely affected.

The Group is exposed to foreign exchange risks

Most of the transactions of the Group are denominated in Renminbi, Hong Kong dollars or US dollars. The Group is exposed to foreign exchange risk primarily through sales and purchases, capital expenditures and expenses that are denominated in a currency other than the functional currency of the relevant company in the Group. The Group considers that its foreign currency exposure mainly arises from the exposure of Renminbi against the Hong Kong dollar and the US dollar. Less than 50% of the Group's borrowings (including inter-Group loans) as at 31 December 2017 were denominated in US dollars while the remaining borrowings were denominated in other currencies including Euro and Renminbi. The majority of the Group's operating subsidiaries draw loans in their functional currencies to finance their funding requirements.

As the Hong Kong dollar is pegged to the US dollar, the Group has a limited exposure to transactions denominated in United States dollars, which are entered by Group companies with a functional currency of Hong Kong dollars. Since 1983, the Hong Kong dollar has been officially linked to the US dollar at the rate of HK$7.80 to US$1.00 through the operation of a strict currency board system. Since then, the market exchange rates have stayed close to HK$7.80 = US$1.00.

On 21 July 2005, the People's Bank of China (the "**PBOC**") announced changes to the Renminbi exchange rate regime. From that date onwards, the PRC moved into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies so, that Renminbi would no longer be pegged specifically to the US dollar. The current exchange rate regime does not constitute a strict peg of the Renminbi to the basket of currencies, but instead the Renminbi is allowed to fluctuate within a narrow +/-0.3% range around a central parity rate defined as the previous day's closing CNY/US$ rate. The reference basket will be used as a guide as to whether the CNY/US$ rate should rise or fall. At 7.00pm on 21 July 2005, the PBOC announced an initial appreciation of the Renminbi by approximately 2% against the US dollar. On 18 May 2007, the PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the US dollar from 0.3% to 0.5% around the central parity rate, effective 21 May 2007. This allows the Renminbi to fluctuate against the US dollar by up to 0.5% above or below the central parity rate published by the PBOC. The floating band was further widened to 1.0% on 16 April 2012 and to 2.0% on 17 March 2014. The PBOC surprised markets in August 2015 by thrice devaluing the Renminbi, lowering its daily mid-point trading price significantly against the US dollar. The currency devaluation of the Renminbi was intended to bring it more in line with the market by taking market signals into account. Renminbi depreciated significantly against the US dollar following this August 2015 announcement by the PBOC. In January and February 2016, Renminbi experienced further fluctuation in value against the US dollar. The International Monetary Fund announced on 30 September 2016 that the Renminbi joined its Special Drawing Rights currency basket. The PRC government has made, and in the future may make, further adjustments to the exchange rate system. For instance, the PBOC has introduced a series of measures to facilitate the reform of the Renminbi exchange rate regime, including the introduction of financial derivative products, such as currency swaps in the domestic market, the relaxation on Renminbi trading by non-financial institutions and the introduction of market-makers, comprising both domestic and foreign banks, for the trading of Renminbi.

As the Renminbi exchange rate is no longer fixed and is now allowed to fluctuate within a range around a central parity rate, any volatility of the Renminbi exchange rate and any continued depreciation of the Renminbi in the future may materially affect the Group's business, financial position, operating results and future prospects and any devaluation of the Renminbi against the Hong Kong dollar and the US dollar will increase the amount of Renminbi the Group would need to service its obligations denominated in Hong Kong dollars or US dollars.

A significant proportion of the Group's revenue is denominated in Renminbi, which is not freely convertible for capital account transactions

The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of the PRC. A significant proportion of the Group's revenue is denominated in Renminbi and must be converted to pay dividends or make other payments in freely convertible currencies, including payments on the Notes. Under the PRC's foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade, may be made in foreign currencies without prior approval, subject to certain procedural requirements. However, foreign exchange controls continue for capital account transactions, including repayment of indebtedness denominated in foreign currencies, including the Notes, and return of direct capital investments and investments in negotiable securities. The restrictions on foreign exchange transactions under capital accounts could also affect the Guarantor's PRC subsidiaries' ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from the Guarantor. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. Shortages in the availability of foreign currency may restrict the ability of the Guarantor's PRC subsidiaries to remit sufficient foreign currency to pay dividends or make other payments to the Guarantor, or otherwise satisfy their foreign currency denominated obligations, if any. In the past, there have been shortages of US dollars or other foreign currency available for conversion of Renminbi in the PRC, and it is possible such shortages could recur, or that restrictions on conversion could be re-imposed. If the foreign exchange control system prevents the Guarantor from obtaining sufficient foreign currency to satisfy its currency demands, the Guarantor's PRC subsidiaries may not be able to pay dividends in foreign currencies to the Guarantor, which could adversely affect the Guarantor's ability to make payments under the Guarantee or make payments on the Notes through the Issuer.

The Group may not be able to fully detect money laundering and other illegal or improper activities in its business operations on a timely basis

The Group is required to comply with applicable anti-money laundering, anti-terrorism laws and other regulations in the PRC and other relevant jurisdictions. The Group's current internal policies and procedures may not detect all instances where the Group may be used by other parties to engage in money laundering and other illegal activities. In the event that the Group fails to detect money laundering or other illegal activities or fails to fully comply with applicable laws and regulations, the relevant government agencies may freeze the Group's assets or impose fines or other penalties on it. Any of these may materially and adversely affect the Group's business reputation, financial condition and results of operations and may also materially and adversely affect the Issuer's performance under the Notes.

The Group may be involved in disputes, legal and other proceedings arising out of its operations from time to time and may face significant liabilities as a result

The Group may from time to time be involved in disputes with various parties involved in its businesses, including contractors, customers and suppliers. Such disputes may lead to legal or other proceedings and they may damage the Group's reputation, increase the Group's costs of operations and divert the Group's management attention from daily business operations. In addition, where regulatory bodies or governmental authorities disagree with the Group in respect of its operations, the Group may be subject to administrative proceedings and unfavourable decrees that could result in liabilities and delays to its projects. There can be no assurance that the Group will not be so involved in any major legal or other proceedings in the future which may subject the Group to any significant liabilities and this may materially and adversely affect the Issuer's performance under the Notes.

The Group is becoming increasingly reliant on information technology systems for its business and any information technology system limitations or failures could adversely affect its business, financial condition and results of operations

One of the Group's major strategies is to promote business innovation within its operations and in particular, to deploy sophisticated technology in order to establish a comprehensive port services ecosystem. As the Group becomes more reliant on technology, it will naturally also become more exposed to the risks associated with disruptions to such technology. If the Group's information technology systems cannot effectively address issues arising from any increase in business volumes or otherwise fail to perform, the Group could experience unanticipated disruptions in business, slower response times and limitations on the Group's ability to monitor and manage data and risk exposures, control financial and operation conditions, and keep accurate records. These consequences could result in operating outages, poor operating performance, financial losses, and intervention from regulatory authorities. Moreover, the Group may need to expand or upgrade its technology systems and network infrastructure. There can be no assurance that the Group will be able to accurately project the rate, timing or cost of any such expansions or upgrades and this may adversely affect the Group's business, results of operations and financial condition and the Issuer's performance under the Notes.

The legal system in the PRC is less developed than in certain other countries and laws in the PRC may not be interpreted and enforced in a consistent manner

The PRC legal system is a civil law system. Unlike the common law system, the civil law system is based on written statutes in which decided legal cases have little value as precedents. Since 1979, the PRC government has begun to promulgate a comprehensive system of laws and has introduced many new laws and regulations to provide general guidance on economic and business practices in the PRC and to regulate foreign investment. Progress has been made in the promulgation of laws and regulations dealing with economic matters such as corporate organisation and governance, foreign investment, commerce, taxation and trade. The promulgation of new changes to existing laws and the abrogation of local regulations by national laws could have a negative impact on the business and prospects of the Guarantor and its subsidiaries, associates and joint ventures. In addition, as these laws, regulations and legal requirements are relatively recent, their interpretation and enforcement may involve significant uncertainty. The interpretation of PRC laws may be subject to policy changes, which reflect domestic political changes. As the PRC legal system develops, the promulgation of new laws, changes to existing laws and the pre-emption of local regulations by national laws may have an adverse effect on the Group's prospects, financial condition and operating results.

It may be difficult to enforce any judgments obtained from non-PRC courts against the Group in the PRC

A substantial portion of the Group's assets is located within the PRC. The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United Kingdom, Japan or other countries. Therefore, it may be difficult for investors to enforce against the Group in the PRC any judgments obtained from non-PRC courts.

Any changes to laws, regulations and government policies governing the ports terminal industry in the PRC may have a material adverse effect on the business and operations of the Group

Any changes to laws, regulations and policies governing the port terminal industry in China may have a material adverse effect on the Group's business and operations. The Ministry of Communication ("**MOC**") and other relevant government departments currently formulate port dues and charges chargeable by port terminal operators. Exports or imports of cargo must undergo customs and excise, quarantine procedures and government inspection. Construction of the Group's port infrastructure and facilities is subject to environmental and urban planning laws and procedures. The administration and changes of these laws or procedures may adversely affect the efficiency of the operations of the Group.

Further, the Group operates its business pursuant to licences granted by various PRC government authorities. If these approvals or licences were revoked or suspended as a result of any changes in laws, regulations or government policies, the business and operations of the Group may be materially and adversely affected.

The imposition of or increase in the level of trade barriers, restrictions on exports or imports or trade disputes may adversely affect the business of the Group

Some countries may impose tariffs or non-tariff barriers to restrict the flow of imported products into their local markets. Such trade barriers or any trade dispute may hinder international trade and the volume of shipments, which may in turn adversely affect the business of the Group, in particular its ports and logistics related businesses, which are highly dependent on the volume of import and export trade. Any imposition of trade barriers or other restriction on the import or export of goods into or out of the PRC may have a material adverse effect on the Group's business, financial position and operating results, as well as the Group's future prospects.

The ports industry in the PRC and abroad is a highly regulated industry

The ports industry in the PRC and abroad is highly regulated. In the PRC, operators are required to obtain a port operation licence as well as to comply with strict regulations in respect of, among other things, operational management, supervision, inspection and the loading, unloading and storage of hazardous goods. One of the key areas in which regulation affects ports operators is with respect to fees and charges. The MOC, the administrative body in charge of the ports industry in the PRC, together with the NDRC, are responsible for setting ports fees and charges, other than fees and charges for domestic non-containerised cargo handling which have recently been liberalised. Ports operators must, with limited exceptions, set their fees and charges for services other than domestic non-containerised cargo handling in accordance with the fees and charges determined by the MOC and the NDRC. As such, operators have limited room to compete with each other on the basis of price and instead must rely on service levels and efficiency. In addition, the Group's other ports operation abroad are also subject to various degree of regulations and licensing requirements.

Furthermore, as a result of terrorist activities and increased security concerns, there is a global move towards increased inspection procedures and tighter import/export controls and safety regulations. Although there are currently no specific regulations or compliance procedures that affect the Group in this regard, it cannot assure investors that such regulations or procedures will not be introduced in the future. If the additional compliance costs of any such regulations or procedures cannot be recovered through higher ports fees and charges, the operating margins of port operators may be adversely affected.

Risks Relating to the Notes

An active trading market for the Notes may not develop

The Notes are a new issue of securities for which there is currently no trading market. Application has been made to the Hong Kong Stock Exchange for the Notes to be admitted for trading on the Hong Kong Stock Exchange. No assurance can be given that an active trading market for the Notes will develop or as to the liquidity or sustainability of any such market, the ability of holders to sell their Notes or the price at which holders will be able to sell their Notes. The Joint Lead Managers are not obliged to make a market in the Notes and any such market-making, if commenced, may be discontinued at any time at the sole discretion of the Joint Lead Managers.

The price of the Notes may be volatile

The price of the Notes may be volatile. Factors such as variations in the Group's revenues, earnings and cash flows and proposals for new investments, strategic alliances and/or acquisitions, interest rates, fluctuations in price for comparable companies and government regulations and changes thereof applicable to the Group's industry and general economic conditions nationally or internationally could cause the price of the Notes to change. Any such developments may result in large and sudden changes in the price of the Notes. There is no assurance that these developments will not occur in the future.

Any failure to complete the relevant filings with the NDRC Circular within the prescribed time frame following the completion of the issuance of the Notes may have adverse consequences for the Issuer, the Guarantor and/or investors of the Notes

The NDRC issued the NDRC Circular on 14 September 2015, which came into effect on the same day. According to the NDRC Circular, domestic enterprises and their overseas controlled entities shall procure the registration of any debt securities issued over one year outside the PRC with the NDRC prior to the issue of the securities and notify the particulars of the relevant issues within 10 working days after the completion of the issue of the securities.

The NDRC Circular is silent on the legal consequences of noncompliance with the pre-issue registration requirement. The Guarantor has obtained the NDRC Pre-issuance Registration Certificate on 1 July 2018. Similarly, the legal consequences of non-compliance with the post-issue notification requirement under the NDRC Circular are unclear. In the worst case scenario, such non-compliance with the post-issue notification requirement under the NDRC Circular may result in it being unlawful for the Issuer and/or the Guarantor to perform or comply with any of its obligations under the Notes and the Notes might be subject to enforcement as provided in Condition 13 of the Terms and Conditions of the Notes. Potential investors of the Notes are advised to exercise due caution when making their investment decisions. The Guarantor has undertaken to file or cause to be filed with the NDRC of the particulars of the issue of the Notes within the prescribed timeframe after the date of issuance and shall comply with all applicable PRC laws and regulations in connection with the NDRC Post-issue Filing.

The Notes will be effectively subordinated to all of the liabilities of its subsidiaries and affiliates

The Issuer is a wholly-owned subsidiary of the Guarantor formed for the principal purposes of issuing the Notes and will on-lend the entire proceeds from the issue of the Notes to the Guarantor and its subsidiaries. The Issuer does not and will not have any net assets other than such on-lent loans and its ability to make payments under the Notes depends on timely payments under such loans. In the event that the Guarantor and its subsidiaries do not make such payments due to limitation in such loans or other agreements, lack of available cashflow or other factors, the Issuer's ability to make payments under the Notes could be adversely affected.

The Guarantor is primarily a holding company and its ability to make payments in respect of the Guarantee or to fund payments by the Issuer depends largely upon the receipt of dividends, distributions, interest or advances from its wholly or partly owned subsidiaries, its associated companies and the Group's joint ventures. The ability of the subsidiaries and associated companies of the Guarantor and the Group's joint ventures to pay dividends and other amounts to the Guarantor may be subject to their profitability and to applicable laws and to restrictions on the payment of dividends contained in financing or other agreements. Payments under the Guarantee are structurally subordinated to all existing and future liabilities and obligations of each of the Guarantor's subsidiaries (other than the Issuer), its associated companies and the Group's joint ventures. Claims of creditors of such companies will have priority as to the assets of such companies over the Guarantor and its creditors, including holders of the Notes seeking to enforce the Guarantee.

The terms of the Notes do not restrict the ability of the Guarantor's subsidiaries, associated companies and joint ventures to incur additional debt. In addition, further issues of equity interests by such subsidiaries, associated companies and joint ventures may dilute the ownership interest of the Guarantor in such entities.

The ratings assigned to the Notes may be lowered or withdrawn in the future

The Notes are expected to be rated "Baa1" by Moody's and "BBB" by S&P. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the relevant rating organisation. Any suspension, reduction or withdrawal at any time of a rating assigned to the Notes may adversely affect the market price of the Notes.

The Issuer may not be able to repurchase the Notes upon a Change of Control Triggering Event

The Issuer must offer to purchase the Notes upon the occurrence of a Change of Control Triggering Event, at a purchase price equal to 101% of the principal amount, together with accrued interest. See "Terms and Conditions of the Notes" and "Terms and Conditions of the Notes".

The Issuer and the Guarantor have agreed in the Terms and Conditions that they will, in a timely manner, repay all Indebtedness or obtain consents as necessary under, or terminate, agreements or instruments that would otherwise prohibit a Change of Control Offer being made pursuant to the Terms and Conditions. Notwithstanding this agreement of the Issuer and the Guarantor, it is important to note that if the Issuer or the Guarantor is unable to repay (or cause to be repaid) all of the Indebtedness, if any, that would prohibit repurchase of the Notes or is unable to obtain the requisite consents of the holders of such Indebtedness, or terminate any agreements or instruments that would otherwise prohibit a Change of Control Offer, the Issuer may continue to be prohibited from purchasing the Notes. In that case, the failure to purchase tendered Notes may constitute an Event of Default under the Terms and Conditions.

Certain of the events constituting a Change of Control under the Notes will also constitute an event of default under certain debt instruments of the Issuer, the Guarantor and its Subsidiaries. Future debt of the Issuer and the Guarantor may also (1) prohibit them from purchasing Notes in the event of a Change of Control; (2) provide that a Change of Control is a default; or (3) require repurchase of such debt upon a Change of Control. Moreover, the exercise by the Noteholders of their right to require the Issuer to purchase the Notes could cause a default under other indebtedness of the Issuer or the Guarantor, even if the Change of Control itself does not, due to the financial effect of the purchase on the Issuer and the Guarantor.

The source of funds for any purchase of the Notes upon the occurrence of a Change of Control Triggering Event would be the Issuer's available cash or third-party financing. However, the Issuer may not have sufficient available funds at the time of the occurrence of any Change of Control Triggering Event to make purchases of the outstanding Notes. A failure to make the offer to purchase or purchase the outstanding Notes would constitute an Event of Default under the Terms and Conditions. The Event of Default may, in turn, constitute an event of default under other indebtedness of the Issuer, the Guarantor and its material subsidiaries, any of which could cause the related debt to be accelerated after any applicable notice or grace periods. If the Issuer's or the Guarantor's other debt were to be accelerated, the Issuer and the Guarantor may not have sufficient funds to purchase the Notes and repay the debt.

The definition of Change of Control Triggering Event also does not necessarily afford protection for the holders of the Notes in the event of some highly leveraged transactions, including certain acquisitions, mergers, refinancings, restructurings or other recapitalisations, although these types of transactions could increase the Issuer's or the Guarantor's indebtedness or otherwise affect their capital structure or credit ratings. The definition of Change of Control also includes a phrase relating to the sale of "all or substantially all" the properties or assets of the Guarantor and its subsidiaries. Although there is a limited body of case law interpreting the phrase "substantially all," no precise definition of the phrase has been established. Accordingly, the ability of a Noteholder to require the Issuer to repurchase such holder's Notes as a result of a highly-leveraged transaction or a sale of less than all the properties or assets of the Guarantor and its subsidiaries to another person or group is uncertain and will be dependent upon particular facts and circumstances.

The insolvency laws of the British Virgin Islands and other local insolvency laws may differ from the bankruptcy laws of other jurisdictions with which the holders of the Notes are familiar

Because the Issuer is incorporated under the laws of the British Virgin Islands, any insolvency proceedings relating to the Issuer, regardless of where they were brought, would likely involve British Virgin Islands insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of bankruptcy laws in other jurisdictions. In addition, the Guarantor is incorporated in the Hong Kong and the insolvency laws of Hong Kong may also differ from the laws of other jurisdictions with which the holders of the Notes are familiar.

A tax for withholding may be payable under the United States Foreign Account Tax Compliance Act if an investor or custodian of the Notes is unable to receive payments free of withholding.

Whilst the Notes are in global form and held within the Clearing Systems, in all but the most remote circumstances, it is not expected that the United States Foreign Account Tax Compliance Act ("**FATCA**") will affect the amount of any payment received by the Clearing Systems (see "Taxation — FATCA"). However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA), provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them. The Issuer's and the Guarantor's obligations under the Notes and the Guarantee of the Notes are discharged once they have made payments to, or to the order of, the common depositary for the Clearing Systems (as registered holder of the Notes) and the Issuer and the Guarantor have therefore no responsibility for any amount thereafter transmitted through the Clearing Systems and custodians or intermediaries. Further, foreign financial institutions in a jurisdiction which has entered into an intergovernmental agreement with the United States (an "**IGA**") are generally not expected to be required to withhold under FATCA or an IGA (or any law implementing an IGA) from payments they make.

USE OF PROCEEDS

The net proceeds of the issue of the Notes, after deducting underwriting commissions and other estimated expenses payable by the Group, are expected to total approximately US$ million. The net proceeds will be used for general corporate purposes by the Group, including the repayment of existing indebtedness.

CAPITALISATION OF THE GUARANTOR

The following table sets out the consolidated capitalisation and short-term loans of the Guarantor as at 31 December 2017 as extracted from the Guarantor's audited consolidated financial statements as at and for the year ended 31 December 2017 and as adjusted to reflect the issue of the Notes before deducting the underwriting commissions and other estimated expenses payable by the Issuer and Guarantor:

	As at 31 December 2017			
	Actual		As adjusted	
	HK$ million	US$ million(12)	HK$ million	US$ million(12)
Short-term bank loans (including current portion of long term bank loans)(1)	1,631	209	1,631	209
2018 USD Notes(2)	1,562	200	1,562	200
2018 RMB Notes(3)	418	54	418	54
Loans from an intermediate holding company	120	15	120	15
Loans from a fellow subsidiary	2,261	289	2,261	289
Loan from an associate	276	35	276	35
Amounts due to fellow subsidiaries	193	25	193	25
Total short-term loans	6,461	827	6,461	827
Long-term bank loans (net of current portion)	9,116	1,167	9,116	1,167
2019 RMB Notes(4)	358	46	358	46
2020 USD Notes(5)	1,558	199	1,558	199
2022 RMB Notes(6)	2,991	383	2,991	383
2022 USD Notes(7)	3,877	496	3,877	496
2025 USD Notes(8)	3,888	498	3,888	498
Loans from non-controlling equity holders of subsidiaries	445	57	445	57
Loans from an intermediate holding company	59	8	59	8
Notes to be issued	—	—		
Notes to be issued	—	—		
Total long-term loans(9)	22,292	2,854		
Total shareholders' funds(10)	73,447	9,401	73,447	9,401
Total capitalisation(11)	95,739	12,255		

Notes:

(1) During the six-month period ended 30 June 2018, the Guarantor has drawn additional bank loans amounting to US$1,690 million.

(2) Notes in the aggregate principal amount of US$200 million were issued by CMHI Finance (BVI) Co., Ltd, a wholly-owned subsidiary of the Guarantor, on 18 June 2018 (the "**2018 USD Notes**"). The 2018 USD Notes were issued at a price of 99.073% of their principal amount with a coupon rate of 7.125% per annum. The 2018 USD Notes bear interest from 18 June 2008, payable semi-annually in arrear on 18 June and 18 December of each year. The 2018 USD Notes are unconditionally and irrevocably guaranteed by the Guarantor and listed on the Hong Kong Stock Exchange. The 2018 USD Notes has been matured on 18 June 2018.

(3) The Group has issued unlisted notes of 6.38% RMB250 million on 23 March 2015 and 4.74% RMB100 million on 21 August 2017 (together, the "**2018 RMB Notes**"). The 2018 RMB Notes have matured on 24 March 2018 and 20 May 2018.

(4) The Group has issued unlisted notes of 2.97% RMB300 million on 11 October 2016 with maturity date on 13 October 2019 (the "**2019 RMB Notes**").

(5) Notes in the aggregate principal amount of US$200 million were issued by China Merchants Finance Company Limited, a wholly-owned subsidiary of the Guarantor, on 3 August 2015 (the "**2020 USD Notes**"). The 2020 USD Notes were issued at a price of 99.795% of their principal amount with a coupon rate of 3.50% per annum. The 2020 USD Notes bear interest from 3 August 2015, payable semi-annually in arrear on 3 February and 3 August of each year. The 2020 USD Notes are unconditionally and irrevocably guaranteed by the Guarantor and listed on the Hong Kong Stock Exchange. Unless previously redeemed or repurchased by the Guarantor, the 2020 USD Notes will mature on 3 August 2020 at their principal amount.

(6) The Group has issued unlisted notes of 4.89% RMB2,500 million on 19 April 2017 with maturity date on 21 April 2022 (the "**2022 RMB Notes**").

(7) Notes in the aggregate principal amount of US$500 million were issued by the China Merchants Finance Company Limited, a wholly-owned subsidiary of the Guarantor, on 4 May 2012 (the "**2022 USD Notes**"). The 2022 USD Notes were issued at a price of 98.877% of their principal amount with a coupon rate of 5.00% per annum. The 2022 USD Notes bear interest from 4 May 2012, payable semi-annually in arrear on 4 May and 4 November of each year. The 2022 USD Notes are unconditionally and irrevocably guaranteed by the Guarantor and listed on the Hong Kong Stock Exchange. Unless previously redeemed or repurchased by the Guarantor, the 2022 USD Notes will mature on 4 May 2022 at their principal amount.

(8) Notes in the aggregate principal amount of US$500 million were issued by China Merchants Finance Company Limited, a wholly-owned subsidiary of the Guarantor, on 3 August 2015 (the "**2025 USD Notes**"). The 2025 USD Notes were issued at a price of 99.748% of their principal amount with a coupon rate of 4.75% per annum. The 2025 USD Notes bear interest from 3 August 2015, payable semi-annually in arrear on 3 February and 3 August of each year. The 2025 USD Notes are unconditionally and irrevocably guaranteed by the Guarantor and listed on the Hong Kong Stock Exchange. Unless previously redeemed or repurchased by the Guarantor, the 2025 USD Notes will mature on 3 August 2025 at their principal amount.

(9) During the three-month period ended 31 March 2018, the Group has issued additional notes of 5.15% RMB500 million on 6 February 2018 with maturity date on 6 February 2021.

(10) Total shareholders' funds comprise ordinary shares, capital reserves, investment revaluation reserve, translation reserves, statutory reserves and retained earnings.

(11) Total capitalisation comprises long-term loans (net of current portion) and shareholder's funds.

(12) Calculated based on an exchange rate of HK$7.8128 to US$1.00.

Save as disclosed above, there has been no material change in the consolidated capitalisation of the Guarantor since 31 December 2017.

DESCRIPTION OF THE ISSUER

Formation

CMHI Finance (BVI) Co., Ltd is a limited liability company incorporated under the BVI Business Companies Act, 2004 (as amended) of the British Virgin Islands (BVI Company Number: 1479565). It was incorporated in the British Virgin Islands on 1 May 2008 under the name BIG FORCE INTERNATIONAL LIMITED and changed its name on 2 June 2008 to CMHI Finance (BVI) Co., Ltd. The Issuer is a wholly-owned subsidiary of the Guarantor.

Business Activity

The Issuer was established for the purpose of issuing the Notes and advancing the proceeds to the Guarantor and/or its subsidiaries. The Issuer has not engaged, since the date of its incorporation, in any other material activities other than those relating to the proposed issue of Notes and the on-lending of the proceeds thereof to the Guarantor and/or any other subsidiary of the Guarantor, and the authorisation of documents and agreements referred to in this Offering Memorandum to which it is or will be a party.

Financial Statements

Under British Virgin Islands law, the Issuer is not required to publish interim or annual financial statements. The Issuer has not published, and does not propose to publish, any financial statements. The Issuer is, however, required to keep proper records and underlying documentation in such form as are sufficient to show and to explain its transactions and which will, at any time, enable the financial position of the Issuer to be determined with reasonable accuracy.

Directors and Officers

The directors of the Issuer as at the date of this Offering Memorandum are Mr. Sun Ligan and Mr. Zheng Shaoping. The registered office address of the directors is 38/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road, Central, Hong Kong. The Issuer has no employees.

Shares

The Issuer is authorised under its memorandum of association to issue a maximum of 50,000 shares of US$1.00 par value each and one share has been issued to, and is held by, the Guarantor. The register of members of the Issuer is maintained at its registered office in the British Virgin Islands at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands. No part of the equity securities of the Issuer is listed or dealt on any stock exchange and no listing or permission to deal in such securities is being or is proposed to be sought. As of the date of this Offering Memorandum, the Issuer does not have any debt outstanding other than the Notes to be issued.

There has been no material change in the capitalisation of the Issuer since the date of its incorporation, except for the proposed issue of the Notes.

DESCRIPTION OF THE GUARANTOR

Introduction

The Guarantor, together with its subsidiaries (the "**Group**"), and together with the Group's associates and joint ventures, is primarily engaged in the business of ports and port-related services. The Group is one of the leading ports operators in the PRC. It has interests in a number of ports strategically located in Hong Kong and Shenzhen in the Pearl River Delta, Ningbo and Shanghai in the Yangtze River Delta, Dalian, Qingdao and Tianjin in the Bohai Rim, Zhangzhou and Shantou in the south-eastern and Zhanjiang in the south-western regions of mainland China, respectively. In addition to its domestic ports network, the Group and the Group's associates and joint ventures have interests in multiple ports located in Australia, Brazil, Djibouti, Nigeria, Sri-Lanka, Togo, Turkey, among others. In June 2013, the Group acquired a 49% equity interest in Terminal Link, a wholly-owned subsidiary of CMA CGM SA ("**CMA CGM**"), engaged in the investment in and the development and management container and bulk cargo terminals conveniently situated along major international sea-lanes across eight countries in four continents, thus further anchoring the Group's presence in pursuit of its international strategies for the longer term development of its port business whilst complementing the Group's existing ports operation and bringing in new growth drivers. For the year ended 31 December 2017, container and general and bulk cargo throughputs handled by the Group's ports totalled 102.90 million TEUs and 507 million tonnes, respectively, representing year-on-year increases of 7.4% and 10.3%. In addition to its ports operations, the Group also operates bonded logistics facilities in Shenzhen, Qingdao and Tianjin.

The Guarantor, which until August 2016 was known as China Merchants Holdings (International) Company Limited, was incorporated on 28 May 1991 and has been listed on the Hong Kong Stock Exchange since 1992. As at the close of business on 5 July 2018, the Guarantor had a market capitalisation of approximately HK$51 billion. The shares of the Guarantor became a constituent stock of the Hang Seng Index in September 2004.

CMG, directly and indirectly, including through CMU, has the power to direct voting right over approximately 61.81% of the total issued share capital of the Guarantor. CMG is one of the oldest business enterprises in modern Chinese history, which celebrated its 145th anniversary on 16 December 2017. CMG is engaged in three core business sectors, including transportation and related infrastructure, financial investment and asset management, property development and management. See "China Merchants Group Limited."

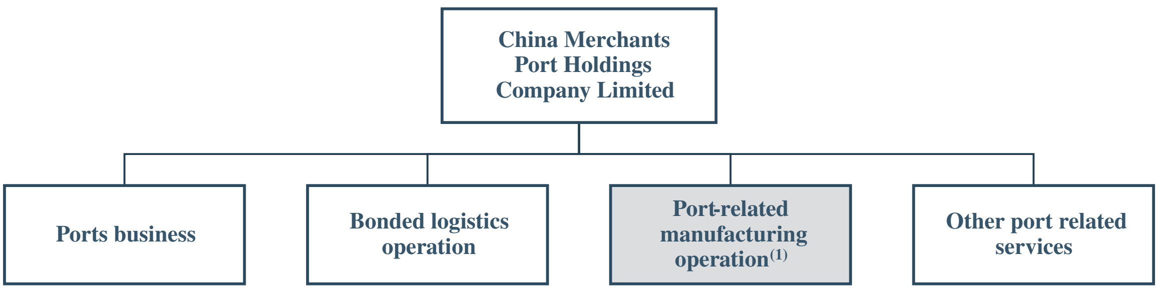
In December 2017, it was announced that CMG is preparing the material asset reorganisation involving Shenzhen Chiwan Wharf Holdings Limited ("**Shenzhen Chiwan**"), a former subsidiary of the Group listed on the Shenzhen Stock Exchange, a 34% stake of which was divested in June 2018 to an indirect wholly-owned subsidiary of CMG, which will involve the issuance of shares in exchange for assets. In June 2018, after the Group completed the divestment of Shenzhen Chiwan, Shenzhen Chiwan entered into an agreement with China Merchants Investment Development Company Limited ("**CMID**") for an acquisition of 1,269,088,795 shares in the Guarantor, representing CMID's entire interest in the Guarantor and 38.7% of the entire issued capital of the Guarantor as at the date of this Offering Memorandum (the "**Shenzhen Chiwan Acquisition Agreement**"). As consideration, Shenzhen Chiwan will issue 1,148,648,648 A shares (representing approximately 64.05% of the enlarged total issued capital of Shenzhen Chiwan) to CMID. As part of the material asset reorganisation, Shenzhen Chiwan also entered into an acting in concert agreement with China Merchants Holdings (Hong Kong) Company Limited ("**CMHK**") (the "**Acting in Concert Agreement**", together with the Shenzhen Chiwan Acquisition Agreement, the "**Restructuring Agreements**"). As at the date of this Offering Memorandum, the Restructuring Agreements were entered into but pending completion subject to the satisfaction of conditions precedent (including, but not limited to, obtaining approvals from the relevant authorities). Once completed (i) Shenzhen Chiwan will hold approximately 38.7% of the total issued share capital of the Guarantor directly and together with the Acting in Concert Agreement, Shenzhen Chiwan will be able to consolidate the Guarantor as a subsidiary of Shenzhen Chiwan, and (ii) CMG will hold approximately 87.8% of the total issued share capital of Shenzhen Chiwan indirectly and will remain as the ultimate controlling shareholder of the Guarantor.

In connection with the material asset reorganisation involving Shenzhen Chiwan and pursuant to the relevant PRC regulatory requirements applicable to Shenzhen Chiwan, the Guarantor published an announcement on 15 June 2018 on the Hong Kong Stock Exchange with audited pro forma consolidated financial information of the Guarantor and its subsidiaries excluding Shenzhen Chiwan and its subsidiaries for the two years and three months ended 31 March 2018 (the "**PRC GAAP Consolidated Financial Information**," available at http://www.hkexnews.hk/listedco/listconews/SEHK/2018/0615/LTN201806151085.pdf). The PRC GAAP Consolidated Financial Information has been prepared on the basis set out therein in conformity with the PRC GAAP. PRC GAAP differs in certain material respects from HKFRS. In addition, the assumptions used in preparing the PRC GAAP Consolidated Financial Information may not prove to be accurate, and other factors may also affect the Guarantor's financial condition and results of operations. As such, the PRC GAAP Consolidated Financial Information are not directly comparable with the consolidated financial information as at and for the years ended 31 December 2016 and 2017 included elsewhere in this Offering Memorandum which is prepared on HKFRS. Therefore, potential investors are cautioned to take into account such incomparability and not to place undue reliance on the PRC GAAP Consolidated Financial Information and are advised to consult their respective independent financial advisers if in doubt.

For the years ended 31 December 2016 and 2017, the Guarantor's consolidated revenue was approximately HK$7,976 million and HK$8,692 million, respectively, and its consolidated profit attributable to its equity holders was approximately HK$5,494 million and HK$6,028 million, respectively. As at 31 December 2017, the Guarantor's consolidated total assets were approximately HK$131,951 million and its shareholders' funds were approximately HK$73,447 million.

Business

The following chart sets out the major business operations of the Group as at the date of this Offering Memorandum.



Note:

(1) The Group has disposed its port manufacturing operations in 2017. See "—Port related manufacturing operations — Container Manufacturing".

Competitive Strengths

A leading ports operator with a strong and growing international presence and geographically diversified port portfolio

The Group is a leading ports operator with a strong and growing international presence, a geographically diversified portfolio and a considerable market share in major ports in the PRC. The Group has a presence in seven out of the top ten container ports in the PRC has roughly one-third of the total market share of PRC's container throughput. In addition to its domestic ports operations in the Pearl River Delta, Yangtze River Delta, Bohai Rim, the south-eastern region and the south-western region of mainland China, as well as Hong Kong and Taiwan, the Group has built a global footprint at strategic locations covering key cross continental trade routes in terms of both deep water depth and shoreline length. The Group's Asia Pacific region network includes the completed greenfield port project in Colombo, Sri Lanka and the Hambantota Port project, also in Sri Lanka, whilst the Group's African network includes port operations in Lomé in Togo, Djibouti and Lagos in Nigeria. Additionally, the Group has port operations in Central and South America following its acquisition of a 90% stake in TCP, the PON in Australia and 14 terminals in eight countries via Terminal Link, which covers Europe, the Mediterranean, Africa, the US and Korea. In addition to the strategic layout of the Group's ports and its international presence, the following factors have contributed to the Group's leading position:

- the Group has board representation and/or management presence for the ports that it has invested in;
- the Group is an independent public ports operator and does not operate its own fleet of ships, avoiding the conflicts of interest commonly associated with participating in both businesses;
- the Group has long-term and close relationship with leading shipping liners;
- the majority of the Group's ports are capable of accommodating large ships due to their water depths and long berths;
- the Group provides various auxiliary value-added services at its ports, such as bonded logistics and information technology services, which enhance the quality and efficiency of its services and the competitiveness of its ports;
- the Group has a proven track record of internal organic growth and external acquisitions;
- the Group strategically positions its overseas business operations following a cost-effective international maritime logistics path and take advantages of favourable policies such as "Belt and Road" and free trade zones;
- the Group has local knowledge of the overseas locations it operates in through carefully selected local partnerships;
- the port industry in the PRC is highly regulated and the Group has strong working relationships with the PRC government authorities; and
- the ports business has high barriers to entry, such as the capital-intensive nature of the business, the geographical constraints associated with constructing competing ports, the need for a sound infrastructure network to support the ports and the highly regulated nature of the industry.

In line with the Group's international expansion strategy, the Group's geographically diversified portfolio has resulted in a steady increase in the proportion of Revenue[1] deriving from international ports. For the years ended 31 December 2015, 2016 and 2017, for instance, overseas ports operation contributed to 10.5%, 10.0% and 12.3% of Revenue from ports operation, respectively, of the Group's annual Revenue. The Group push forward a balanced development in terms of regions, businesses and stages, and continue to deepen, optimise, refine and strengthen the Group's strategies, thereby gradually realising its strategic goal of becoming "a world's leading comprehensive port service provider".

Sustainable organic growth and stable profitability driven by best-in-class port management and operational excellence

The Group has enjoyed a level of sustainable growth in recent years. For the year ended 31 December 2017, Revenue[1] from the Group's ports operation totalled HK$26,856 million compared to HK$24,506 million for the year ended 31 December 2016, representing an increase of 9.6% attributable to a rise in business volume. EBITDA[2] from ports operation was HK$11,542 million and HK$12,693 million for the years ended 31 December 2016 and 2017, respectively, representing a year-on-year increase of 10.0%. Recurrent profit growth was HK$4,581 million and HK$5,492 million for the years ended 31 December 2016 and 2017, respectively, representing an increase of 19.9%. Additionally, the Group's ports operation is a major profit contributor. As at 31 December 2017, EBITDA derived from the Group's ports operation amounted to HK$12,693 million, an increase of 10.0% compared to 31 December 2016 and contributing 82.8% if the Group's total EBITDA. Net profit margin[3] from ports operation remained stable at approximately 24.1%, 25.6% and 23.2% for the years ended 31 December 2015, 2016 and 2017, respectively.

The Group's sustainable growth level and stable profitability can be attributed to its port-management experience. The Group's best-in-class port management expertise is proven by its historical track record of internal organic growth and successful external acquisitions. It has continuously strengthened its ports' capability and service quality, hence maintaining competitiveness and driving sustainable long-term growth. Combining its global view and local knowledge, the Group was able to develop practical and scientific long-term strategic blueprints based on which to execute its strategies. Also, rich experience and astute insights has enabled the Group to successfully navigate through economic ups and downs, with hub ports tracking international maritime cargo flow.

Resilient and steadily growing cash flows and healthy credit profile with multi-channel funding sources

The Group has a sound financial profile of steadily growing long-term cash flow due to the quality of funding sources as well as long-term concessions and dividend inflows.

The Group enjoys multiple funding channels via banks and capital markets. Its capability to tap equity and debt capital markets is demonstrated by previous experiences in issuing bonds and mandatory convertible securities. Its various underlying listed entities also offer good access to capital markets. In addition, the Group enjoys strong bank relationships leveraging on its SOE background and support from CMG. As at 31 December 2017, the Group had undrawn bank loan facilities and other debt financing instruments amounting to HK$29,786 million, of which HK$23,679 million and HK$6,107 million were committed and uncommitted credit facilities, respectively.

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

2 Earnings before interests, taxes, depreciation and amortisation, unallocated income less expenses, unallocated interest income, profit from discontinuing operation and non-controlling interests, if applicable, ("Defined Earnings") for the Company and its subsidiaries, and its share of Defined Earnings of joint ventures and associates.

3 Net profit margin is a percentage of profit for the year and Revenue.

The Group's strong liquidity position also reinforces its solid credit profile. It has healthy cash flow generation. The Group also has disciplined financial and investment policies with controlled capital expenditure. Liquidity and credit metrics also are maintained at healthy levels. Its strong credit profile is well-recognized by credit rating agencies, being rated BBB stable by S&P and Baa1 by Moody's as at the date of this Offering Memorandum.

Top-tier SOE parental support and favourable government policies

CMG is the majority shareholder of the Guarantor and, through CMU, CMG has the power to direct voting right over approximately 61.81% of the total issued share capital of the Guarantor. CMG, established on 16 December 1872, is one of the oldest business enterprises in modern Chinese history. The Guarantor and the Group has received strong support from CMG, which has fostered the Group's long-term sustainable development. CMG (and indirectly, the PRC government) contribute strong strategic support and experience in the Group's overall planning and policies in a regulated industry that favours incumbents. For example, CMG may provide resources in relation to the sourcing, evaluation and planning of the Group's developments, the appointment of the Guarantor's Board of Directors and senior management and the Guarantor's capital expenditure and budgeting. Furthermore, CMG's support enhances the Guarantor's market image, eases regulatory communications and leads to favourable borrowing rates. The Guarantor is expected to continue to benefit from its close ties with and strong support from CMG and will leverage its "China Merchants" brand reputation as a leading ports operator in the PRC to enhance the Group's market positioning.

Backed by strong SOE parent, the Group is expected to benefit from the "Belt and Road" initiative promoted by the central government of the PRC since late 2013, which has manifested itself in a number of policies seeking to boost trade, such as the introduction of a number of free trade zones, including the Guangdong Free Trade Zone. Helped by its pre-positioning along the "Belt and Road" trade route, the Group is strategically positioned to capture the opportunities offered by closer relationship between China and its trade partners along the route. As a natural outcome of urbanisation and resources consideration, part of already established supply chain within China will be gradually migrated/outsourced to regions along the route, thus necessitating supporting logistics build-up. Port operations is expected to benefit from this migration.

Experienced management team

The Group places great emphasis on the quality of its management team and continuously seeks to attract skilled professionals to enhance its services. Over the last few years, the Group's management has brought innovation to the Group through its focus on developing and implementing solid and long-term business strategies. The Group's senior executives have extensive experience in the ports business in the PRC and overseas, and have strong working relationships with the PRC government authorities and industry players.

Strategy

The Group's overall business strategy is to become a world leading comprehensive port services provider by enhancing core capability, quality and efficiency, capitalising opportunities to further promote the construction of a port ecosystem to become an international enterprise. In order to do so, the Guarantor intends to adopt the following strategies:

Strengthen and optimise its domestic ports operation

Having established a network of port operations in the PRC spanning the Pearl River Delta, Yangtze River Delta, Bohai Rim, the south-eastern region and the south-western region of mainland China, the Group will continue to strengthen and optimise the layout of, its domestic ports network. The Group believes that optimising its domestic ports network will allow the Group to foster new sources for business growth and provide better and more comprehensive services to its customers. The Group seeks to capitalise on the synergy generated by its existing network of ports in the PRC. Recent developments to optimise the Group's domestic ports network include:

- In December 2014, the Group's West Shenzhen Port Zone, which has a total area of 38,000 square kilometres, was incorporated into the Guangdong Free Trade Zone. The inclusion of the port areas in Shekou and Mawan of West Shenzhen as part of the Guangdong Free Trade Zone has created favourable conditions in enhancing the status of the Group's homebase port as a key hub, capturing potential opportunities in a free port establishment, and driving the transformation and upgrading of ports operation.

- The Group will continue to dedicate its efforts to promote the consolidation and unification of operation in the West Shenzhen homebase port and step up its effort in improving both software and hardware of the homebase port. For instance, the Group is in the process of Phase II of widening the Tonggu Channel which actively win over new routes from shipping alliance, especially striving to enable mega vessels to call at the West Shenzhen Port Zone. The project is expected has commenced construction in November 2016 and is expected to be completed in 2018.

- The Group is continuing to enhance customer service through the deployment of various technologies, the full automation of terminal operations and the construction of the "intelligent port", an initiative which has been particularly emphasised at the Group's West Shenzhen homebase port. In April 2017, for instance, the "E-port" project was officially launched to create a one-stop unified customer service platform. The result of this was that it enhanced coordinated management and service capabilities, as well as the port's competitiveness. It is anticipated the "E-port" project will be extended to financial services. In addition, various e-payment methods including WeChat and Alipay have been introduced to the Group's existing "ePay" platform.

- The South China Container Terminal ("**SCCT**"), a management unit overseeing the container handling ports in the West Shenzhen Port Zone, continues to dedicate its efforts in consolidating the port activities within the region following the integration of its ports with those of Jetty Two West, operated by China Merchants Port (Shenzhen) Co., Limited ("**CMPS**"), a subsidiary of the Group. This integration was of significant importance to the Group in terms of synchronisation of resources, creation of synergies and elevation of overall competitiveness of the West Shenzhen Port Zone.

- To capture the significant opportunity presented by the inclusion of the Group's homebase ports in the Guangdong Free Trade Zone, the Group will continue to proactively initiate and drive the refinement of customs processes in the zone, in terms of level of convenience and service quality, into what resembles a free port similar to Hong Kong. For instance, development of the "Comprehensive Service Platform", which aims at improving and enhancing the environment for the customs clearance service in the bonded logistics park, has been officially established and progressing in an orderly manner. Added to this are other key initiatives including the upgrading of berths, the widening of the sea channel, and the streamlining of comprehensive cargo distribution capabilities, which, leveraged upon the advantages offered by the free trade zone policies, the Group expects to solidify the foundation of the West Shenzhen Port Zone as the key hub of South China.

The Group intends to continue to deepen the integration of its homebase ports in Western Shenzhen so as to enhance the utilisation efficiency of resources and assets in the Shenzhen Western Port Zone as well as in the Guangdong Free Trade Zone through business and management integration. The Group seeks to enhance its attractiveness to customers in the economic hinterland of the Pearl River Delta by making continuous efforts to improve the connectivity of the barge network in the Pearl River

Delta by encouraging collaborative co-operation between its homebase ports in Western Shenzhen and river terminals along the Pearl River Delta. The Group also intends to extend the customer value chain by leveraging on the interactions between the homebase ports in Western Shenzhen and the Group's bonded logistics park.

Continue to expand into overseas markets

The Group has recently expanded its ports operations outside of the PRC in order to strengthen its ports network and pursue new sources of revenue growth. Recent developments include the following:

- For overseas expansion, the Group has established and improved regional market database for Africa and South Asia. The Group conducted studies on the overseas network along the "East-West route, South-North route, regions along the "Belt and Road" initiatives with a view to continuously optimising expansion strategies and implementation routes of overseas projects and improving the security system for providing support to business.

- In July 2013, CICT in Sri Lanka, the Group's first-ever overseas greenfield project, commenced operation. CICT has been an important contribution to the Group's overseas network and has exceeded original expectations of the Group achieving a container throughput of 2.39million TEUs as at 31 December 2017 (representing a year-on-year growth rate of 18.5%) and its business is expected to continue to grow rapidly. The Group has been ardently facilitating the development of an overseas homebase port, with a plan to turn CICT into the Group's regional headquarters.

- In July 2017, the Group entered into a Concession Agreement with the Sri Lanka Ports Authority and the Government of the Democratic Socialist Republic of Sri Lanka in relation to the development, management and operation of the Hambantota Port project. Officially delivered in December 2017, the project is expected to form synergies with the CICT project and further promote the construction of the Group's overseas homebase port in Sri Lanka.

- In September 2017, the Group entered into a Share Purchase Agreement to acquire 90% of the issued share capital of with TCP, a company principally engaged in the operation of port facilities in Brazil. The acquisition completed in February 2018 and marked the Group's first expansion into the Central and South American market.

- On 6 February 2018, the Group entered into an acquisition agreement in relation to the acquisition of a 50% interest in the PON in Australia, the world's largest thermal coal export port. The acquisition completed in June 2018, expanding the Group's port network coverage to six continents. Utilising asset-light models, the Group will continue to closely monitor overseas markets and progressively explore port acquisition and investment opportunities overseas, focusing on lifting return and effective risk management. The Group's overseas operations will continue to complement and synergise with the Group's existing terminals in the PRC, as well as the place for testifying innovative measures on various fronts, in order to create precedents for replication globally, thereby enabling the Group to further internationalise its existing overseas operation while laying a solid foundation for the Group's aspiration of becoming a "world leading comprehensive port service provider".

Develop and expand value-added services while continuing to enhance port competitiveness

The Group will continue to focus on introducing value-added services at its ports or adjacent areas in order to further improve its service quality, enhance its competitiveness and expand its income sources. In particular, to enhance its market position, the Group will continue to promote and facilitate the expansion of bonded port zones, explore and create new value-added services for its logistics parks, seek state policy support, reinforce customer management, seek to attract premium customers to move into its logistics parks, optimise business processes and enhance service efficiency, promote and create synergies from port-cargo-park collaboration.

Forge deeper working relationship with strategic customers

With respect to its business operations, the Group aims to forge a deeper working relationship with its existing strategic customers through the provision of comprehensive solutions on port services, fully leveraging on its expanding port network.

Continue to innovate, refine and strengthen port management

The Group plans to continue to refine and strengthen its operational port management in order to enhance its efficiency and overall competitiveness. In particular, the Group is committed to upgrading itself from a terminal operator to a comprehensive port services provider, promoting the "Port-Park-City" model and optimising its organisational structure. The Group aims to achieve this by standardising and upgrading its systems and policies relating to infrastructure, construction, application of IT management systems, energy conservation, and technology and process innovation, thereby enhancing operational efficiency and effectiveness of its existing assets and mitigating the pressure derived from potential cost increases and a slowdown in external demand. In 2017, for instance, the Group established a dedicated business innovation working group to promote the establishment of a comprehensive port ecosystem, with the intention of enhancing synergies and cooperation between ports and creating value for the Group's customers.

Financial Breakdown

The following table shows a breakdown of the Group's principal businesses in terms of revenue and operating profit for the periods indicated, as extracted from the Guarantor's published audited consolidated financial statements as at and for the years ended 31 December 2016 and 2017:

	For the year ended 31 December	
	2016	2017
	HK$' million	HK$' million
Revenue [1]		
Ports operation	7,570	8,185
Bonded logistics operation	405	410
Other operations	1	97
Total	**7,976**	**8,692**
Operating profit/(loss) [1]		
Ports operation	3,632	2,292
Bonded logistics operations	153	132
Port-related manufacturing operation	(1)	813
Other operations	113	(96)
Total	**3,897**	**3,141**
Share of profits less losses of associates and joint ventures [1]		
Ports operation	3,201	4,811
Bonded logistics operations	(1)	(4)
Port-related manufacturing operation	156	187
Other operations	330	478
Total	**3,686**	**5,472**

Note:

(1) For further segment information, see note 6 to the audited consolidated financial statements for the years ended 31 December 2016 and 2017.

Ports Business

Overview

The core business of the Group is ports services. The Group is a leading ports operator in the PRC and is engaged in the development and operation of container and general and bulk cargo handling and port logistics businesses in the PRC. The Group's core segment of domestic ports operations is based at five hub locations: the Pearl River Delta, Yangtze River Delta, Bohai Rim Area, the south-eastern region and the south-western region of mainland China. The container and general and bulk cargo handling process involves a diverse range of terminal-related operations including loading, unloading, storage and international transhipment for containers.

The market for ports services is dependent on a variety of factors:

- *The hinterland of the port:* The hinterland of each port is essential to its traffic flow. The Group's ports in Shenzhen, Ningbo, Shanghai, Dalian, Qingdao, Tianjin, Zhanjiang, Zhangzhou and Shantou benefit from their strategic locations in the most developed and fastest growing areas in Mainland China. Ports in Hong Kong benefit from Hong Kong's strategic location in the centre of the developing economies of Asia.

- *The capacity of the port:* A ports operator must also have sufficient capacity to meet the demands of its customers. Through its interests in ports in Shenzhen, Ningbo, Shanghai, Dalian, Qingdao, Tianjin, Zhanjiang, Zhangzhou and Shantou, the Group's domestic port network is able to meet the demands of its customers.

- *The turnaround time at the port:* Shipping lines focus on turnaround time at ports in order to minimise the amount of time their ships spent at ports. The Group is continually introducing the latest information technology and management systems at its ports in order to maximise turnaround performance.

As at the date of this Offering Memorandum, the Group had investments in 35 operating berths in the Pearl River Delta, 100 operating berths in the Yangtze River Delta, 101 operating berths in the Bohai Rim and 26 and 35 operating berths in the south-eastern and south-western regions of mainland China, respectively. The Group has traditionally focused on the Pearl River Delta area but has since acquired interests in ports in the Yangtze River Delta, Bohai Rim, the south-eastern region and the south-western region of mainland China as part of its strategy to build a nationwide ports network. In February 2016, the Group subscribed for a 21.05% equity stake in Dalian Port (PDA) Company Limited, the operating company of the Port of Dalian in the Bohai Rim region, making it the second largest shareholder. More recently, in August 2017, the Group subscribed for a 60% equity interest in Shantou Ports Group Corp Co., Ltd., the operating company of the Port of Shantou, which further consolidated resources and strengthened the Group's ports network in the South-Eastern region of the PRC.

In addition to the continued expansion of its domestic ports network, the Group has acquired interests in overseas ports projects, including the TICT in Nigeria, the CICT and HIPG in Sri Lanka, PDSA in Djibouti and the LCT in Togo, Kumport in Turkey and Terminal Link, among others. The Group collectively controlled or managed more than 30 container and bulk cargo terminals conveniently situated along major international sea-lanes across 18 countries and regions in six continents, thus further anchoring the Group's presence in pursuit of its international strategies for the longer term development of its port business whilst complementing the Group's existing ports operation and bringing in new growth drivers.

In September 2017, the Group further expanded its overseas presence by acquiring a 90% interest in TCP, operator of Brazil's most profitable port terminal in Paranaguá, Brazil, which was completed in February 2018. Most recently, in February 2018, the Group acquired a 50% interest in the entities operating the PON in New South Wales, Australia, the world's largest thermal coal export port. The acquisition completed in June 2018, extending the Group's port coverage to six continents. The Group will continue to closely monitor overseas markets and progressively explore, on a prudent and selective basis, port acquisition and investment opportunities overseas, which will offer synergies with its existing ports network in the PRC in order to geographically enlarge the coverage of its ports operations and improve its competitive position in the international ports market.

For the years ended 31 December 2016 and 2017, container throughputs handled by the Group's ports totalled 95.77 million TEUs and 102.90 million TEUs, respectively, of which container throughputs handled by the Group's ports in PRC reached 71.93 million TEUs and 77.12 million TEUs, respectively. In addition, for the years ended 31 December 2016 and 2017, the Group's ports handled 460 million tonnes and 507 million tonnes, respectively, of general and bulk cargos.

For the years ended 31 December 2016 and 2017, consolidated profit after tax and non-controlling interests attributable to the Group's ports operations was HK$5,558 million and HK$5,551 million, respectively, accounting for approximately 101.2% and 92.1%, respectively, of the Group's total consolidated profit after tax and non-controlling interests.

The Group had interests in the following port projects as at the date of this Offering Memorandum:

Presence of China Merchants Port Holdings Company Limited

Indian Subcontinent and Africa

Colombo, Sri Lanka
Colombo International Container Terminals

Hambantota, Sri Lanka
Hambantota International Port Group

Lagos, Nigeria
Tin-Can Island Container Terminal

Lomé, Togo
Lomé Container Terminal

City of Djibouti , Djibouti
Port de Djibouti

Abidjan, Côte d'Ivoire
Terra Abidjan

Europe and Mediterranean (1)

Casablanca, Morocco
Somaport

Tangiers, Morocco
Eurogate Tanger

Marsaxlokk, Malta
Malta Freeport Terminals

Fos, France
Eurofos

Le Havre, France
Terminal de France
Terminal Nord

Dunkirk, France
Terminal des Flandres

Montoir, France
Terminal du Grand Ouest

Antwerp, Belgium
Antwerp Gateway

Istanbul, Turkey
Kumport

Others (2)

Busan, South Korea
Busan New Container Terminal

Miami, United States
South Florida Container Terminal

Houston, United States
Terminal Link Texas

Notes:

(1) As of the date of this Offering Memorandum, the Group has interests in a port in Greece through Terminal Link.

(2) In February 2018, the Group completed the acquisition of TCP in Brazil and in June 2018, the Group completed the acquisition of PON in Australia.

(3) In June 2018, the Group completed the divesment of Shenzhen Chiwan. See "Description of the Guarantor".

Mainland China, Hong Kong and Taiwan

Ports   Logistics

Pearl River Delta

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

Logistics:
- China Merchants Bonded Logistics

Yangtze River Delta

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

South-East Region

Ports:
- Zhangzhou China Merchants Port
- Shantou China Merchants Port Group

South-West Region

Ports:
- Zhanjiang Port

Kaohsiung, Taiwan

Ports:
- Kao Ming Container Terminal

Bohai Rim

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

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

The following table sets forth the container throughput of port areas in which the Group has invested for the periods indicated.

	For the year ended 31 December		
	2015	**2016**	**2017**
		(millions TEU)	
Container throughput (TEUs)			
PRC, Hong Kong and Taiwan:			
Pearl River Delta			
Shenzhen	10.75	10.97	11.18
CKRTT	1.30	1.38	1.35
Shunde	—	—	0.05(1)
Hong Kong	4.62	5.15	5.79
Yangtze River Delta			
Shanghai	36.54	37.13	40.23
Ningbo	2.71	2.65	3.01
Bohai Rim			
Qingdao	6.66	6.50	6.24
Tianjin	2.57	2.57	2.63
Dalian	—	9.67	10.75
Mainland China (South-East)			
Zhangzhou	0.32	0.34	0.40
Shantou	—	—	0.37(2)
Mainland China (South-West)			
Zhanjiang	0.61	0.72	0.90
Other Locations			
Taiwan	1.53	1.73	1.70
Overseas			
Nigeria			
Tin-Can Island Container Terminal	0.47	0.41	0.47
Djibouti			
Port de Djibouti SA	0.90	0.99	0.93
French Republic			
Terminal Link SAS	12.61	12.35	12.56
Sri Lanka			
Colombo South Container Terminal	1.56	2.02	2.39
Togo			
Lome Container Terminal	0.50	0.53	0.89
Turkey			
Kumport	—	0.67	1.06
Total for the port areas in which the Group has Investments	83.66	95.77	102.90

Note:

(1) For the period from July 2017 to December 2017.

(2) For the period from August 2017 to December 2017.

The following table provides certain information in relation to the ports in the PRC, Hong Kong, Taiwan and overseas in which the Group has investments as at the date of this Offering Memorandum.

Ports	Business Type	Guarantor Effective Interest	Management Rights	No. of Berths	Expansion Plan)
Pearl River Delta					
Western Shenzhen					
Shekou Container Terminals companies	Container terminal services	85.40%	Yes	9	n/a
Chiwan Container Terminal Co., Ltd .	Container terminal services	14.16%	Board representation only	5	n/a
China Merchants Port Services (Shenzhen) Co., Ltd	Container terminal services, general and bulk cargo	100.00%	Yes	4 container berths 5 bulk cargo berths	n/a
Mawan Port project companies	Container terminal services	70.00%	Yes	4	n/a
Shenzhen Haixing Harbour Development Co., Ltd	Container terminal services, general and bulk cargo	67.00%	Yes	1 container berths 3 bulk cargo berths	n/a
Chu Kong River Trade Terminal Co., Ltd	Container terminal services, general and bulk cargo	20.00%	Board representation only	n/a	n/a
Guangdong Yide Port Limited	Container terminal services, general and bulk cargo	51.00%	Yes	4	n/a
Hong Kong & Taiwan					
Modern Terminals Ltd.	Container terminal services	27.01%	Board representation only	7	n/a
China Merchants Container Services Ltd	Mid-Stream services	100.00%	Yes	n/a	n/a
Kao Ming Container Terminal Co., Ltd	Container terminal services	10.00%	Board representation only	4	n/a
Yangtze River Delta					
Ningbo Daxie China Merchants International Terminals Co., Ltd . .	Container terminal services	45.00%	Yes	4	n/a
Shanghai International Port (Group) Co., Ltd	Container terminal services, general and bulk cargo	26.74%	Board representation only	39 container berths 57 bulk cargo berths	n/a
Bohai Rim					
Qingdao Port project companies. . . .	Container terminal services, general and bulk cargo	49.00%-50.00%	Board representation only	9 container berths 9 bulk cargo berths	n/a
Qingdao Port Dongjiakou Ore Terminal Co. Ltd	General and bulk cargo	25.00%	Board representation only	3	n/a
Tianjin Five Continents International Container Terminals Co. Ltd	Container terminal services	14.00%	Board representation only	4	n/a
Dalian Port (PDA) Company Limited	Container terminal services	21.05%	Board representation only	13 container berths 63 bulk cargo berths	5 container berths
South-eastern region of mainland China					
Zhangzhou China Merchants Port Co., Ltd	Container terminal services, general and bulk cargo	60.00%	Yes	2 container berths 7 bulk cargo berths	n/a

Ports	Business Type	Guarantor Effective Interest	Management Rights	No. of Berths	Expansion Plan)
Shantou Ports Group Corp Co., Ltd.	Container terminal services, general and bulk cargo	60.00%	Yes	6 container berths 11 bulk cargo berths	3 container berths
South-western region of the Guangdong Province					
Zhanjiang Port (Group) Co., Ltd	Container terminal services, general and bulk cargo	40.29%	Board representation only	2 container berths 33 bulk cargo berths	2 bulk cargo berths
Overseas					
Nigeria					
Tin-Can Island Container Terminal Limited	Container terminal services	28.5%	Board representation only	3	n/a
Djibouti					
Port de Djibouti SA	Container terminal services, general and bulk cargo	23.5%	Board representation only	6 container berths 15 bulk cargo berths	n/a
French Republic					
Terminal Link SAS	Container terminal services	49.00%	Board representation only	73	2
Sri Lanka					
Colombo International Container Terminals Limited	Container terminal services	85.00%	Yes	3	n/a
Hambantota Port project	Container terminal services, general and bulk cargo	85.00%	Yes	10	n/a
Togo					
Lome' Container Terminal S.A.	Container terminal services	35.00%	Yes	3	1
Brazil					
TCP Participações S.A.	Container terminal services	90.00%	Yes	3	1
Australia					
Port of Newcastle/Gold Newcastle Property Holding Pty Limited	Container terminal services, general and bulk cargo	50.00%	Board representation only	21	n/a

The following is a brief description of the port projects in which the Group has investments:

Domestic Ports

Pearl River Delta

(a) *Western Shenzhen*

Shekou Container Terminals Ltd.
The Shekou Container Terminals are located in Shekou, western Shenzhen at the estuary of the Pearl River. The Shekou Container Terminals are directly connected to the highway and railway networks in Guangdong Province and are easily accessible by barges to the other manufacturing centres in the Pearl River Delta area. The Shekou Container Terminals are an important transportation gateway for both international and domestic cargo owners and carriers seeking access to and out of the South China hinterland. The Shekou Container Terminals are currently 80% owned by the Group and 20% owned by Modern Terminals Limited ("**MTL**"), an associate of the Group. The Group's effective interest in Shekou Container Terminals is 85.4%.

The Shekou Container Terminals' existing facilities have an annual handling capacity of 5.4 millions TEUs, occupy a total area of approximately 1,386 thousand square metres and are complemented by a stack yard of 1,049 thousand square metres. The nine container berths total 3,440 metres in length, with a minimum alongside water depth of 8.0 to 17.0 metres.

With the improvement of the port environment and the growth of the Pearl River Delta hinterland economy, the Shekou Container Terminals serve about 44 ocean-going liners, covering the majority of the global shipping ports, including America, Europe, the Mediterranean, East Asia, Southeast Asia, North Asia, the Middle-East and Australia.

Since 2004, the Group has operated its "South China Shuttle" service in the western Shenzhen port area, which has further increased the competitiveness of the Shekou Container Terminals. The Pearl River Delta barge network now covers 21 cities, 37 river trade terminals and 30 barge express routes. The Pearl River Delta barge volume handled increased by 1.87% compared to the same period.

China Merchants Port Services (Shenzhen) Co., Ltd.

CMPS operates and manages nine berths for the handling of container and general and bulk cargo at the Shekou Industrial Zone in western Shenzhen. The Shekou Industrial Zone lies on the east bank of the Pearl River, approximately 20 nautical miles from Hong Kong, and is connected by highways and the Shenzhen-Pingnan Railway.

CMPS is a wholly-owned subsidiary of the Group. For the years ended 31 December 2016 and 2017, the volume of containers handled by CMPS was approximately 0.22 million TEUs and 0.27 million TEUs, respectively, and the volume of general and bulk cargo handled by CMPS was approximately 7.26 million tonnes and 11.03 million tonnes, respectively.

CMPS's operations at the Shekou Industrial Zone occupy a total area of approximately 640 thousand square metres. and a stack yard area of 162 thousand square. CMPS has nine berths at the Shekou Industrial Zone totalling 2,093 metres in length, with a minimum alongside water depth of 7.5 to 15.1 metres.

Mawan Port project companies

Shenzhen Mawan Port Service Co., Ltd., Shenzhen Mawan Terminals Co., Ltd. and Shenzhen Mawan Wharf Co., Ltd. (collectively "**Mawan Port project companies**"), own four container berths at the Mawan port area, western Shenzhen. Mawan Port lies on the east bank of the Pearl River, immediately north of Chiwan.

The Group's effective interest in each of the Mawan Port project companies is 70.00%. Profits and losses are distributed to and borne by the shareholders in proportion to their equity interest in the Mawan Port project companies.

Mawan Port project companies occupy a total area of approximately 547 thousand square metres, a stack yard area of 458 thousand square metres. The four container berths at the Mawan port area total 1,376 metres in length, with a minimum alongside water depth of 5.5 to 16.0 metres. For the years ended 31 December 2016 and 2017, the container throughput handled by Mawan Port project companies was 1.61 million TEUs and 2.00 million TEUs, respectively.

Shenzhen Haixing Harbour Development Co., Ltd.

Shenzhen Haixing Harbour Development Co. Ltd. ("**SHHD**") operated and managed four berths at the Mawan port area, western Shenzhen. SHHD was a multi-purpose terminal that mainly focuses on general and bulk cargo operation. In 2017, SHHD commenced construction of a fully automated and intelligent port. After the completion of construction, SHHD will focus on container terminal operation.

SHHD is 67% owned by the Group. Profits and losses are distributed to and borne by the shareholders in proportion to their equity interest in SHHD. For the years ended 31 December 2016 and 2017, the volume of containers handled by SHHD was approximately 0.44 million TEUs and 0.28 million TEUs, respectively, and the volume of general and bulk cargo handled by SHHD was approximately 5.17 million tonnes and 2.36 million tonnes, respectively.

SHHD's operations occupy a total area of approximately 520 thousand square metres and a stack yard area of 405 thousand square metres. SHHD has four berths totalling 1,150 metres in length, with a minimum alongside water depth of 7.5 to 13.5 metres.

Guangdong Yide Port Limited

Guangdong Yide Port Limited ("**GDYP**") is 51% owned by the Group. It operates and manages four berths with totalling length of 438 metres in Shunde port, Foshan. GDYP has enhanced the strategic collaboration between the Group's western ports and river trade terminals in the Pearl River Delta.

(b) *Hong Kong and Taiwan*

Modern Terminals Ltd.

MTL is the longest-established container ports operator in Hong Kong. MTL owns and operates 7 container berths and 2 feeder berths at Terminals 1, 2, 5 and 9, Kwai Tsing Container Port, Hong Kong, and an on-site 12-storey warehouse and container freight station. It is one of the largest terminal operators in Hong Kong. Kwai Tsing Container Port is the main port facilities in the reclamation along Rambler Channel between Kwai Chung and Tsing Yi Island, Hong Kong and is one of the busiest container ports in the world.

MTL is 27.01% owned by the Group, 67.59% owned by Wharf (Nominees) Limited, and 5.4% owned by Jebsen Securities Ltd. The operation and management of MTL are undertaken by a management team appointed by the board of directors of MTL.

MTL's operations occupy a total area of approximately 926 thousand square metres. MTL has a handling capacity of over 7 million TEUs. MTL has seven container ship berths and two feeder berths totalling 2,432 metres in length, with a minimum alongside water depth of 15.5 metres.

MTL has also expanded its operations to Mainland China. Currently, MTL has interests in Dachan Bay Terminal One, which operates five container berths in Shenzhen.

China Merchants Container Services Ltd.

China Merchants Container Services Ltd. ("**CMCS**"), a wholly-owned subsidiary of the Group, is one of the key operators for mid-stream cargo handling in Hong Kong. CMCS is located in Tsing Yi Island, Hong Kong.

Kao Ming Container Terminal Co., Ltd.

Kao Ming Container Terminal Co., Ltd. ("**KMCT**") owns and operates four container berths in Kaohsing, Taiwan.

KMCT is 10.0% owned by the Group.

For the years ended 31 December 2016 and 2017, the volume of containers handled by KMCT was approximately 1.73 million TEUs and 1.70 million TEUs, respectively, reflecting a slight decrease of 1.8%.

KMCT's operations occupy a total area of approximately 748 thousand square metres. KMCT has a handling capacity of over 2.8 million TEUs. KMCT has four container berths totalling 1,500 metres in length, with a hinterland depth of 475 meters and a minimum alongside water depth of 16.5 metres.

Yangtze River Delta

Ningbo Daxie China Merchants International Terminals Co., Ltd.
Ningbo Daxie China Merchants International Terminals Co. Ltd. ("**NDCM**") operates four container berths at the Ningbo Daxie China Merchants International Terminal, which is located at the T-shaped intersection where the north/south shipping route and the Yangtze River meet.

NDCM is 45% owned by the Group, 35% owned by Ningbo Zhoushan Port Group Co., Ltd. and 20% owned by CITIC Port Investment Corp. Ltd. Profits and losses are distributed to and borne by the shareholders in proportion to their equity interest in NDCM.

NDCM's operations occupies a total area of approximately 1,657 thousand square metres, a stack yard area of 1,100 thousand square metres and have a design capacity of approximately 2.4 million TEUs. The four berths total 1,500 metres in length, with a minimum alongside water depth of 17 metres. For the years ended 31 December 2016 and 2017, the volume of containers handled by NDCM was approximately 2.65 million TEUs and 3.01 million TEUs, respectively, representing a 13.4% year-on-year increase.

Shanghai International Port (Group) Co., Ltd.
Shanghai International Port (Group) Co., Ltd. ("**SIPG**") operates and manages 96 berths (39 container berths and 57 bulk cargo berths) through its equity investments at Shanghai port. The Shanghai port is the largest port in the world in terms of container throughput and faces the East China Sea to the east, and Hangzhou Bay to the south. It includes the heads of the Yangtze River, Huangpu River (which enters the Yangtze River), and Qiantang River.

SIPG is a company listed on the Shanghai Stock Exchange and as at the date of this Offering Memorandum, the Group owns a 26.74% interest in SIPG. For the years ended 31 December 2016 and 2017, the volume of containers handled by SIPG was approximately 37.13 million TEUs and 40.23 million TEUs, respectively, representing an increase of 8.3%. The volume of general and bulk cargo handled by SIPG was approximately 147 million tonnes and 164 million tonnes for the same period, an increase of 11.4%, which was mainly driven by the increase in import and export volume due to a recovery of trade and an increase in the number of shipping routes due to the reorganisation of shipping alliances.

Bohai Rim

Qingdao Port
The Qingdao Port is located in Qingdao, a city in the eastern part of the Shandong Province in China. The Qingdao Port is an important hub of international trade and sea-going transportation in North China and the Bohai Rim. The Group has entered into a number of joint ventures in relation to the operations at Qingdao Port:

- In December 2009, the Group entered into a joint venture agreement with Qingdao New Qianwan Container Terminal Co., Ltd. ("**QQCTN**") to establish a joint venture, QQCTU. The Group and QQCTN each own a 50% equity interest in QQCTU, the principal activities of which are construction, operation and management of container terminals on the southern bank of the Qianwan Harbour District of Qingdao Port and the provision of port-related services.

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

- In line with the Group's strategy of optimising the layout of its domestic ports, in 2011, the Group also established a new joint venture Qingdao Qianwan United Advanced Container Terminal Co., Ltd., ("**QQCTUA**") with APL Co. Pte Ltd. and SITC Container Lines Company Limited. QQCTU holds a 70% equity interest in QQCTUA.

Following the joint ventures, Qingdao Port project operates and manages nine container berths in the Qianwan area of the Qingdao Port and operates and manages nine bulk cargo berths in the Qianwan area of the Qingdao Port. For the years ended 31 December 2016 and 2017, the volume of containers handled by Qingdao Port project was approximately 6.50 million TEUs and 6.24 million TEUs, respectively, representing a decrease of 4.1% year-on-year. The volume of general and bulk cargo handled by Qingdao Port project was approximately 14.78 million tonnes and 13.12 million tonnes, respectively, for the same periods, representing a decrease of 11.2% year-on-year.

The operations of Qingdao Port project occupy a total area of approximately 2,650 thousand square metres, a stack yard area of 2,220 thousand square metres. and have a handling capacity of approximately 620 million TEUs. The 18 berths total 5,000 metres in length, with a minimum alongside water depth of 13.5 to 20 metres.

The Group is also engaged in the operation and management of Qianwan Logistics Park. China Merchants International Terminal (Qingdao) Co., Ltd. is 90.1% owned by the Group and 9.9% owned by Qingdao Bonded Port Zone. The Qianwan Logistics Park occupies one square kilometre and is built around an integrated terminal and logistics facility that extends the port services supply chain and provides for further development of other related services.

Qingdao Port Dongjiakou Ore Terminal Co., Ltd.
Qingdao Port Dongjiakou Ore Terminal Co., Ltd ("**QPDOT**") operates and manages three bulk cargo berths with a total length of 1,224 metres in Dongjiakou.

QPDOT is 25.00% owned by the Group. For the years ended 31 December 2016 and 2017, the volume of general and bulk cargo handled by QPDOT was approximately 56.93 million tonnes and 55.36 million tonnes, respectively, indicating a decrease of 2.8% year-on-year.

Tianjin Five Continents International Container Terminals Co., Ltd.
Tianjin Five Continents International Container Terminals Co., Ltd. ("**TFCIT**") operates and manages four berths at the container terminal on the northern side of Dongtu Bank, Tianjin port.

TFCIT is 14.00% owned by the Group. Profits and losses will be distributed to and borne by the shareholders in proportion to their equity interest in TFCIT. For the years ended 31 December 2016 and 2017, the volume of containers handled by TFCIT was approximately 2.57 million TEUs and 2.63 million TEUs, respectively, indicating an increase of 2.3% year-on-year.

TFCIT's operations occupy a total area of approximately 447 thousand square metres, a stacking yard area of 350 thousand square metres. The berths total 1,202 metres in length, with a minimum alongside water depth of 15.7 metres.

Dalian Port (PDA) Company Limited
In February 2016, the Group subscribed for a 21.05% interest in Dalian Port (PDA) Company Limited, the operating company of the Port of Dalian in the Bohai Rim region, making it the second largest shareholder.

Dalian Port (PDA) Company Limited and its subsidiaries are principally engaged in the operation and management of oil/liquefied chemicals terminals, container terminals, automobile terminals, ore terminals, general cargo terminals and bulk grain terminals and related logistics services and ancillary port operations.

For the years ended 31 December 2016 and 2017, Dalian Port (PDA) Company Limited handled a container throughput of 9.67 (from February to December) and 10.75 million TEUs, representing a year-on-year increase of 11.2%. Bulk cargo volume increased 20.8% over the same period, from 107.41 to 130 million tonnes.

South-eastern region of mainland China

Zhangzhou China Merchants Port Co., Ltd.

Zhangzhou China Merchants Port Co., Ltd. ("**ZCMP**") operates and manages nine berths totalling 2,112 metres in length at Zhaoyin Harbour area, Xiamen Port. Zhaoyin Harbour area of Xiamen Port is located in the Zhangzhou Economic Development Zone, Fujian, on the south bank of the Xiamen Gulf, at the estuary of the Jiulong River.

ZCMP is 60.00% owned by the Group and 40.00% owned by China Merchants Zhangzhou Development Zone Company Limited ("**CMZDC**"). Profits and losses are distributed to and borne by the shareholders in proportion to their equity interest in ZCMP. For the years ended 31 December 2016 and 2017, the volume of containers handled by ZCMP was approximately 0.34 million TEUs and 0.40 million TEUs, respectively, representing an increase of 19.0% year-on-year which mainly resulted from an increase in domestic shipping routes. The volume of general and bulk cargo handled by ZCMP was approximately 9.91 million tonnes and 10.43 million tonnes, respectively, for the same periods, representing an increase of 5.3%.

Shantou Ports Group Corp Co., Ltd.

In August 2017, the Group successfully subscribed for a 60% interest in the Shantou Ports Group Corp Co., Ltd., a company principally engaged in ports operation in the south-eastern region of Guangdong Province. As the operator of five port zones in Shantou Port with a total of 17 berths, the acquisition of this company is expected to strengthen the Group's port network in the south of the PRC. For the period from August to December 2017, Shantou handled a container throughput of 0.37 million TEUs and a bulk cargo volume of 3.22 million tonnes.

South-western region of mainland China

Zhanjiang Port (Group) Co., Ltd.

Zhangjiang Port (Group) Co. Ltd ("**ZPGC**") is a Sino-foreign joint venture limited company situated at Zhanjiang port, lying at the western part of Guangdong Province and north of Leizhou Peninsula. Zhanjiang port is a deep-water port endowed with strategic waterways in south China and southwest China. It is an important sea-bound port in the Pan Southwest region and western part of Guangdong.

As at 31 December 2017, ZPGC is 40.29% owned by the Group. Profits and losses are distributed to and borne by the shareholders in proportion to their equity interest in ZPGC. ZPGC is primarily engaged in terminal services for large bulk cargos, iron ore and petroleum, approximately 67.7% of which is attributable to iron ore. Zhanjiang port is China's largest iron ore handling port south of Ningbo port. Zhanjiang port is expected to benefit from the rapid development in the Pan Southeast region of China and the expected increase in importation of iron ore and petroleum by China.

ZPGC owns and operates two port areas namely the Xiashan Port Zone and the Tiaoshundao Port Zone. They collectively constitute a quay line of 8,214 metres and 35 productive berths.

For the years ended 31 December 2016 and 2017, ZPGC handled a total container throughput of 0.72 million TEUs and 0.90 million TEU, respectively, up by 24.3% year-on-year. For the same periods, total bulk cargo volume was 85.11 million tonnes and 90.27 million tonnes, up by 6.1% year-on-year.

Overseas

(a) *Nigeria*

Tin-Can Island Container Terminal Limited

In November 2010, the Group, through a 60% indirectly held subsidiary, of which 40% stake held by China-Africa Development Fund ("**CADF**"), acquired a 47.5% shareholding interest in TICT, which operates and manages the Tin-Can Island Container Terminal in Lagos, Nigeria. This acquisition marked the first step in the Group's expansion into overseas markets and adhered to its strategy of capturing available opportunities overseas as one of the means to effectively add new growth drivers to its existing ports business. As at 31 December 2017, the Group's effective interest in TICT was 28.50%.

TICT operates and manages three berths at the container terminal at the Tin-Can Island Container Terminal. Profits and losses are distributed to and borne by the shareholders in proportion to their equity interest in TICT. Tin-Can Island Container Terminal is primarily engaged in container terminal services.

For the years ended 31 December 2016 and 2017, the volume of containers handled by Tin-Can Island Container Terminal was approximately 0.41 million TEUs and 0.47 million TEUs, respectively, representing a year-on-year increase of 14.0%. Tin-Can Island Container Terminal's operations occupy a total area of approximately 270 thousand square metres, a stacking yard area of 230 thousand square metres. The berths total 770 metres in length, with a minimum alongside water depth of 12.5 to 13.5 metres.

(b) *Djibouti*

Port de Djibouti SA

In December 2012, the Group entered into a Sale Purchase Agreement with Djibouti Ports & Free Zones Authority to acquire 23.5% of the issued share capital in PDSA, the key assets of which include a multi-purpose terminal located at the Port of Djibouti and 23.10% of the issued share capital in Djibouti Dry Port FZCO, which engages in the development and management of properties in Djibouti Free Zone. PDSA also owns the Doraleh Multi-Purpose Port which is under construction. The Port of Djibouti, which lies strategically at the mouth of the Red Sea, thus making it an ideal transhipment hub for maritime cargoes passing in and out of East Africa, offers long-term growth potential as the economic momentum in the proximity intensifies over time.

For the years ended 31 December 2016 and 2017, the volume of containers handled by PDSA was approximately 0.99 million TEUs and 0.93 million TEUs, respectively, representing a year-on-year decrease of 6.0%, and the volume of general and bulk cargo handled by PDSA was approximately 6.52 million tonnes and 5.28 million tonnes, respectively.

In January 2017, the Guarantor consolidated its position in Djibouti by entering into two joint ventures relating to ownership (the "**Asset Joint Venture**") and the operation and maintenance (the "**O&M Joint Venture**") of the Djibouti Free Trade Zone. The Guarantor currently holds a 40% interest in the Asset Joint Venture (with China Merchants Investment Development Company Limited and Cheer Signal Investment Limited holding the remaining 40% and 20%, respectively). The Guarantor currently holds a 26.7% interest in the O&M Joint Venture (with China Merchants Investment Development Company, Cheer Signal Investment Limited, Port of Dalian Group Co., Ltd. and IZP (China) Network Technologies Co., Ltd. holding 26.7%, 13.3%, 25% and 8.3%, respectively).

(c) *Sri Lanka*

Colombo International Container Terminals Limited
In September 2010, the Group entered into a Shareholder's Agreement with Sri Lanka Ports Authority and Aitken Spence in relation to Colombo International Container Terminals Limited, for the construction, development, management and operation of the Colombo South Container Terminal ("**CSCT**"). The build, operate and transfer agreement in relation to CSCT was signed in August 2011. In January 2012, the Group acquired Aitken Spence's entire 30% interest in CICT, bringing its total equity interest to 85%. The Group obtained financing from China Development Bank in respect of this acquisition.

CSCT was designed to accommodate the latest generation of mainline container vessel with a quay length of 1,200 metres, covering a land area of 58 hectares, with a minimum alongside water depth of 18 metres and a design capacity of 2.4 million TEUs.

CSCT commenced operations in 2013 and was the first overseas terminal project in which the Group had independent operation and management rights. For the years ended 31 December 2016 and 2017, the volume of containers handled by CSCT was approximately 2.02 million TEUs and 2.39 million TEUs, respectively, representing an 18.5% year-on-year increase.

Hambantota Port Project
In July 2017, the Group entered into a Concession Agreement with the Sri Lanka Ports Authority ("**SLPA**") and the Government of the Democratic Socialist Republic of Sri Lanka in relation to the development, management and operation of the Hambantota Port. The project was delivered in December of the same year after the relevant Supplementary Concession Agreement, Conditions Precedent Amendment Letter and Shareholders Agreements were signed (together the "**Hambantota Concession Agreements**"). As at the date of this Offering Memorandum, the Group has an 85.0% interest in HIPG which in turn has a 58.0% interest in Hambantota International Port Services Company (Private) Limited ("**HIPS**"). The other 15.0% interest in HIPG and 42.0% in HIPS are held by SLPA. Pursuant to the Hambantota Concession Agreements, HIPG and HIPS will develop, operate, maintain and manage the operation of the Hambantota Port. It is anticipated the Hambantota Port project will offer synergies with CSCT and further promote the construction of the Group's overseas homebase port in Sri Lanka.

(d) *Togo*

Lomé Container Terminal S.A.
In August 2012, the Group through its wholly-owned subsidiary Oasis King International Ltd ("**OKIL**") acquired a 50% stake in Thesar Maritime Limited ("**TML**"). In 2015, the Group transferred 30% stake of OKIL to the CADF. As at 31 December 2017, the Group's effective interest in TML was 35%. TML owns the concession rights to develop and operate the LCT. LCT operates and manages three berths. Given its maritime proximity and its natural sea-depth, Lom*é* lies strategically as Togo's key import and export channel and combined with the Togolese Government's open and free trade policies, the terminal is well-placed to service cargo flows along the Gulf of Guinea and is a key transhipment hub for the West African Region.

As at 31 December 2017, container throughput handled by LCT was 0.89 million TEUs compared to 0.53 million TEUs for 31 December 2016, a year-on-year increase of 67.5% .

(e) *Brazil*

TCP Participações S.A.
On 4 September 2017, the Group entered into a share purchase agreement with TCP and several independent third-party initial shareholders, pursuant to which the Group purchased 90% of the total issued share capital of TCP, a company principally engaged in the operation of port facilities in Brazil. The acquisition completed in February 2018, expanding the Group's presence to Central and South America for the first time.

(f) *Terminal Link*

Terminal Link SAS

In January 2013, the Group entered into a Share Purchase Agreement with, among others, CMA Terminals Holdings SAS and Terminal Link SAS to purchase 49% of the issued shares in Terminal Link SAS. As at the date of this Offering Memorandum, Terminal Link owns a portfolio of 14 geographically-diversified container and bulk cargo ports located in France, Morocco, Malta, the United States, Ivory Coast, Belgium, Greece and South Korea. Terminal Link's strategic relationship with CMA CGM supports Terminal Link's long-term growth and development.

For the years ended 31 December 2016 and 2017, the volume of containers handled by Terminal Link was approximately 12.35 million TEUs and 12.56 million TEUs, respectively, representing a year-on-year increase of 1.8%.

(g) *Australia*

Port of Newcastle/Gold Newcastle Property Holding Pty Limited

In February 2018, the Group entered into an acquisition agreement to acquire a 50% interest in the entities operating the PON, the largest port on the east coast of Australia and the world's largest thermal coal export port, from CMU and its wholly-owned subsidiary Gold Newcastle Property Holding Pty Limited ("**Gold Newcastle**"). The remaining 50% interest in the PON is held by an independent third party. The Group also agreed to purchase Gold Newcastle itself, making it a wholly-owned subsidiary of the Group. The acquisitions were completed in June 2018 and extend the Group's port network to six continents.

Other Ports related services

Barge shuttle network

The Group commenced the operation of its barge shuttle service in the Pearl River Delta area in 2004. This service has allowed general and bulk cargo owners to conduct transhipment between the port area in western Shenzhen and the Pearl River Delta area. The Group believes that its barge shuttle network will attract major marine routes to designate Shenzhen as their homeport. Leveraging the unique advantages of the port area in western Shenzhen, the Group's barge shuttle service has expanded into the hinterland of the port area in western Shenzhen over the years. At present, the coverage of the shuttle service has extended to Huangpu, Shunde, Jiangmen, Zhongshan, Nanhai, Foshan, Zhanjiang, Zhuhai, Zhaoqing and other ports along the feeder routes.

To further expand its service network, in December 2010, the Group acquired a 20% interest in CKRTT to develop public barge services for feeder and carrier ports in connection with CKS, a cargo transport operator in the Pearl River Delta. The acquisition was completed in February 2011. The acquisition has enhanced the strategic collaboration between the Group's western ports and river trade terminals in the Pearl River Delta.

The Group believes that the barge shuttle network has increased the attractiveness of the port area in western Shenzhen and will play an important part in the growth of the ports area in the future.

Tugboat services

The Group provides tugboat and ancillary transportation and security services to its customers through certain of its subsidiaries. These are:

- Zhangzhou China Merchants Tugboat Co., Ltd, which was established in November 2004, provides tugboat services to ships using the Zhangzhou port and the Xiamen port in Fujian. As at 31 December 2017, the Group held a 70% interest in this investment.

- Shenzhen Lianda Tug Co., Ltd, which was established in 1992, provides tugboat services to ships using the Shenzhen port. As at 31 December 2017, the Group held a 60.29% interest in this investment.

- Shantou Harbour Tug Service Co., Ltd, which was established in 2016, provides tugboat services to ships using the Shantou port. As at 31 December 2017, the Group held a 60% interest in this investment.

Bonded Logistics Operations

Bonded Port Zone collaboration

The Group has implemented the Bonded Port Zone collaboration model at its logistics parks in western Shenzhen (Shenzhen Qianhaiwan Bonded Port Zone, which has an area of 3.83 kilometres squared and included in the Guangdong Free Trade Zone along with other deep water container terminals), Qingdao (Qingdao Bonded Port Zone, which has 11 high-end separated warehouses totalling approximately 150,000 metres squared and 400,000 metres squared available and Tianjin (Tianjin Dongjiang Bonded Port Zone, which has 57,000 metres squared of warehouses and 67,000 metres squared of yard area). In the PRC, shipment of containers and general and bulk cargo from a port to a location outside the port will generally be subject to duties. The Bonded Port Zone collaboration model involves the construction of bonded and logistics parks for a port that is outside but adjacent to such port. Customers can transport their containers and general and bulk cargo from the port to a warehouse, where they can be stored on a temporary basis but can be shipped to another location inside one of the bonded and logistics parks. The containers and general and bulk cargo that are shipped from the port to the bonded and logistics parks will be exempt from duty.

The Group's logistics parks in western Shenzhen, Qingdao and Tianjin offer a range of value-added services to its customers and this has contributed to the growth of its ports business. In addition to bonded and supervisor control warehouse operations, the Group's logistics parks also provide processing, delivery, consolidation, assortment, packaging and assembling services to meet the demands of its customers for integrated logistics services. The Group intends to focus on enhancing the services offered at its logistics parks. The Group believes its logistics parks allow its customers to benefit from savings in overall operating costs and increases their shipping routes, result in increased throughput at its ports and increase the competitiveness of its ports.

Port related manufacturing operations — Container Manufacturing

China International Marine Containers (Group) Co., Ltd.

In June 2017, the Group completed the disposal of its entire indirect 24.53% shareholding in China International Marine Containers (Group) Co., Ltd. (the "**CIMG Group**"). After the completion of the disposal, the Group realised a one-off net gain of approximately HK$813 million. The CIMC Group was principally engaged in the design, manufacture and sale of dry freight containers and refrigerated containers and was listed on both the Shenzhen Stock Exchange and the Hong Kong Stock Exchange.

Competition

The Group faces competition in each of its business areas.

Ports operation

The Group competes with other port operators in the following respects:

- *location*: strategic location of the port relative to economic trade areas, water depth and other factors that affect the ability of the port to accommodate large ships, and connectivity with other ports;

- *facilities and supporting infrastructure*: accessibility to roads and other transportation links, and capacity and scale of terminal operations and capability of accommodating large ships;

- *service*: ability to provide efficient and reliable services, ability to meet the diverse and complex operational requirements of customers, and local knowledge; and

- *price*: offering a competitive pricing structure.

The Group competes with both international companies that may have a network of ports in different regions, and significant financial resources, marketing and other capabilities, and local companies that may have extensive local knowledge and business relationships, and have ports that are located in areas that the Group does not service.

Bonded logistics operation

The Group competes with other bonded logistics operators on factors such as resources (in relation to sourcing for land to construct other port-related business in suitable locations) and in obtaining State Council's approval to enjoy the benefits of Bonded Port Zones. In addition, the Group competes on its capability and industry expertise to operate the port-cargo-park collaboration.

Employees

As at 31 December 2017, the Guarantor had 8,040 full-time employees, 194 of which were employed in Hong Kong, 6,811 worked in the PRC and the remaining 1,035 worked overseas. Staff benefits include salaries, provident fund, insurance and medical cover, housing and share option schemes. The Guarantor believes that its employees are critical to its success and is committed to investing in the development of its employees through continuing education and structured training, as well as the creation of opportunities for career growth.

Governmental Regulations

The Guarantor's operations are subject to a variety of laws and regulations promulgated by the national and local government of the PRC, such as environmental laws. The Guarantor's operations are subject to inspections by government officials with regard to various safety and environmental issues. The Guarantor believes that the Guarantor is in compliance in all material respects with applicable governmental regulations in the jurisdictions in which the Guarantor operates. Compliance with such laws has not had, and in the Guarantor's opinion, is not expected to have, a material adverse effect upon the Guarantor's capacity expenditures, earnings or competitive position. The Guarantor is not aware of any governmental proceedings or investigations to which it or any member of the Guarantor is or might become a party and which may have a material adverse effect on its properties and operations.

Insurance

The Guarantor maintains insurance policies which cover loss caused by fire, flood, riot, strike and malicious damage. The Guarantor believes that its properties are covered with adequate insurance provided by reputable independent insurance companies in the relevant jurisdictions and with commercially reasonable deductibles and limits on coverage, which are normal for the type and location of the assets and properties to which they relate. Notwithstanding such insurance coverage, damage to the buildings, facilities, equipment, or other properties as a result of occurrences such as fire, floods, water damage, explosion, power loss, typhoons and other natural disasters or terrorism, or any decline in the Guarantor 's business as a result of any threat of war, outbreak of disease or epidemic, may potentially have a material adverse effect on the Guarantor's financial condition and operating results.

CHINA MERCHANTS GROUP LIMITED

CMG is the majority shareholder of the Guarantor, CMG, directly and indirectly, including through CMU, has the power to direct voting right over approximately 61.81% of the total issued share capital of the Guarantor. CMG is a state-owned enterprise directly under the regulatory jurisdiction of the PRC government and directly and indirectly controls or holds equity interests in a diverse range of businesses including logistics, shipping, financial services, toll roads and properties.

While the Guarantor enjoys a high degree of autonomy in its daily operations, CMG (and, indirectly, the PRC government) together play a strategic and important role in the Guarantor's overall corporate planning, including new acquisitions, the appointment of the Guarantor's Board of Directors and senior management, and the Guarantor's capital expenditures and budgeting. The Chairman of the Board of Directors of the Guarantor is a Director and the Group President of CMG.

Although the Guarantor believes that its relationship with CMG provides it with significant business advantages, the relationship results in various related party, or "connected", transactions. CMG is a connected person of the Guarantor for the purposes of the Listing Rules and, accordingly, any transactions entered into between the Guarantor and/or its subsidiaries and CMG and/or its subsidiaries or associates are connected transactions which, unless one of the exemptions is available or relevant waivers are applied for and granted, will be subject to the relevant requirements of Chapter 14A of the Listing Rules. These requirements include the issuance of press notices, the obtaining of independent shareholders' approval at general meetings and disclosure in annual reports and accounts.

The Guarantor currently engages in, and expects from time to time in the future to engage in, financial and commercial transactions with CMG and its subsidiaries and associates. The transactions are priced in accordance with the relevant agreements governing such transactions or by reference to market rates. See note 41 to the audited consolidated financial statements for the year ended 31 December 2017 of the Group, included elsewhere in this Offering Memorandum.

DIRECTORS AND SENIOR MANAGEMENT

The members of the Board of Directors of the Guarantor as at the date of this Offering Memorandum are as follows:

Name	Age	Title
Executive Directors		
Mr. Fu Gangfeng	51	Chairman
Mr. Hu Jianhua	55	Vice Chairman
Mr. Su Jian	46	Executive Director
Mr. Xiong Xianliang	50	Executive Director
Mr. Bai Jingtao	53	Managing Director
Mr. Wang Zhixian	53	Executive Director
Mr. Zheng Shaoping.	55	Executive Director
Independent Non-executive Directors		
Mr. Kut Ying Hay	63	Independent Non-executive Director
Mr. Lee Yip Wah Peter	76	Independent Non-executive Director
Mr. Li Kwok Heem John	63	Independent Non-executive Director
Mr. Li Ka Fai David	63	Independent Non-executive Director
Mr. Bong Shu Ying Francis	76	Independent Non-executive Director

The biographies of the Executive and Independent Non-executive Directors and Senior Management of the Guarantor as at the date of this Offering Memorandum are as follows:

Executive Directors

Mr. Fu Gangfeng, aged 51, is the Chairman of the Guarantor and a Director and Group President of China Merchants Group Limited. He graduated from Xi'an Highway Scientific Academy with a Bachelor's Degree in Finance in September 1987 and a Master's Degree in Engineering Management in May 1990, respectively, and became a Certified Senior Accountant. Prior to joining the Company, Mr. Fu successively served as the Deputy Director of the Zhong Hua (Shekou) Certified Public Accountants, the Director of the Chief Accountant Office and Chief Accountant of China Merchants Shekou Industrial Zone Co., Ltd., and has been General Manager of the Finance Department, Vice Chief Financial Officer and Chief Financial Officer of China Merchants Group Limited. He is also currently the Vice Chairman of China Merchants Shekou Industrial Zone Holdings Co., Ltd., shares of which are listed on the Shenzhen Stock Exchange, the Director of China Merchants Bank Co., Ltd., shares of which are listed on both the Shanghai Stock Exchange and the Hong Kong Stock Exchange. Mr. Fu was appointed to the Board of Directors as Executive Director on 1 June 2015 and retired as Executive Director on 29 November 2016. He was also appointed as Executive Director and the Chairman of the Board of Directors of the Guarantor on 20 March 2018.

Mr. Hu Jianhua, aged 55, is the Vice Chairman of the Guarantor and the Executive Vice President of China Merchants Group Limited. He graduated from the Dalian University of Technology in the PRC with a Bachelor's Degree in Port and Waterway Engineering. He then obtained a Master's Degree in Construction Management from the University of Birmingham in the United Kingdom and a Doctorate Degree in Business Administration from the University of South Australia. He is the Professorial Senior Engineer conferred by the Ministry of Transport of China, a fellow member of the Hong Kong Institution of Engineers (FHKIE) and also a fellow member of Institution of Civil Engineering Surveyors of the United Kingdom (FlnstCES). Prior to joining the Guarantor, he was the Managing Director of Hong Kong Zhen Hua Engineering Co., Ltd., Deputy Chief Economist cum General Manager of the Overseas Division of China Harbor Engineering Company Group and Managing Director of China Harbor Engineering Company Limited. Having rich working experience in overseas, he has extended the business to over 50 countries and regions in the investment, development, construction and operation management of large infrastructure projects such as ports, portside industrial parks, free trade zones and international shipping centres. With experience as a corporate executive, he was the Chairman of China Merchants Logistics Group, Chairman of China Nanshan Development (Group) Incorporation, the Vice Chairman of CCOFCO & CM (Shenzhen) Grain Electronic Trading Centre Co., Ltd. He is also currently the Chairman of Silk Road E-Merchants Company Limited and holds the post of executive director in several companies in China and overseas. He was appointed to the Board of Directors as an Executive Director of the Guarantor on 25 May 2007. He was appointed as Managing Director of the Guarantor on 26 March 2010 and resigned on 16 April 2015. Mr. Hu was appointed as Vice Chairman of the Guarantor on 18 February 2018.

Mr. Su Jian, aged 46, is the Head of the Finance Department (Property Rights Department) of China Merchants Group Limited. He graduated from Shanghai University of Finance and Economics with a Bachelor's Degree in Economics. He then obtained the qualifications of non-practising member of the Chinese Institute of Certified Public Accountants and intermediate accountant. He previously served as the Financial Manager of China Merchants International Travel Services Limited, Senior Manager of the Finance Department of China Merchants Shekou Industrial Zone Company Limited, Senior Manager, Assistant to the Head of the Finance Department and Deputy Head of the Finance Department of China Merchants Group Limited, Deputy Head of the Organization Department of the Human Resources Department of China Merchants Group Limited, Party Secretary, Secretary of Commission for Discipline Inspection and Assistant General Manager of China Merchants Industry Holdings Company Limited. Mr. Su is also currently a Non-executive Director of China Merchants Energy Shipping Co., Ltd., shares of which are listed on the Shanghai Stock Exchange, and a Non-executive Director of China Merchants Securities Co., Ltd., shares of which are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange. He was appointed to the Board of Directors as Executive Director of the Guarantor on 12 October 2017.

Mr. Xiong Xianliang, aged 50, is the General Manager of the Strategy and Development Department and the Safety Supervision and Administration Department of China Merchants Group Limited. He graduated from Nankai University with a Master's Degree and a Doctorate Degree in Global Economics in July 1991 and January 1994, respectively. Prior to joining the Guarantor, he was previously the Researcher and Director of the Development Research Center of the State Council, the Deputy Head of the Chongqing Development and Planning Commission, the Deputy Head of the General Group of the Steering Committee Office of the Western Region Development of the State Council, the Inspector of the Research Office of the State Council, the General Manager of the Strategy and Research Department of China Merchants Group Limited, and a Non-executive Director of China Merchants Bank Co., Ltd., shares of which are listed on both the Shanghai Stock Exchange and the Hong Kong Stock Exchange. He is also currently a Non-executive Director of China Merchants Securities Co., Ltd., shares of which are listed on both the Shanghai Stock Exchange and the Hong Kong Stock Exchange. He was appointed to the Board of Directors of the Guarantor as an Executive Director on 4 June 2018.

Mr. Bai Jingtao, aged 53, is a professor level senior engineer and Managing Director of the Guarantor. He graduated from the Department of Hydraulics at Tianjin University with a Bachelor's Degree in Port and Channel Engineering in 1986, then studied at the Graduate School of Wuhan University of Technology and the Graduate School of Shanghai Maritime University and obtained a Master's Degree in Management Sciences and Engineering and a Doctorate Degree in Transport and Communications Planning and Management. Prior to his appointment as General Manager of the Guarantor in April 2015, Mr. Bai successively served as Assistant Engineer in the Planning and Design Institute of the Ministry of Communications of the PRC, as an Officer in the Department of Engineering Management and the Department of Infrastructure Management of the Ministry of Communications, Deputy Director and Director in the Department of Infrastructure Management and the Department of Water Transport of the Ministry of Communications, Deputy General Manager of China Merchants Zhangzhou Development Zone, as Deputy Director of Xiamen Port Authority, as Deputy Director of Zhangzhou China Merchants Economic and Technological Development Zone and

General Manager of China Merchants Zhangzhou Development Zone. Mr. Bai has extensive experience in port management, engineering construction, planning and management of water transport. He is also the Chairman of Shenzhen Chiwan Wharf Holdings Limited, shares of which are listed on the Shenzhen Stock Exchange, Vice-Chairman of Shanghai International Port (Group) Co., Ltd., shares of which are listed on the Shanghai Stock Exchange, and Vice Chairman and Non-executive Director of Dalian Port (PDA) Company Limited, shares of which are listed on both the Hong Kong Stock Exchange and the Shanghai Stock Exchange. Mr. Bai was appointed as the Managing Director of the Board of Directors of the Guarantor on 1 June 2015.

Mr. Wang Zhixian, aged 53, joined the Guarantor in July 1992 and is an Executive Director of the Guarantor. He is also the Chairman of China Nanshan Development (Group) Incorporation. He graduated from Tianjin University, Shanghai Jiaotong University with a Master's of Science. He obtained a Master's Degree in Business Administration from Guanghua School of Management at Peking University. Mr. Wang has extensive management experience in the port and shipping industry. Prior to joining the Guarantor, he worked in Hempel-Hai Hong Paint Company as a sales manager. After joining the Guarantor, he was the Deputy General Manager of the Industrial Management Department, the General Manager of the Business Planning Department and he was the Deputy General Manager of Shenzhen Mawan Port Services Co., Ltd., the Chairman and CEO of Ningbo Daxie China Merchants International Terminal Co., Ltd,. and the Managing Director of China Merchants Port Services (Shenzhen) Co., Ltd., Shenzhen Haixing Harbour Development Co., Ltd. and a Non-executive Director of China International Marine Containers (Group) Co., Ltd., shares of which are listed on both the Shenzhen Stock Exchange and the Hong Kong Stock Exchange. He was appointed as an Executive Director of the Guarantor on 18 February 2016.

Mr. Zheng Shaoping, aged 55, is an Executive Director and the Deputy General Manager of the Guarantor. He graduated from Dalian Maritime University with a Postgraduate Diploma in International Maritime Law and obtained a Master's Degree in Business Administration from the University of Wales. Mr. Zheng has over 20 years' experience in the field of port management and successively served as the Vice Chairman of China Merchants Bonded Logistics Co., Ltd., the Chairman of Shekou Container Terminals Ltd., the General Manager and Chairman of Chiwan Container Terminal Co., Ltd., the General Manager and Chairman of Shenzhen Chiwan Harbour Container Co., Ltd., and the Managing Director and Chairman of Shenzhen Chiwan Wharf Holdings Limited, shares of which are listed on the Shenzhen Stock Exchange. He is also currently a Non-executive Director of Dalian Port (PDA) Company Limited, shares of which are listed on both the Hong Kong Stock Exchange and the Shanghai Stock Exchange, Director of Shanghai International Port (Group) Co., Ltd. and Director of Ningbo Zhoushan Port Co., Ltd., both shares of which are listed on the Shanghai Stock Exchange. He was appointed to the Board of Directors of the Guarantor as an Executive Director on 10 February 2012.

Independent Non-executive Directors

Mr. Kut Ying Hay, aged 63, is a solicitor and a notary public in Hong Kong and had been in practice in the name of Kut & Co. for more than 25 years. He was also a solicitor of the Supreme Court of England and Wales, the Supreme Court of Victoria, Australia, and the Supreme Court of Singapore, and was an associate member of the Institute of Chartered Arbitrators and the Institute of Arbitrators, Australia. He was appointed by the Hong Kong Government as a member of the Board of Review for the period from 1995 to 1998. He has also been appointed by the Ministry of Justice of the PRC as a China Appointed Attesting Officer. Mr. Kut was formerly an Independent Non-executive Director of publicly-listed China Merchants China Direct Investments Limited from June 1993 to October 2011. He was appointed to the Board of Directors of the Guarantor as Independent Non-executive Director on 6 June 1992.

Mr. Lee Yip Wah, Peter, aged 76, is a retired solicitor. He is also a Non-executive Director of SHK Hong Kong Industries Limited and an Independent Non-executive Director of Sinotrans Shipping Limited, shares of the above two companies are listed on the Hong Kong Stock Exchange. He was appointed to the Board of Directors of the Guarantor as Independent Non-executive Director on 20 June 2001.

Mr. Li Kwok Heem, John, aged 63, was a partner at PricewaterhouseCoopers, Certified Public Accountants. He graduated from the Imperial College of the University of London with a Bachelor's of Science and also obtained a Master's Degree in Business Administration from the Wharton School of Business at the University of Pennsylvania. He is a Fellow of The Institute of Chartered Accountants in England and Wales. Mr. Li is the immediate past Chairman of the United Christian Medical Service and the United Christian Hospital, a member of the Board of the Hospital Governing Committee of Pamela Youde Nethersole Eastern Hospital and Alice Ho Mui Ling Nethersole Hospital, and a member of the Board of Trustees of Chung Chi College, The Chinese University of Hong Kong. He was appointed to the Board of Directors of the Guarantor as Independent Non-executive Director on 8 October 2004.

Mr. Li Ka Fai, David, aged 63, is currently the deputy managing partner of Li, Tang, Chen & Co. CPA (Practising). He is also a fellow of the Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants, UK, The Institute of Chartered Secretaries and Administrators, UK, as well as The Institute of Chartered Accountants in England and Wales. He is an Independent Non-executive Director and Chairman of the audit committee, member of remuneration committee and member of nomination committee of China-Hongkong Photo Products Holdings Limited, an Independent Non-executive Director, the Chairman of the audit committee, a member of remuneration committee and member of nomination committee of Cosmopolitan International Holdings Limited, an Independent Non-executive Director, the Chairman of the audit committee, a member of remuneration committee and member of the nomination committee of Goldlion Holdings Limited, an Independent Non-executive Director and the Chairman of the audit committee of Shanghai Industrial Urban Development Group Limited, an Independent Non-executive Director, a member of the audit committee and member of the remuneration committee of AVIC International Holding (HK) Limited, and an Independent Non-executive Director and the Chairman of the audit committee of Wai Yuen Tong Medicine Holdings Limited, the shares of the above six companies are listed on the Hong Kong Stock Exchange. He was appointed to the Board of Directors of the Guarantor as Independent Non-executive Director on 1 June 2007.

Mr. Bong Shu Ying, Francis, aged 76, OBE, JP, is currently a Non-executive Director of Cosmopolitan International Holdings Limited, shares of which are listed on the Hong Kong Stock Exchange. Mr. Bong holds a Bachelor's of Science Degree in Engineering from the University of Hong Kong and was the Chairman of the Hong Kong University Engineering Advisory Committee. He is a former President of the Hong Kong Institution of Engineers, a former President of Hong Kong Academy of Engineering Sciences, a Fellow of the Institution of Civil Engineers (UK) and a Fellow of the Institution of Structural Engineers (UK). Mr. Bong is also an Honorary Fellow of the University of Hong Kong. He was appointed a Justice of Peace in 1992 by the Government of Hong Kong and received an OBE award in 1997 for his outstanding contribution to the development of the engineering profession in Hong Kong. Mr. Bong was a former Director of AECOM Technology Corporation, a company listed on the New York Stock Exchange. He was appointed to the Board of Directors of the Guarantor as Independent Non-executive Director on 14 July 2010.

Senior Management

Mr. Hang Tian, aged 54, joined the Guarantor in February 2011 and is the Deputy General Manager of the Guarantor. He was honoured with a Master's Degree in Business Administration, jointly given by Shanghai Maritime University and the Management School of Maastricht of Holland, and also obtained a Master's Degree in Supply Chain and Logistics Management from The Chinese University of Hong Kong. Before joining the Guarantor, he was a Regional Manager of Sea-Land Service (China) Co. Ltd., the Deputy General Manager of Shezhen Shekou China Merchants Port Services Co. Ltd., the General Manager of China Ever Bright Financial Assets Management (HK) Co. Ltd., the Deputy General Manager of ST-Anda Logistics Co. Ltd. and the Deputy General Manager of China Merchants Logistics Holding Co. Ltd.

Mr. Lu Shengzhou, aged 53, joined the Guarantor in 2015 and is the Chief Financial Officer of the Guarantor. He graduated from Zhongnan University of Finance and Economics with a Master's Degree in National Economics. Mr. Lu has over 20 years' experience in financial management and has held the positions of the Head of the Finance Department of China Merchants Shekou Industrial Zone Holdings Co., Ltd., Assistant to the General Manager and Officer of the Finance Department of China Merchants Group Limited, Chief Financial Officer of Hong Kong Ming Wah Shipping Co., Ltd. and the Deputy General Manager of the Finance Department of China Merchants Group Limited.

Mr. Yim Kong, aged 46, joined the Guarantor in 2006 and currently serves as Deputy General Manager. Having obtained an undergraduate degree in International Trade at Xiamen University, he went on to complete a Master's Degree in Business Administration co-created by the Maastricht School of Management (Maastricht, the Netherlands) and the Shanghai Maritime University. Mr. Yim has rich managerial experience in the port and logistics industries. Prior to joining the Guarantor, he held senior logistics management positions in Neptune Orient Lines (NOL) of Singapore and Swire Group of Hong Kong, and was Deputy General Manager, Deputy Executive Manager and General Manager of Shekou Container Terminals Limited, one of the Guarantor's subsidiaries. Mr. Yim formerly held the position of Chief Business Officer of the Guarantor from May to November 2016.

Mr. Lu Yongxin, aged 48, joined the Guarantor in 2007 and currently serves as Deputy General Manager. He obtained a Master's Degree in Project Management at the Curtin University of Technology (Perth, Western Australia). Mr. Lu has gathered rich managerial experience in the international portfolio expansion activities of port companies. Prior to joining the Guarantor, he served as Assistant General Manager of Zhen Hua Engineering Co., Ltd. and Deputy General Manager in charge of the General Manager's Office at China Harbor Engineering Co., Ltd. (Beijing). He was Deputy General Manager of the Research & Development Division, General Manager of the International Division and Assistant General Manager of the Guarantor. Between May 2014 and January 2016, Mr. Lu was accredited to France as Chief Financial Officer and Senior Vice President of Terminal Link.

Mr. Li Yubin, aged 46, joined the Guarantor in 2007 and currently serves as Deputy General Manager of the Guarantor and also a director of Shenzhen Chiwan Wharf Holdings Limited, shares of which are listed on the Shenzhen Stock Exchange. Having earned a Master's Degree in International Project Management at Tianjin University, Mr. Li went on to obtain a Doctorate Degree in Real Estate and Construction at The University of Hong Kong. Mr. Li has rich operation management and strategic experience in the ports and logistics industries. Prior to joining the Guarantor, he served as the Accredited Deputy General Manager of the Road & Bridge Project at China Harbor Engineering Co.'s Bangladeshi Office and Project Director at the International Division of China Harbor Engineering Co. Ltd. After joining the Guarantor, he served as Assistant General Manager of the Group Marketing and Commercial Department, Deputy Chief Economist and General Manager of the Strategy and Operations Department, Deputy Chief Economist and General Manager of the Strategy and Operations Department, Deputy Chief Economist and General Manager of China Merchants Bonded Logistics Co. Ltd.

Mr. Zhang Yi, aged 47, is a senior economist and Deputy General Manager of the Guarantor. He graduated from Wuhan University of Technology with a PhD degree in Engineering. Mr. Zhang has over 20 years' experience in the field of port management and successively served as a Planner in the Planning and Development Bureau of Zhanjian Port Authority, Deputy Director of the Planning and Development Bureau of Zhanjiang Port Authority, Assistant Director of Zhanjiang Port Authority and as a Director of Zhanjiang Port (Group) Co. Ltd., President of Zhanjiang Port (Group) Co. Ltd., and Chairman of Zhanjiang Port (Group) Co. Ltd.

SUBSTANTIAL SHAREHOLDERS' AND DIRECTORS' INTEREST

Disclosure of Interests

As at 31 December 2017, the interests of the Directors of the Guarantor in the securities of the Guarantor 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 Guarantor under Section 352 of the SFO were as follows:

Interest in ordinary shares

Name of Director	Capacity	Nature of interest	Number of shares held in the Guarantor	Number of shares in the Guarantor subject to share options granted	Percentage of aggregate long position in shares held to the issued shares as at 31 December 2017
Mr. Wang Hong[(1)]	Beneficial owner	Personal interest	367,276	—	0.0112%
Mr. Lee Yip Wah Peter . . .	Beneficial owner	Personal interest	199,119	—	0.0061%
Mr. Li Kwok Heem John .	Interest of spouse	Family interest	1,876,102	—	0.0572%
			2,442,497	—	0.0745%

Note:

(1) Mr. Wang Hong has resigned as a Director of the Guarantor on 4 June 2018.

As at 31 December 2017, none of the Directors or the chief executive of the Guarantor had any interests or short position in the shares, underlying shares or debentures of the Guarantor or any associated corporation (within the meaning of the SFO) which are required to be: (i) notified to the Guarantor and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; (ii) entered in the register kept by the Guarantor pursuant to Section 352 of the SFO; or (iii) notified to the Guarantor and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

None of the Directors was materially interested in any contract or arrangement entered into by any member of the Group and subsisting at 31 December 2017, which was significant in relation to the business of the Group as a whole.

Share option schemes

The Guarantor adopted the share option scheme on 26 June 1992 and terminated on 20 December 2001 and the share option scheme on 20 December 2011 and terminated on 9 December 2011 (the "**Terminated Schemes**"). As at 29 March 2018, no share may be issued pursuant to the exercise of the options granted under the Terminated Schemes.

On 9 December 2011, the Guarantor adopted a new share option scheme (the "**Share Option Scheme**"). As at the date of this Offering Memorandum, no shares have been granted, exercised or issued under the Share Option Scheme.

Substantial Shareholders

As at 31 December 2017, the following persons, other than a Director or chief executive of the Guarantor, have interest or short position in the shares and underlying shares of the Guarantor as recorded in the register of the Guarantor required to be kept under section 336 of the SFO:

Long Positions

Name of Substantial Shareholder	Capacity	Shares/underlying shares held	Percentage to total issued shares
China Merchants Group Limited	Interest of Controlled Corporation	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%
China Merchants Union (BVI) Limited. . .	Beneficial Owner	1,075,328,205[2]	32.81%
China Merchants Investment Development Company Limited	Beneficial Owner	947,554,341[2]	28.91%
Pagoda Tree Investment Company Limited.........................	Interest of Controlled Corporation	914,134,878[4]	27.89%
Compass Investment Company Limited . .	Interest of Controlled Corporation	914,134,878[4]	27.89%
GUOXIN International Investment Corporation Limited	Interest of Controlled Corporation	911,410,193[5]	27.81%
Verise Holdings Company Limited	Interest of Controlled Corporation	911,410,193[5]	27.81%

Notes:

1. Each of China Merchants Steam Navigation Company Limited ("**CMSN**") and China Merchants Shekou Industrial Zone Company Limited ("**CMSIZ**") is a subsidiary of China Merchants Group Limited ("**CMG**"). CMG is deemed to be interested in 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 CMHK and China Merchants Union (BVI) Limited ("**CMU**") is 50% owned by CMHK.

   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 1,075,328,205 shares beneficially held by CMU and 947,554,341 shares beneficially held by CMID.

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

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

Short Positions

Nil

Save as disclosed above, there was no person, other than a Director or chief executive of the Guarantor, who has an interest or short position in the shares and underlying shares of the Guarantor as recorded in the register of the Guarantor kept under Section 336 of the SFO.

The following is a general description of certain currency controls in the PRC and is based on the law and relevant interpretations thereof in effect as at the date of this Offering Memorandum, all of which are subject to change, and does not constitute legal advice. It does not purport to be a complete analysis of all applicable currency controls in the PRC relating to the Notes. Prospective holders of Notes who are in any doubt as to PRC currency controls are advised to consult their own professional advisers.

Renminbi is not a freely convertible currency. The remittance of Renminbi into and outside the PRC is subject to control imposed under PRC law.

Current Account Items

Under PRC foreign exchange control regulations, current account items refer to any transaction for international receipts and payments involving goods, services, earnings and other frequent transfers.

Prior to July 2009, all current account items were required to be settled in foreign currencies with limited exceptions. In July 2009, the PRC commenced a pilot scheme pursuant to which Renminbi may be used for settlement of imports and exports of goods between approved pilot enterprises in five designated cities in the PRC including Shanghai, Guangzhou, Dongguan, Shenzhen and Zhuhai and enterprises in designated offshore jurisdictions including Hong Kong and Macau. On 17 June 2010, 23 August 2011 and 3 February 2012 respectively, the PRC Government promulgated the Circular on Issues concerning the Expansion of the Scope of the Pilot Programme of Renminbi Settlement of Cross-Border Trades (Yin Fa (2010) No. 186) (關於擴大跨境貿易人民幣結算試點有關問題的通知), the Circular on Expanding the Regions of Cross-border Trade Renminbi Settlement (關於擴大跨境貿易人民幣結算地區的通知) and the Notice on Matters Relevant to the Administration of Enterprises Engaged in Renminbi Settlement of Export Trade in Goods (關於出口貨物貿易人民幣結算企業管理有關問題的通知) (together as "**Circulars**"). Pursuant to these Circulars, (i) Renminbi settlement of imports and exports of goods and of services and other current account items became permissible, (ii) the list of designated pilot districts were expanded to cover all provinces and cities in the PRC, (iii) the restriction on designated offshore districts has been uplifted and (iv) any enterprise qualified for the export and import business is permitted to use Renminbi as settlement currency for exports of goods without obtaining the approval as previously required, provided that the relevant provincial government has submitted to PBOC and five other PRC authorities (the "**Six Authorities**") a list of key enterprises subject to supervision and the Six Authorities have verified and signed off such list (the "**Supervision List**").

On 5 July 2013, PBOC promulgated the Circular on Policies related to Simplifying and Improving Cross-Border Renminbi Business Procedures (關於簡化跨境人民幣業務流程和完善有關政策的通知) (the "**2013 PBOC Circular**"), which, in particular, simplifies the procedures for cross border Renminbi trade settlement under current account items. For example, PRC banks may conduct settlement for PRC enterprises (excluding those on the Supervision List) upon the PRC enterprises presenting the payment instruction. PRC banks may also allow PRC enterprises to make/receive payments under current account items prior to the relevant PRC bank's verification of underlying transactions (noting that verification of underlying transactions is usually a precondition for cross border remittance).

The circulars and the 2013 PBOC Circular will be subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying the Circulars and the 2013 PBOC Circular and impose conditions for settlement of current account items.

Capital Account Items

Under PRC foreign exchange control regulations, capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval of, and/or registration or filing with, the relevant PRC authorities.

Until recently, settlements for capital account items are generally required to be made in foreign currencies. For instance, foreign investors (including any Hong Kong investors) are required to make any capital contribution to foreign invested enterprises in a foreign currency in accordance with the terms set out in the relevant joint venture contracts and/or articles of association as approved by the relevant authorities. Foreign invested enterprises or relevant PRC parties are also generally required to make capital item payments including proceeds from liquidation, transfer of shares, reduction of capital, interest and principal repayment to foreign investors in a foreign currency.

On 3 June 2011, the PBOC promulgated the Circular on Clarifying Issues concerning Cross-border Renminbi Settlement (關於明確跨境人民幣業務相關問題的通知) (the "**2011 PBOC Circular**"). The 2011 PBOC Circular provides instructions to local PBOC authorities and relevant PRC banks on procedures for the approval of Renminbi settlement activities for non-financial foreign direct investment into the PRC. The 2011 PBOC Circular applies to all non-financial foreign direct investment into the PRC with Renminbi, which includes investment by way of establishing a new enterprise, acquiring an onshore enterprise (excluding round-trip investment), transferring the shares, increasing the registered capital of an existing enterprise, or providing shareholder loan facilities in Renminbi. The domestic settlement banks of foreign investors or foreign invested enterprises in the PRC are required to submit written applications (which include, inter alia, requisite approval letters issued by the relevant commerce authorities) to the relevant local PBOC authorities at sub-provincial level or above for approval. The PBOC will determine whether to grant such approval on a case by case basis. In addition, according to the 2011 PBOC Circular, application for direct investment with Renminbi in the projects which are restricted or specially controlled by the state will not be accepted at present as foreign direct investment with Renminbi is still at a trial stage.

On 13 October 2011, PBOC issued the Measures on Administration of the RMB Settlement in relation to Foreign Direct Investment (外商直接投資人民幣結算業務管理辦法) (the "**PBOC RMB FDI Measures**"), setting out procedures for PRC banking institutions to handle Renminbi settlement relating to Renminbi foreign direct investment and borrowing by foreign invested enterprises of offshore Renminbi loans. According to the PBOC RMB FDI Measures, special approval for Renminbi FDI and shareholder loans from the PBOC which was previously required is no longer mandatory.

On 10 May 2013, the State Administration of Foreign Exchange of the PRC (the "**SAFE**") promulgated the "Provisions on the Foreign Exchange Administration of Domestic Direct Investment by Foreign Investors" (外國投資者境內直接投資外匯管理規定) (the "**SAFE Provisions**"), which became effective on 13 May 2013. According to the SAFE Provisions, foreign investors can use cross-border Renminbi (including Renminbi inside and outside the PRC held in the capital accounts of non-PRC residents) to make a contribution to an onshore enterprise or make a payment for the transfer of an equity interest of an onshore enterprise by a PRC resident within the total investment amount approved by the competent authorities (for example, MOFCOM and/or its local counterparts as well as financial regulators). Capital account transactions in Renminbi must generally follow the current foreign exchange control regime applicable to foreign currencies.

On 5 July 2013, the PBOC promulgated the 2013 PBOC Circular, which simplifies the operating procedures on current account cross-border Renminbi settlement, provision of Renminbi outbound loans and Renminbi cross-border security in favour of offshore entities by onshore non-financial institutions, and further publishes policies with respect to bank card related cross-border Renminbi clearing and issuance of offshore Renminbi bonds by onshore non-financial institutions. The 2013 PBOC Circular intends to improve the efficiency of cross-border Renminbi settlement and facilitate the use of cross-border Renminbi settlement by banks and enterprises.

On 3 December 2013, MOFCOM promulgated the Circular on Issues in relation to Cross-border Renminbi Foreign Direct Investment (商務部關於跨境人民幣直接投資有關問題的公告) (the "**MOFCOM Circular**"), which became effective on 1 January 2014, to further facilitate FDI by simplifying and streamlining the applicable regulatory framework. Pursuant to the MOFCOM Circular, the appropriate office of MOFCOM and/or its local counterparts will grant written approval for each FDI and specify ''Renminbi Foreign Direct Investment'' and the amount of capital contribution in the approval. Unlike previous MOFCOM regulations on FDI, the MOFCOM Circular removes the approval requirement for foreign investors who intend to change the currency of its existing capital contribution from a foreign currency to Renminbi. In addition, the MOFCOM Circular also clearly prohibits the FDI funds from being used for any investment in securities and financial derivatives (except for investment in the PRC listed companies as strategic investors) or for entrustment loans in the PRC.

On 13 February 2015, the SAFE promulgated the Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving the Policies of Foreign Exchange Administration Applicable Direct Investment (關於進一步簡化和改進直接投資外匯管理政策的通知) (the "**13 Notice**"), which became effective on 1 June 2015. According to the 13 Notice, two administrative examination and approval items, such as the verification and approval of foreign exchange registration under domestic direct investment, and verification and approval of foreign exchange registration under overseas direct investment, shall be abolished. The 13 Notice also simplifies the procedures for handling certain foreign exchange services under direct investment.

On 30 March 2015, the SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming the Administrative Approach Regarding the Settlement of the Foreign Exchange Capitals of Foreign-invested Enterprises (關於改革外商投資企業外匯資本金結匯管理方式的通知) (the "**19 Notice**"), which became effective on 1 June 2015. According to the 19 Notice, foreign-invested enterprises shall be allowed to settle their foreign exchange capitals on a discretionary basis, which means that foreign-invested enterprise may, according to its actual business needs, settle with a bank the portion of the foreign exchange capital in its capital account for which the relevant foreign exchange bureau has confirmed monetary contribution rights and interests (or for which the bank has registered the account-crediting of monetary contribution).

On 9 June 2016, the SAFE promulgated the Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (關於改革和規範資本項目結匯管理政策的通知) (the "**16 Notice**"), which became effective on 9 June 2016. According to 16 Notice, the pilot reform of control approaches to foreign exchange settlement of foreign debts of enterprises is promoted nationwide, domestic enterprises (including Chinese-funded enterprises and foreign-invested enterprises, excluding financial institutions) may go through foreign exchange settlement formalities for their foreign debts at their discretion.

The above rules and regulations will be subject to interpretation and application by the relevant PRC authorities. Further, if any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the remittance of Renminbi for payment of transactions categorized as capital account items, then such remittances will need to be made subject to the specific requirements or restrictions set out in such rules.

NDRC Circular

The NDRC issued the NDRC Circular on 14 September 2015, which came into effect on the same day. According to the NDRC Circular, domestic enterprises and their overseas controlled entities shall procure the registration of any debt securities issued over one year outside the PRC with the NDRC prior to the issue of the securities and notify the particulars of the relevant issues within 10 working days after the completion of the issue of the securities. The NDRC shall decide whether to accept an application within five business days of receipt and shall issue a Certificate on the Recording and Registration of Foreign Debts Issued by Enterprises within seven business days of accepting the application.

The NDRC Circular does not expressly state the legal consequences of non-compliance with the pre-issue registration requirement as well as the post-issue notification requirement under the NDRC Circular. The NDRC Circular will be subject to interpretation and application by the NDRC from time to time.

TAXATION

The statements herein regarding taxation are based on the laws in force as at the date of this document and are subject to any changes in law occurring after such date, which changes could be made on a retroactive basis. The following summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers or certain professional investors) may be subject to special rules.

British Virgin Islands

Payments of interest and principal on the Notes will not be subject to taxation in the British Virgin Islands and no withholding will be required on the payment of interest and principal to any holder of the Notes, nor will gains derived from the disposal of the Notes be subject to British Virgin Islands income or corporation tax. The British Virgin Islands currently have no corporation or capital gains tax and no estate duty, inheritance tax or gift tax.

Hong Kong

Withholding tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Notes or in respect of any capital gains arising from the sale of the Notes.

Profits tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

(a) interest on the Notes is derived from Hong Kong and is received by or accrues to a corporation carrying on a trade, profession or business in Hong Kong;

(b) interest on the Notes is derived from Hong Kong and is received by or accrues to a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business;

(c) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Cap. 112) of Hong Kong (the "**IRO**")) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

(d) interest on the Notes is received by or accrues to a corporation, other than a financial institution, and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO).

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of Notes will be subject to Hong Kong profits tax. Sums received by or accrued to a corporation, other than a financial institution, by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO) from the sale, disposal or other redemption of Notes will be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of the Notes will be subject to Hong Kong profits tax where received by or accrued to a person, other than a corporation, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source unless otherwise exempted. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed of..

Stamp duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Note.

PRC

The following summary sets out a description of the principal PRC tax consequences of ownership of the Notes by beneficial owners who, or which, are not residents of mainland China for PRC tax purposes.

These beneficial owners are referred to as non-PRC Noteholders in this "PRC" section. In considering whether to invest in the Notes, investors should consult their individual tax advisors with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction. Reference is made to PRC taxes from the taxable year beginning on or after 1 January 2008.

Enterprise Income Tax

Pursuant to the EIT Law and its implementation regulations, enterprises that are established under laws of foreign countries and regions (including Hong Kong, Macau and Taiwan) but whose "de facto management organisation" are within the territory of the PRC shall be PRC tax resident enterprises for the purpose of the EIT Law and they shall pay enterprise income tax at the rate of 25% in respect of their income sourced from both within and outside the PRC. If the relevant PRC tax authorities determine, in accordance with applicable tax rules and regulations, that the Issuer's "de facto management organisation" is within the territory of the PRC, the Issuer may be held to be a PRC tax resident enterprise for the purpose of the EIT Law and shall be subject to enterprise income tax at the rate of 25% for its income sourced from both within and outside the PRC. As at the date of this Offering Memorandum, the Issuer confirms that it has not been notified by the PRC tax authorities that it is considered as a PRC tax resident enterprise for the purpose of the EIT Law, nor has the Issuer submitted to such authorities any application seeking clarification in this regard. Based on the foregoing, non-PRC Noteholders will not be subject to withholding tax, income tax or any other taxes or duties (including stamp duty) imposed by any governmental authority in the PRC in respect of the holding of the Notes or any repayment of principal and payment of interest made thereon.

However, there is no assurance that the Issuer will not be treated as a PRC tax resident enterprise under the EIT Law and related implementation regulations in the future. Pursuant to the EIT Law and its implementation regulations, any non-resident enterprise without an establishment within the PRC or whose income has no actual connection to its establishment within the PRC, shall be required to pay PRC income tax at the rate of up to 10% on income sourced inside the PRC. Similarly, pursuant to the PRC Individual Income Tax Law and its implementation regulations, which came into force on 1 September 2011, any Noteholders who are non-resident individuals shall be required to pay PRC income tax at the rate of up to 20% on income sourced inside the PRC. Such income tax shall be withheld by the PRC payer that is acting as the obligatory withholder and such PRC payer shall withhold the tax amount from each payment or payment due. Although as confirmed by the Issuer, as at the date of this Offering Memorandum, the Issuer has not been noticed or informed by the PRC tax authorities that it is considered as a PRC tax resident enterprise for the purpose of the EIT Law, in the event the Issuer is deemed to be a PRC tax resident enterprise by the PRC tax authorities in the future, it will be required to withhold income tax from the payments of interest in respect of the Notes for any non-PRC Noteholder. However, despite the potential withholding of the PRC tax by the Issuer, the Issuer has agreed to pay additional amounts to holders of the Notes so that holders of the Notes would receive the full amount of the scheduled payment, as further set out in the "Terms and Conditions of the Notes" and "Terms and Conditions of the Notes".

According to the double taxation arrangement between China and Hong Kong and relevant PRC tax regulations, residents of Hong Kong will not be subject to PRC tax on any capital gains from a sale or exchange of the Notes. Separately, other non-PRC Noteholders will also not be subject to PRC tax on any capital gains derived from a sale or exchange of Notes consummated outside the PRC between non-PRC Noteholders, except however, if the Issuer is treated as a PRC tax resident enterprise under the EIT Law and related implementation regulations in the future, then any gain realised by the non-PRC Noteholders from the transfer of the Notes may be regarded as being derived from sources within the PRC and accordingly would be subject to up to PRC withholding tax of up to 10% for enterprises and up to 20% for individuals. No PRC stamp duty will be imposed on non-PRC Noteholders either upon issuance of the Notes or upon a subsequent transfer of Notes (for so long as the register of Noteholders is maintained outside the PRC) of a Note, provided that any such transfer is not consummated within the PRC.

FATCA Withholding

Whilst the Notes are in global form and held within Euroclear or Clearsteram, Luxembourg, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Notes by the Issuer, any paying agent and the common depositary, given that each of the entities in the payment chain beginning with the Issuer and the participants in the Clearing Systems is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an intergovernmental agreement with the United States (an "IGA") will be unlikely to affect the Notes.

The documentation expressly contemplates the possibility that the securities may go into definitive form and therefore that they may be taken out of the Clearing Systems. If this were to happen, then a non-FATCA compliant holder could be subject to withholding. However, definitive notes will only be printed in remote circumstances. Further, foreign financial institutions in a jurisdiction which has entered into an IGA are generally not expected to be required to withhold under FATCA or an IGA (or any law implementing an IGA) from payments they make.

Value Added Tax

On 23 March 2016, the MOFCOM and the SAT jointly issued the Circular 36 which confirms that business tax will be completely replaced by VAT from 1 May 2016. With effect from 1 May 2016, the income derived from the provision of financial services which previously attracted business tax are entirely replaced by, and subject to, VAT.

According to Circular 36, the entities and individuals providing the services within PRC shall be subject to VAT. The services are treated as being provided within PRC where either the service provider or the service recipient is located in PRC. The services subject to VAT include the provision of financial services such as the provision of loans. It is further clarified under Circular 36 that the "loans" refers to the activity of lending capital for another's use and receiving the interest income thereon. Based on the interpretation of "loans" under the Circular 36, the issuance of Notes may be treated as the holders of the Notes providing loans to the Issuer and the Guarantor, which thus could be regarded as the provision of financial services that could be subject to VAT. If the PRC tax authorities take the view that the holders of the Notes are providing loans within the PRC (due to the Issuer or the Guarantor being treated as PRC tax residents), then the holders of the Notes could be regarded as providing financial services within PRC and consequently, the holders of the Notes shall be subject to VAT at the rate up to 6 per cent. when receiving the interest payments under the Notes. In addition, the holders of the Notes shall be subject to the local levies at approximately 12 per cent. of the VAT payment and consequently, the combined rate of VAT and local levies would be around 6.72 per cent. Hence, if the Issuer or the Guarantor pays interest income to Noteholders who are located outside the PRC, the Issuer (if VAT applicable) or the Guarantor, acting as the obligatory withholder in accordance with applicable law, shall withhold VAT and local levies from the payment of interest income to Noteholders who are located outside of the PRC.

Where a holder of the Notes who is an entity or individual located outside of the PRC resells the Notes to an entity or individual located outside of the PRC and derives any gain, since neither the service provider nor the service recipient is located in the PRC, theoretically Circular 36 does not apply and the Issuer or the Guarantor does not have the obligation to withhold the VAT or the local levies. However, there is uncertainty as to the applicability of VAT if either the seller or buyer of Notes is located within the PRC.

The above disclosure may be subject to further change upon the issuance of further clarification rules and/or different interpretation by the competent tax authority. There is uncertainty as to the application of the Circular 36.

Pursuant to the EIT Law, the VAT reform detailed above, the Issuer or the Guarantor may need to withhold EIT (should such tax apply) from the payments of interest in respect of the Notes for any non-PRC Noteholder and the Issuer or the Guarantor may need to withhold VAT (should such tax apply) from the payments of interest in respect of the Notes for any Noteholders located outside the PRC.

Stamp duty

No PRC stamp tax will be chargeable upon the issue or transfer (for so long as the register of holders of the Notes is maintained outside the PRC) of a Note.

SUBSCRIPTION AND SALE

Bank of China (Hong Kong) Limited, DBS Bank Ltd., The Hongkong and Shanghai Banking Corporation Limited, MUFG Securities EMEA plc and UBS AG Hong Kong Branch (the "**Joint Lead Managers**" and each of them a "**Joint Lead Manager**") have, pursuant to a subscription agreement dated 2018 (the "**Subscription Agreement**"), severally but not jointly, agreed with the Issuer and the Guarantor, subject to the satisfaction of certain conditions, to subscribe for the Notes at an issue price of per cent. of its principal amount and the Notes at an issue price of per cent. of its principal amount in the amount set forth below. Any subsequent offering of the Notes to investors may be at a price different to such issue price. The Issuer has agreed to pay to the Joint Lead Managers certain fees in connection with the Notes. The Issuer has agreed to reimburse the Joint Lead Managers for certain of their fees and expenses in connection with the issue of the Notes. The Subscription Agreement entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

Joint Lead Managers	**Principal Amount of the Notes**	**Principal Amount of the Notes**
	(US$)	**(US$)**
Bank of China (Hong Kong) Limited		
DBS Bank Ltd.		
The Hongkong and Shanghai Banking Corporation Limited		
MUFG Securities EMEA plc		
UBS AG Hong Kong Branch		
Total		

The Subscription Agreement provides that each of the Issuer and the Guarantor will indemnify the Joint Lead Managers against certain liabilities in connection with the offer and sale of the Notes. The Subscription Agreement provides that the obligations of the Joint Lead Managers are subject to certain conditions precedent, and entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment of the net proceeds of the issue of the Notes being made to the Issuer.

Each of the Issuer and the Guarantor has agreed with each of the Joint Lead Managers in the Subscription Agreement that during the period from the date thereof to the date falling 30 days after the Issue Date, no offering of debt instruments or debt securities (other than the Notes) in connection with which it is the issuer or guarantor is placed (privately or otherwise), directly or on its behalf, unless, in each case, it has obtained the prior written consent of the Joint Lead Managers.

The distribution of this Offering Memorandum or any offering material and the offering, sale or delivery of the Notes is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Memorandum or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Memorandum may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

The Joint Lead Managers or their respective affiliates may purchase Notes for their own account and enter into transactions, including, without limitation, credit derivatives, including asset swaps, repackaging and credit default swaps relating to the Notes at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes to which this Offering Memorandum relates (notwithstanding that such selected counterparties may also be purchasers of the Notes). The Joint Lead Managers and their respective affiliates have engaged in, and may in the future engage in, investment banking and other commercial banking dealings in the ordinary course of business with the Issuer, the Guarantor or their respective subsidiaries, joint ventures or associates from time to time. The Joint Lead Managers have received customary fees and commissions for these transactions. The Joint Lead Managers or certain of their respective affiliates may purchase the Notes and be allocated the Notes for asset management and/or proprietary purposes but not with a view to distribution. In addition to the transactions noted above, each of the Joint Lead Managers and their respective affiliates may, from time to time, engage in other transactions with, and perform services for, the Issuer, the Guarantor or their respective subsidiaries, joint ventures or associates in the ordinary course of their business. In addition, the Joint Lead Managers and certain of their respective subsidiaries and affiliates may hold shares or other securities in the Guarantor as beneficial owners, on behalf of clients or in the capacity of investment advisers.

General

No action has been or will be taken in any country or jurisdiction by the Issuer, the Guarantor or any Joint Lead Manager that would permit a public offering of the Notes, or possession or distribution of this Offering Memorandum or any other offering material relating to the Notes, where action for that purpose is required. No offer, sales or deliveries of any Notes, or distribution of any offering material relating to the Notes (including this Offering Memorandum) may be made in or from any jurisdictions except in circumstances which will result in compliance with any applicable laws or regulations and will not impose any obligations on the Issuer, the Guarantor or the Joint Lead Managers.

Persons into whose hands this Offering Memorandum comes are required by the Issuer, the Guarantor and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Offering Memorandum or any other offering material relating to the Notes, in all cases at their own expense.

No one has been or will be authorised to make any representation or use any information in connection with the offer, sale or distribution of the Notes other than as contained in this Offering Memorandum.

United States

1. ***No registration under Securities Act***

The Notes and the Guarantee have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

2. ***Joint Lead Managers' compliance with United States securities laws***

Each Joint Lead Manager has represented, warranted and undertaken to the Issuer and the Guarantor that it has not offered or sold, and will not offer or sell, any Notes constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S under the Securities Act and, accordingly, that neither it nor any of its affiliates (including any person acting on behalf of such Joint Lead Manager or any of its affiliates) has engaged or will engage in any directed selling efforts with respect to the Notes.

3. ***Joint Lead Managers' compliance with United States Treasury regulations***

Each Joint Lead Manager has represented, warranted and undertaken to the Issuer and the Guarantor that:

(a) *Restrictions on offers etc:* except to the extent permitted under United States Treasury Regulation § 1.163-5(c)(2)(i)(D)(the "**D Rules**"):

    (i) *No offers etc to United States or US persons*: it has not offered or sold, and during the restricted period will not offer or sell, any Notes to a person who is within the United States or its possessions or to a US person; and

    (ii) *No delivery of definitive Notes in United States*: it has not delivered and will not deliver in definitive form within the United States or its possessions any Notes sold during the restricted period;

(b) *Internal procedures:* it has, and throughout the restricted period will have, in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes are aware that the Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a US person, except as permitted by the D Rules; and

(c) *Additional provision if U.S. person:* if it is a US person, it is acquiring the Notes for the purposes of resale in connection with their original issuance and, if it retains Notes for its own account, it will only do so in accordance with the requirements of United States Treasury Regulation § 1.163-5(c)(2)(i)(D)(6),

and, with respect to each affiliate of such Joint Lead Manager that acquires Notes from such Joint Lead Manager for the purpose of offering or selling such Notes during the restricted period, such Joint Lead Manager has undertaken to the Issuer and the Guarantor that it will obtain from such affiliate for the benefit of the Issuer and the Guarantor the representations, warranties and undertakings contained in sub-paragraphs (a), (b) and (c).

4. ***Interpretation***

Terms used in paragraph 2 above have the meanings given to them by Regulation S under the Securities Act. Terms used in paragraph 3 above have the meanings given to them by the United States Internal Revenue Code and regulations thereunder, including the D Rules.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Joint Lead Manager has represented and agreed, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Memorandum to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of the Notes to the public in that Relevant Member State:

(a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the Joint Lead Managers; or

(c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of Notes referred to in (a) to (c) above shall require the Issuer or any Joint Lead Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to the Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "Prospectus Directive" means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Relevant Member State.

The Netherlands

Each Joint Lead Manager has represented and agreed that it will not offer any Notes in the Netherlands except to persons or entities which are qualified investors as defined in the Dutch Financial Supervision Act.

United Kingdom

Each Joint Lead Manager has represented, warranted and undertaken to the Issuer, the Guarantor and each other Joint Lead Manager that:

(a) *Financial promotion:* it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of the Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

(b) *General compliance:* it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Hong Kong

Each Joint Lead Manager has represented, warranted and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**") and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Singapore
Each Joint Lead Manager has acknowledged that this Offering Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore (the "**MAS**"). Accordingly, each Joint Lead Manager has represented, warranted and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(a) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(b) where no consideration is or will be given for the transfer;

(c) where the transfer is by operation of law;

(d) as specified in Section 276(7) of the SFA; or

(e) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

In connection with Section 309B of the SFA and the Securities and Futures (Capital Markets Products) Regulations 2018 (the "**CMP Regulations 2018**"), the Issuer has determined the classification of the Notes as prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Japan
The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948) (as amended) (the "**FIEA**") and disclosure under the FIEA has not been, and will not be, made with respect to the Notes. Accordingly, each Joint Lead Manager has represented, warranted and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other

entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA, and other relevant laws and regulations of Japan.

The PRC

Each Joint Lead Manager has represented, warranted and agreed that the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the PRC, except as permitted by the securities laws of the People's Republic of China.

British Virgin Islands

Each Joint Lead Manager has represented, warranted, and agreed that it has not made, and will not make, any invitation to the public in the British Virgin Islands to subscribe for or purchase the Notes.

GENERAL INFORMATION

1. **Clearing Systems:** Each of the Notes and the Notes have been accepted for clearance through Euroclear and Clearstream.

   The securities codes for the Notes are as follows:

   Common Code: 185679942
   ISIN: XS1856799421

   The securities codes for the Notes are as follows:

   Common Code: 185680045
   ISIN: XS1856800450

2. **Legal Entity Identifier**: the Legal Entity Identifier of the Issuer is 549300KTVUL1BXLNPZ11.

3. **Authorisations:** The Issuer and the Guarantor have obtained all necessary consents, approvals and authorisations in the British Virgin Islands and Hong Kong in connection with the issue and performance of the Notes and the Guarantee. The issue of the Notes was authorised by written resolutions of the directors of the Issuer dated 13 July 2018 and the giving of the Guarantee was authorised by a resolution of the board of Directors of the Guarantor passed on 13 July 2018.

4. **Listing of the Notes:** Application has been made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Notes issued to Professional Investors only. It is expected that dealing in, and listing of, the Notes on the Hong Kong Stock Exchange will commence on 2018.

5. **No Material Adverse Change:** Except as disclosed in this Offering Memorandum, there has been no adverse change, nor any development reasonably likely to involve an adverse change, in the financial or trading position, condition (financial or otherwise), general affairs or prospects of the Guarantor or the Group since 31 December 2017.

   Except as disclosed in this Offering Memorandum, there has been no adverse change, nor any development reasonably likely to involve an adverse change, in the financial or trading position, condition (financial or otherwise), general affairs or prospects of the Issuer since 31 December 2017.

6. **Litigation:** Neither the Issuer nor the Guarantor nor any of the Guarantor's subsidiaries nor any of their respective assets is involved in any litigation or arbitration proceedings which are material in the context of the issue of the Notes nor, so far as the Issuer or the Guarantor is aware, is any such litigation or arbitration pending or threatened.

7. **Legend:** The Notes and Coupons will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the United States Internal Revenue Code."

8. **Available Documents:** Copies of the latest annual report and consolidated financial statements of the Guarantor and the latest interim report and unaudited interim consolidated financial information of the Guarantor may be obtained free of charge, and copies of the Agency Agreement, which includes the forms of the Temporary Global Note, the Permanent Global Note and the Definitive Notes, the Deed of Covenant and the Deed of Guarantee, will be available for inspection, at the specified office of the Guarantor at 38/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong during normal business hours, so long as any of the Notes is outstanding. The Guarantor publishes unaudited consolidated interim financial information every year for the six months ended 30 June.

9. **Auditor:** The consolidated financial statements of the Guarantor for each of the years ended 31 December 2016 and 2017 have been audited by Deloitte Touche Tohmatsu, Certified Public Accountants.

   Deloitte Touche Tohmatsu has not performed an assurance engagement in accordance with any assurance standard on the financial statements of the Guarantor for any period subsequent to 31 December 2017.

10. **Issuer's Financial Statements:** Under British Virgin Islands law, the Issuer is not required to publish interim or annual financial statements. The Issuer has not published, and does not propose to publish, any of its financial statements. The Issuer is, however, required to keep records and underlying documentation in such forms as are sufficient to show and to explain its transactions and which will, at any time, enable the financial position of the Issuer to be determined with reasonable accuracy.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Note:

The audited consolidated financial statements of the Guarantor set out herein have been reproduced from the Guarantor's annual report for the years ended 31 December 2016 and 2017 and page references are references to pages set out in such annual reports.

Independent Auditor's Report

Deloitte. 德勤

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

Opinion

We have audited the consolidated financial statements of China Merchants Port Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 104 to 223, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
Accounting for the Group's interests in associates and joint ventures	
We identified the accounting for the Group's interests in associates and joint ventures as a key audit matter due to the significance of these investments to the Group's consolidated financial statements as a whole. The Group invested in a number of associates and joint ventures whose principal activities include ports operation, bonded logistics operation, port-related manufacturing operation and other operations as set out in notes 43 and 44 to the consolidated financial statements. The Group's share of profits less losses of its associates and joint ventures for the year ended 31 December 2017 was HK$5,472 million in aggregate, representing approximately 82% of the profit for the year of the Group as disclosed in the consolidated statement of profit or loss and the Group's interests in its associates and joint ventures was HK$53,064 million in aggregate as at 31 December 2017, representing approximately 59% of the net assets of the Group as set out in the consolidated statement of financial position.	Our procedures in relation to the accounting for the Group's interests in associates and joint ventures included: • Obtaining an understanding of the Group's major associates and joint ventures by reading their financial information and discussing with their respective management about the financial performance, significant events occurred in the year and the key areas of judgement made in preparing their financial information to identify and assess the risks that are significant to the audit of the Group's consolidated financial statements; • Meeting with the respective auditors of the Group's major associates and joint ventures to discuss their assessment of risks and identification of areas of audit focus to evaluate the appropriateness of their work; • Assessing the sufficiency and appropriateness of audit evidence obtained from work performed by auditors of the major associates and joint ventures of the Group by reviewing their audit documentation where we considered necessary; and • Evaluating the appropriateness of significant consolidation adjustments made by the management of the Group to conform the accounting policies of the major associates and joint ventures to those of the Group for like transactions and events in similar circumstances.

Key audit matter	How our audit addressed the key audit matter

Acquisitions of Shantou China Merchants Port Group Co., Ltd. ("SPG") and Hambantota International Port Group (Private) Limited ("HIPG")

We identified the acquisitions of SPG and HIPG (the "Acquisitions") as a key audit matter due to the significance of the Acquisitions to the Group's consolidated financial statements as a whole.

As disclosed in note 39 to the consolidated financial statements, the Group completed the subscription of newly issued shares of SPG representing 60% of the enlarged interest of SPG and the acquisition of 85% of the issued share capital of HIPG during the year ended 31 December 2017. SPG is principally engaged in ports operation in Shantou, Guangdong Province, the People's Republic of China and HIPG is engaged in the development, management and operation of the port of Hambantota in Sri Lanka. The total consideration of the Acquisitions was HK$13,876 million. The fair values of the identifiable assets acquired and liabilities assumed; goodwill and non-controlling interests arising from the Acquisitions are also set out in this note.

Our procedures in relation to the acquisitions of SPG and HIPG included:

- Assessing the appropriateness of accounting methods for the Acquisitions with reference to the terms set out in the relevant agreements of the Acquisitions;
- Obtaining an understanding of the key assumptions adopted by the management of the Group in assessing the fair values of the identifiable assets acquired and liabilities assumed and the consequential determination of goodwill recognized as a result of the Acquisitions;
- Meeting and discussing with the auditors of the components which acquired SPG and HIPG on their procedures designed and performed and reviewing their audit documentation where we considered necessary to evaluate the appropriateness of their work.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill allocated to ports operation in Pearl River Delta ("PRD")	
We identified the impairment assessment of goodwill allocated to the Group's ports operation in PRD as a key audit matter due to the involvement of significant management judgement and assumptions in this assessment. As disclosed in note 16 to the consolidated financial statements, the carrying amount of goodwill allocated to the Group's ports operation in PRD amounted to HK$2,957 million as at 31 December 2017. For the purpose of assessing impairment, the recoverable amounts of this business unit have been determined by the management of the Group based on value in use calculations using financial budgets based on past performance and expectation for market development, where the key assumptions include the growth rates and discount rates used in the value in use calculation. Based on the management's assessment, there is no impairment of goodwill allocated to the Group's ports operation in PRD as at 31 December 2017 based on the value in use of this business unit.	Our procedures in relation to the impairment assessment of goodwill of the Group's ports operation in PRD included: • Assessing the appropriateness of basis of the value in use calculations prepared by the management; • Evaluating the reasonableness of the management's estimate of growth rates with reference to the historical performance and the latest budgets of the Group and market data based on our knowledge of the ports industry; and • Assessing the reasonableness of the discount rates used by the management in determining the value in use, based on our knowledge of the ports industry with reference to the current market risk-free rate of interest and the industry specific risk factor.

Key audit matter	How our audit addressed the key audit matter
Recoverability of amounts due from trade debtors	
We identified the recoverability of amounts due from trade debtors as a key audit matter due to the management judgement involved in determining the provision for impairment of amounts due from trade debtors in view of the recent performance of the shipping market. As disclosed in note 26 to the consolidated financial statements, amounts due from trade debtors as at 31 December 2017 was HK$1,042 million, net of provision of HK$52 million. As set out in note 4.1(i) to the consolidated financial statement, the management of the Group reviewed the credit profile and ageing reports of amounts due from trade debtors to determine the amount of provision for impairment of trade dabtors.	Our procedures in relation to the recoverability of amounts due from trade debtors included: • Obtaining an understanding of how the management assesses the credit profile of the trade debtors, in particular those debtors whose balances were past due but not impaired; • Checking accuracy of the ageing report of the amounts due from trade debtors on a sample basis by agreeing the ageing date to proof of service; and • Evaluating the appropriateness of provision for impairment of trade debtors, in particular those with balances which were past due but not impaired, and customers which are in financial difficulties with reference to the trade debtor's credit profile including default or delay in payment, settlement records, ageing analysis and subsequent settlement of the amounts. • Evaluating the historical accuracy of the management's assessment of impairment on a sample basis by examining the reversal of previous recorded allowances and new allowances recorded in the current year in respect of amounts due from trade debtors at the end of the previous financial year.

Other Information

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

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

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

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

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 March 2018

Consolidated Statement of Profit or Loss

For the Year Ended 31 December 2017

	Note	**2017** **HK$'million**	2016 HK$'million
Revenue	5	**8,692**	7,976
Cost of sales		**(5,251)**	(4,621)
Gross profit		**3,441**	3,355
Other income and other gains, net	8	**870**	1,561
Administrative expenses		**(1,170)**	(1,019)
Operating profit		**3,141**	3,897
Finance income	12	**135**	60
Finance costs	12	**(1,303)**	(960)
Finance costs, net	12	**(1,168)**	(900)
Share of profits less losses of			
Associates		**5,087**	3,389
Joint ventures		**385**	297
		5,472	3,686
Profit before taxation		**7,445**	6,683
Taxation	13	**(744)**	(477)
Profit for the year	7	**6,701**	6,206
Attributable to:			
Equity holders of the Company		**6,028**	5,494
Non-controlling interests		**673**	712
Profit for the year		**6,701**	6,206
Dividends	14	**6,914**	2,282
Earnings per share for profit attributable to equity holders of the Company	15		
Basic (HK cents)		**183.90**	175.58
Diluted (HK cents)		**183.90**	175.58

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31 December 2017

	Note	**2017** **HK$'million**	2016 HK$'million
Profit for the year		**6,701**	6,206
Other comprehensive income/(expense)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences from retranslation of investments in subsidiaries, associates and joint ventures		**5,406**	(4,187)
Release of reserves upon disposal of a subsidiary	37	**(57)**	—
Increase/(decrease) in fair value of available-for-sale financial assets, net of deferred taxation		**530**	(1,616)
Share of investment revaluation reserve of associates		**448**	(495)
Release of reserve upon disposal of an available-for-sale financial asset, net of deferred taxation		**(276)**	(461)
Items that will not be reclassified subsequently to profit or loss:			
Net actuarial gain on defined benefit plans of subsidiaries		**26**	—
Share of other reserves of associates		**(241)**	38
Share of net actuarial gain/(loss) on defined benefit plans of associates and a joint venture		**89**	(28)
Total other comprehensive income/(expense) for the year, net of tax		**5,925**	(6,749)
Total comprehensive income/(expense) for the year		**12,626**	(543)
Total comprehensive income/(expense) attributable to:			
Equity holders of the Company		**11,090**	(738)
Non-controlling interests		**1,536**	195
		12,626	(543)

Consolidated Statement of Financial Position

As at 31 December 2017

	Note	2017 HK$'million	2016 HK$'million
ASSETS			
Non-current assets			
Goodwill	16	**3,628**	2,791
Intangible assets	16	**5,925**	5,407
Property, plant and equipment	17	**30,880**	18,459
Investment properties	18	**8,411**	7,455
Land use rights	19	**12,851**	7,265
Interests in associates	21	**43,314**	43,020
Interests in joint ventures	22	**9,750**	8,909
Other financial assets	23	**3,689**	3,350
Other non-current assets	24	**400**	395
Deferred tax assets	34	**51**	49
		118,899	97,100
Current assets			
Inventories	25	**99**	77
Debtors, deposits and prepayments	26	**3,705**	2,296
Taxation recoverable		**1**	3
Cash and bank balances	27	**9,247**	3,637
		13,052	6,013
Total assets		**131,951**	103,113

	Note	2017 HK$'million	2016 HK$'million
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	28	**38,207**	19,548
Mandatory convertible securities	29	—	15,219
Reserves		**33,306**	29,434
Proposed dividend	14	**1,934**	1,707
		73,447	65,908
Non-controlling interests		**16,194**	7,830
Total equity		**89,641**	73,738
LIABILITIES			
Non-current liabilities			
Loans from shareholders	31	**59**	279
Other financial liabilities	32	**22,233**	16,793
Other non-current liabilities	33	**1,851**	1,186
Deferred tax liabilities	34	**2,638**	1,973
		26,781	20,231
Current liabilities			
Creditors and accruals	35	**8,999**	3,497
Loans from shareholders	31	**120**	399
Other financial liabilities	32	**6,148**	4,963
Taxation payable		**262**	285
		15,529	9,144
Total liabilities		**42,310**	29,375
Total equity and liabilities		**131,951**	103,113
Net current liabilities		**(2,477)**	(3,131)
Total assets less current liabilities		**116,422**	93,969

The consolidated financial statements on pages 104 to 223 were approved and authorised for issue by the Board of Directors on 29 March 2018 and are signed on its behalf by:

Mr. Fu Gangfeng
DIRECTOR

Mr. Bai Jingtao
DIRECTOR

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2017

	Note	Attributable to equity holders of the Company					Non-controlling interests	Total
		Share capital HK$'million	Mandatory convertible securities HK$'million	Other reserves HK$'million (note 30)	Retained earnings HK$'million	Total HK$'million	HK$'million	HK$'million
As at 1 January 2017		19,548	15,219	2,099	29,042	65,908	7,830	73,738
COMPREHENSIVE INCOME								
Profit for the year		—	—	—	6,028	6,028	673	6,701
Other comprehensive income/(expense)								
Exchange differences from retranslation of investments in subsidiaries, associates and joint ventures		—	—	4,555	—	4,555	851	5,406
Increase in fair value of available-for-sale financial assets, net of deferred taxation		—	—	529	—	529	1	530
Share of reserves of associates		—	—	207	—	207	—	207
Net actuarial gain on defined benefit plans of subsidiaries		—	—	—	15	15	11	26
Share of net actuarial gain on defined benefit plans of associates and a joint venture		—	—	—	89	89	—	89
Release of reserves upon disposal of a subsidiary		—	—	(522)	465	(57)	—	(57)
Release of reserve upon disposal of an available-for-sale financial asset, net of deferred taxation		—	—	(276)	—	(276)	—	(276)
Total other comprehensive income for the year, net of tax		—	—	4,493	569	5,062	863	5,925
Total comprehensive income for the year		—	—	4,493	6,597	11,090	1,536	12,626
TRANSACTIONS WITH OWNERS								
Issue of shares in lieu of dividends	28	3,440	—	—	—	3,440	—	3,440
Issue of shares upon conversion of mandatory convertible securities	28	15,219	(15,219)	—	—	—	—	—
Acquisition of subsidiaries	39	—	—	—	—	—	7,179	7,179
Transfer to reserves		—	—	386	(386)	—	—	—
Repayment of capital contribution to a non-controlling equity holder		—	—	—	—	—	(14)	(14)
Capital contribution to subsidiaries		—	—	—	—	—	192	192
Dividends		—	—	—	(6,687)	(6,687)	(529)	(7,216)
Distribution to mandatory convertible securities holders	29	—	—	—	(304)	(304)	—	(304)
Total transactions with owners for the year		18,659	(15,219)	386	(7,377)	(3,551)	6,828	3,277
As at 31 December 2017		38,207	—	6,978	28,262	73,447	16,194	89,641

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

Consolidated Statement of Cash Flows

For the Year Ended 31 December 2017

	Note	2017 HK$'million	2016 HK$'million
Cash flows from operating activities			
Net cash inflow from operations	36(a)	**4,370**	4,093
Hong Kong Profits Tax paid		**—**	(6)
PRC corporate income tax paid		**(301)**	(400)
Withholding tax paid on dividends received		**(235)**	(277)
Dividends received from associates and joint ventures		**1,923**	2,142
Net cash generated from operating activities		**5,757**	5,552
Cash flows generated from/(used in) investing activities			
Proceed from disposal of an available-for-sale financial asset		**340**	706
Proceeds from disposal of property, plant and equipment		**24**	13
Proceeds from disposal of joint ventures		**4**	2
Proceeds from disposal of a subsidiary	37	**8,739**	—
Repayment from an associate		**112**	—
Advance to associates		**—**	(97)
Advance to a related party		**(1,169)**	—
Interest income received		**132**	47
Investments in associates and joint ventures		**(2,545)**	(6,472)
Payment of acquisition of assets through acquisition of subsidiaries (net of deposit previously paid and cash and cash equivalent acquired)	38	**(1,144)**	(3,848)
Purchase of property, plant and equipment, land use rights and port operating rights		**(1,752)**	(1,207)
Acquisition of available-for-sale financial assets		**(97)**	—
Payment of acquisition of subsidiaries (net of deposit previously paid and cash and cash equivalents acquired)	39	**(2,119)**	—
Net cash generated from/(used in) investing activities		**525**	(10,856)
Net cash inflow/(outflow) before financing activities carried forward		**6,282**	(5,304)

	2017 HK$'million	2016 HK$'million
Net cash inflow/(outflow) before financing activities brought forward	**6,282**	(5,304)
Cash flows used in financing activities		
Net proceeds from exercise of share options	—	2
Proceeds from bank loans	**6,451**	5,262
Net proceeds on issue of notes payable	**2,999**	2,670
Loan from a non-controlling equity holder	—	45
Loan from a shareholder	—	58
Loans from a fellow subsidiary	**2,180**	—
Loan from an associate	**275**	—
Capital contributions from non-controlling equity holders of subsidiaries	**192**	193
Purchase of additional interest in a subsidiary	—	(9)
Dividends paid to ordinary shareholders	**(3,247)**	(1,457)
Dividends paid to non-controlling equity holders of subsidiaries	**(403)**	(497)
Distribution to mandatory convertible securities holders	**(304)**	(761)
Interests paid	**(1,192)**	(964)
Repayment of bank loans	**(5,144)**	(3,588)
Repayment of notes payable	**(2,018)**	(1,519)
Repayment of loans from shareholders	**(526)**	(561)
Repayment of loan from an associate	**(106)**	—
Repayment of loan from a non-controlling equity holder	**(45)**	—
Repayment of capital contribution to a non-controlling equity holder	**(14)**	(17)
Net cash used in financing activities	**(902)**	(1,143)
Increase/(decrease) in cash and cash equivalents	**5,380**	(6,447)
Cash and cash equivalents at 1 January	**3,637**	10,293
Effect of foreign exchange rate changes	**230**	(209)
Cash and cash equivalents at 31 December, represented by cash and bank balances	**9,247**	3,637

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION

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

The Company is a limited liability company incorporated in Hong Kong and has its shares listed on The Stock Exchange of Hong Kong Limited (the "HKSE"). As at 31 December 2017, China Merchants Group Limited ("CMG"), directly and indirectly, including through China Merchants Union (BVI) Limited ("CMU"), a company incorporated in British Virgin Islands held as to 50% by CMG, held an effective interest of 45.41% of the issued share capital of the Company. Pursuant to an entrustment agreement entered into between CMG and CMU, CMG has the power to direct the voting right over approximately 32.81% of the total issued share capital of the Company held by CMU. CMG, directly and indirectly, including through CMU, has the power to direct voting right over approximately 61.81% of the total issued share capital of the Company. Accordingly, the Directors regard CMG, a state-owned enterprise registered in the People's Republic of China ("PRC"), as being the ultimate holding company. CMG is regulated and directly managed by the State-owned Assets Supervision and Administration Commission of the State Council, the PRC government.

The address of the Company's registered office is 38/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies of the Group applied below are the same as the accounting policies of the Group's reportable segments. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the HKSE (the "Listing Rules").

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

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

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

For available-for-sale financial assets and investment properties which are transferred at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the result of the valuation technique equals the transaction price.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

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

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014 - 2016 Cycle

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 7 "Disclosure Initiative"

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note 36(b). Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 36(b), the application of these amendments has had no impact on the Group's consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(ii) New and revised HKFRSs in issue but are not yet effective for the financial year beginning 1 January 2017 and have not been early adopted by the Group

		Effective for annual periods beginning on or after (Note (a))
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 15	Revenue from Contracts with Customers and the Related Amendments	1 January 2018
HKFRS 16	Leases	1 January 2019
HKFRS 17	Insurance Contracts	1 January 2021
HK(IFRIC) - Int 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
HK(IFRIC) - Int 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts	1 January 2018
Amendments to HKFRS 9	Prepayment Features with Negative Compensation	1 January 2019
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Note (b)
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 - 2016 Cycle	1 January 2018
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019
Amendments to HKAS 40	Transfers of Investment Property	1 January 2018
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 - 2017 Cycle	1 January 2019

Notes:

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

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

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

Except for described below, the directors of the Company do not anticipate that the application of the new and revised HKFRSs will have material impact to the consolidated financial statements in the foreseeable future.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(ii) New and revised HKFRSs in issue but are not yet effective for the financial year beginning 1 January 2017 and have not been early adopted by the Group (Continued)

HKFRS 9 "Financial Instruments"

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

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

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(ii) New and revised HKFRSs in issue but are not yet effective for the financial year beginning 1 January 2017 and have not been early adopted by the Group (Continued)

HKFRS 9 "Financial Instruments" (Continued)

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

Classification and measurement:

- Equity securities classified as available-for-sale investments carried at fair value as disclosed in note 23 qualified for designation as measured at FVTOCI under HKFRS 9. For available-for-sale investments amounted to HK$132 million as at 31 December 2017, the Group plans to elect the option for designation of which the relevant fair value gains or losses accumulated in the investments revaluation reserve, if any, will no longer be subsequently reclassified to profit or loss under HKFRS 9, which is different from the current treatment. This will affect the amounts recognised in the Group's profit or loss and other comprehensive income but will not affect total comprehensive income. For available-for-sale investments amounted to HK$3,557 million as at 31 December 2017, the Group plans not to elect the option for the designation and will measure these securities at fair value with subsequent fair value gains or losses to be recognised in profit or loss. Upon initial application of HKFRS 9, investments revaluation reserve of HK$1,935 million related to these available-for-sale investments will be transferred to retained earnings at 1 January 2018; and
- All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, there would not be significantly different to the consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(ii) New and revised HKFRSs in issue but are not yet effective for the financial year beginning 1 January 2017 and have not been early adopted by the Group (Continued)

HKFRS 15 "Revenue from Contracts with Customers"

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(ii) New and revised HKFRSs in issue but are not yet effective for the financial year beginning 1 January 2017 and have not been early adopted by the Group (Continued)

HKFRS 16 "Leases"

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

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

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

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

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

Furthermore, extensive disclosures are required by HKFRS 16.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(ii) New and revised HKFRSs in issue but are not yet effective for the financial year beginning 1 January 2017 and have not been early adopted by the Group (Continued)

HKFRS 16 "Leases" (Continued)

As at 31 December 2017, the Group as lessee has non-cancellable operating lease commitments of HK$2,196 million as disclosed in note 40(c). A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above.

2.2 Consolidation

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

(i) Subsidiaries

Control is achieved when the Company:

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(i) Subsidiaries (Continued)

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(i) Subsidiaries (Continued)

(a) Business combinations

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

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date (see note 2.20 below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(i) Subsidiaries (Continued)

(a) Business combinations (Continued)

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

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

Acquisition-related costs are expensed as incurred.

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

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed as at acquisition date. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the consolidated statement of profit or loss after reassessment of all identifiable assets and liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(i) Subsidiaries (Continued)

(b) Acquisition of a subsidiary not constituting a business

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

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

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

(d) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, a joint venture or a financial asset. Difference between (i) the total fair value of the consideration and retained interest and (ii) the carrying amount of the net assets of the subsidiary attributable to the owners of the Company is recognised in the consolidated statement of profit or loss. In addition, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the consolidated statement of profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(ii) Associates and joint ventures

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Interests in associates are accounted for using the equity method of accounting.

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating party has unilateral control over the economic activity.

The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. For associates and joint ventures using accounting policies that differ from those of the Group for like transactions and events in similar circumstances, appropriate adjustments have been made to conform the accounting policies of the associates and/or the joint ventures to those of the Group. Under the equity method, the investment is initially recognised at cost from the date on which the investee becomes an associate or a joint venture, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss and other comprehensive income of the investee after the date of acquisition. The Group's interests in associates and joint ventures include goodwill identified on acquisition.

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

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value pursuant to the requirements of HKAS 39 with respect to the Group's investment in the associate or joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment and recognises the amount in the consolidated statement of profit or loss. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(ii) Associates and joint ventures (Continued)

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the key management team of the Company that makes strategic decisions.

2.4 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars ("HK$") which is the Company's functional and the Group's presentation currency.

(ii) Transactions and balances

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Foreign currency translation (Continued)

(iii) Group companies

The results and financial position of all group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the year end exchange rate;
- income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the year end exchange rate. Exchange differences arising therefrom are recognised in other comprehensive income.

(iv) Disposal and partial disposal of foreign operation

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Property, plant and equipment

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

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

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

Leasehold land classified as finance lease	Shorter of remaining lease term of 50 years or useful life
Buildings	Shorter of the lease term or 50 years
Harbour works, buildings and dockyard	8 to 99 years
Plant and machinery	3 to 20 years
Furniture and equipment	3 to 20 years
Vessels and ships	15 to 25 years
Motor vehicles	5 to 10 years
Leasehold improvements	Shorter of the lease term or 5 to 20 years

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

No depreciation is provided on assets under construction. All direct costs relating to the construction of property, plant and equipment including interests and finance costs and foreign exchange differences on interests of the related borrowed funds during the construction period are capitalised as the cost of the property, plant and equipment.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Property, plant and equipment (Continued)

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

2.6 Investment properties

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases.

Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition at cost, investment properties are carried at fair value, representing fair value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recognised in the consolidated statement of profit or loss as part of a valuation gain or loss in "other income and other gains, net".

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

2.7 Goodwill and intangible assets

(i) Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and, liabilities and contingent liabilities assumed as at acquisition date.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Goodwill and intangible assets (Continued)

(i) Goodwill (Continued)

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

(ii) Port operating rights

Port operating right primarily resulted from the entering of agreement for the right to construct, operate, manage and develop container terminals. Operating right is carried at cost less accumulated amortisation and impairment. Amortisation is calculated using an economic usage basis which is based on the ratio of minimum guaranteed output volume compared to the total minimum guaranteed output volume over the periods which the Group is granted the operating rights on the relevant container terminals. When the pattern of consumption of future economic benefits of the asset cannot be determined reliably, the straight-line method over the period in which the Group operates the relevant terminals is used. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

(iii) Other intangible assets

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

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal (or any of the CGU within group of CGUs in which the Group monitors goodwill). Intangible assets are derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of intangible assets are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of profit or loss in the period when the asset is derecognised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Impairment of non-financial assets

Tangible and intangible assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. Non-financial assets other than goodwill that suffered from an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial assets

(i) Classification

The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets except for those expected to be realised more than 12 months after the end of the reporting period, not intends for sell or consume in its normal operating cycle, or not primarily for trading purposes, and are classified as non-current assets. The Group's loans and receivables comprise debtors (included in "debtors, deposits and prepayments") and cash and bank balances in the consolidated statement of financial position.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless investment matures or management intends to dispose of within 12 months of the end of the reporting period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Financial assets (Continued)

(ii) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

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

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

Dividends on available-for-sale equity instruments are recognised in the consolidated statement of profit or loss as part of "other income and other gains, net" when the Group's right to receive payments is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Impairment of financial assets

(i) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

  (a) adverse changes in the payment status of borrowers in the portfolio; or

  (b) national or local economic conditions that correlate with defaults on the assets in the portfolio; or

- any other objective evidence that indicate an impairment of the financial asset may exist.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Impairment of financial assets (Continued)

(i) Assets carried at amortised cost (Continued)

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

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

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

(ii) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated statement of profit or loss - is removed from equity and recognised in the consolidated statement of profit or loss. Impairment losses recognised in the consolidated statement of profit or loss on equity instruments are not reversed through the consolidated statement of profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of profit or loss, the impairment loss is reversed through the consolidated statement of profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.12 Debtors

Trade debtors are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection from debtors are expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Debtors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.13 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the consolidated statement of financial position, bank overdrafts are shown within other financial liabilities in current liabilities.

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

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

2.15 Creditors

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Creditors are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer), is held primarily for trading, or the Group has no unconditional right to defer the settlement for at least 12 months after the end of the reporting period. If not, they are presented as non-current liabilities.

Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Other financial liabilities

Other financial liabilities are recognised initially at fair value, net of transaction costs incurred. Other financial liabilities are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of profit or loss using effective interest method over the period of such other financial liabilities.

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

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Other financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.17 Borrowing costs

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Current and deferred income tax

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

(i) Current income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of reporting period in the countries where the Company and its subsidiaries, associates and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Current and deferred income tax (Continued)

(ii) Deferred income tax (Continued)

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

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

Deferred income tax is provided on temporary differences arising on interests in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(iii) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Employee benefits

(i) Pension obligations

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

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group contributes to defined contribution provident funds, including the scheme set up under the Hong Kong Mandatory Provident Fund Ordinance ("MPF Scheme"), which are available to all employees in Hong Kong. In accordance with the terms of the provident funds, contributions to the schemes by the Group and the employees are calculated as a percentage of the employees' basic salaries. For the MPF Scheme, both the employees and the employer are required to contribute 5% of the employees' monthly salaries up to a specified maximum amount ("mandatory contribution") and employees can choose to make additional contributions. The employees are entitled to 100% of the employer's mandatory contributions upon their retirement age of 65 years old, death or total incapacity. For the schemes other than the MPF Scheme, the unvested benefits of employees forfeited upon termination of employment can be utilised by the Group to reduce future levels of contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, is reflected immediately in the consolidated statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

The Group presents the first two components of defined benefit costs in profit or loss. Curtailment gains and losses are accounted for as past service costs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Employee benefits (Continued)

(ii) Other post-employment obligations

The Group also participates in the employee retirement benefits plan of the respective governments in various jurisdiction where the Group operates. The Group is required to make monthly contributions calculated as a percentage of the monthly payroll costs and the respective municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group.

The Group's contributions to the schemes are expensed as incurred.

(iii) Termination obligations

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

2.20 Provisions

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of sales tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Provision of services

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

(ii) Sales of goods

Sales of goods are recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title is passed.

(iii) Rental income

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

2.22 Interest income

Interest income from a financial asset is recognised on a time-proportion basis using effective interest method when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

2.23 Dividend income

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Leases

(i) The Group as lessee

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

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

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

(ii) Leasehold land and building

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Dividend distribution

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

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

2.26 Distribution for MCS

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

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(i) Market risk

(a) Foreign exchange risk

Majority of the subsidiaries of the Company operate in Mainland China and most of their transactions are denominated in Renminbi, Hong Kong dollar or United States dollar. The Group is exposed to foreign exchange risk primarily through sales and purchases, capital expenditure and expenses transactions that are denominated in currencies other than the functional currency of the subsidiaries.

The Group considers its foreign currency exposure is mainly arising from the exposure of Hong Kong dollar against Renminbi, United States dollar and Euro.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(i) Market risk (Continued)

(a) Foreign exchange risk (Continued)

The Group manages its exposures to foreign currency transactions by monitoring the level of foreign currency receipts and payments. The Group ensures that the net exposure to foreign exchange risk is kept to an acceptable level from time to time. The Group is presently not using forward exchange contracts to hedge foreign exchange risk arising from sales and purchase, capital expenditure and expenses transactions.

The Group also regularly monitors its portfolio of local and international customers and the currencies in which the transactions are denominated so as to minimise the Group's exposure to foreign exchange risk.

47% (2016: 60%) of the Group's borrowings (including loans from shareholders) as at 31 December 2017 are denominated in United States dollar, 45% (2016: 30%) are denominated in Renminbi and 8% (2016: 10%) are denominated in Euro. Majority of the Group's operating subsidiaries draw loans in their functional currencies to finance their funding requirements and no significant foreign exchange risk is expected to arise from these borrowings. The Group also utilised its United States dollar and Renminbi denominated notes payable to finance its capital investments and working capital.

At 31 December 2017, if Renminbi had strengthened/weakened against the other currencies by 3% (2016: 3%) with all other variables held constant, profit for the year would have been approximately HK$24 million higher/lower (2016: HK$92 million higher/lower) mainly as a result of increase/decrease in net foreign exchange gains on translation of cash and cash equivalents, debtors, creditors and other financial liabilities denominated in non-functional currencies of the relevant group companies.

At 31 December 2017, no significant change on profit for the respective years as a result of the 0.1% (2016: 0.1%) strengthened/weakened of United States dollar against Hong Kong dollar.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(i) Market risk (Continued)

(b) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group that are classified on the consolidated statement of financial position as available-for-sale financial assets. At 31 December 2017, if there had been a 10% (2016: 10%) increase/decrease in the listed share prices with all other variables held constant, the Group's available-for-sale financial assets would have increased/decreased by approximately HK$369 million (2016: HK$335 million). Other components of equity would increase/decrease, at an amount of net of deferred tax, as a result of gains/losses on equity securities classified as available-for-sale financial assets. The Group is not exposed to commodity price risks and has not entered into any derivatives to manage exposures of price risk.

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

The Group's interest rate risk mainly arises from interest-bearing borrowings. Financial assets and financial liabilities issued at variable rates expose the Group to cash flow interest rate risk whilst borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group adopts a policy of maintaining an appropriate mix of fixed and floating rate borrowings which is achieved primarily through the contractual terms of borrowings. The position is regularly monitored and evaluated by reference of anticipated changes in market interest rate. The Group did not use any interest rate swap to hedge its interest rate risk during the year.

Other than amounts due from certain associates and a related party and bank deposits as at 31 December 2017, the Group has no significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Accordingly, management does not anticipate any significant impact resulting from changes in interest rates on interest-bearing assets.

At 31 December 2017, if interest rates on borrowings had been 100 basis points (2016: 100 basis points) higher/lower with all other variables held constant, post-tax profit for the year would have been HK$101 million (2016: HK$75 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(ii) Credit risk

Credit risk arises if a customer or other counterparty fails to meet its contractual obligations. As at 31 December 2017, other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk, the Group's maximum exposure to credit risk which will cause a financial loss to the Group arising from the amount of contingent liabilities in relation to financial guarantees provided by the Group is disclosed in note 40(e).

Credit risk on trade debtors is managed by the management of the individual business units and monitored by the Group’s management on a group basis. The Group’s trade debtors are mainly contributed by ports operation where their customers are mainly sizable and renowned international liners or market leaders in their industries with manageable credit risk. Management assesses, reviews and updates credit profile of the Group’s trade debtors by considering its financial position, past experience and other relevant factors, in order to identify if any are of higher risks of default. For trade debtors spotted as of higher credit risks, management of the Group also implemented measures such as tightened credit terms and closer monitoring of the settlement patterns. Debtors with overdue balances will be requested to settle their outstanding balance.

Regarding amounts due from fellow subsidiaries, associates, joint ventures and a related party, the management of the Group assesses the recoverability by reviewing the financial position and results of the related parties periodically and considers the credit risk to be insignificant. The Group has concentration of credit risk on amounts due from a related party at the end of the reporting period of which, credit risk is considered as limited because of the related party has a positive financial position.

The Group believes that adequate provision for doubtful debts has been made in the consolidated financial statements. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in their impairment assessments.

The Group has policies that limit the amount of credit exposure to any financial institutions. The Group’s bank deposits are all deposited in reputable banks or financial institutions. Management considers that the credit risk associated with the deposits with these banks and financial institutions is low.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(iii) Liquidity risk

Cash flow forecasts are prepared by management. Management monitors rolling forecasts on the Group's liquidity requirements to ensure the Group maintains sufficient liquidity reserve to support sustainability and growth of the Group's and the Company's business. Currently, the Group and the Company finances the working capital requirements through a combination of funds generated from operations and borrowings.

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

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 1 year		Between 1 and 2 years		Between 2 and 5 years		More than 5 years		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
	HK$'million	HK$'million	**HK$'million**	HK$'million	**HK$'million**	HK$'million	**HK$'million**	HK$'million	**HK$'million**	HK$'million
Interest-bearing debts	**7,482**	6,261	**3,326**	3,022	**15,734**	6,097	**7,010**	11,330	**33,552**	26,710
Other financial liabilities included in creditors and accruals	**8,743**	3,360	**—**	—	**—**	—	**—**	—	**8,743**	3,360
	16,225	9,621	**3,326**	3,022	**15,734**	6,097	**7,010**	11,330	**42,295**	30,070

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

3. FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the overall cost of capital.

The Group prepares a five-year rolling forecast on its capital requirement in anticipation of funding requirement of new capital investments, capital expenditures of existing projects and repayment of borrowings. In order to maintain or adjust the capital structure, the Group may raise additional short-term or long-term borrowings, issue new shares or sell assets of non-core operations to reduce debts.

The Group monitors capital with reference to, inter alia, the net gearing ratios. These ratios are calculated as net interest bearing debts divided by equity attributable to the Company's equity holders and total equity.

During the year, the Group's strategy was to maintain desired levels of net gearing ratios and based on which the Group's credit ratings had, inter alia, been reaffirmed at Baa1 by Moody's Asia Pacific Limited and changed to BBB by Standard and Poor's. The net gearing ratios at 31 December 2017 and 2016 were as follows:

	2017 **HK$'million**	2016 HK$'million
Loans from shareholders (note 31)	**179**	678
Other interest-bearing financial liabilities (note 32)	**28,381**	21,756
Total interest-bearing debts	**28,560**	22,434
Less: cash and bank balances (note 27)	**(9,247)**	(3,637)
Net interest-bearing debts	**19,313**	18,797
Net gearing ratios:		
Net interest-bearing debts divided by equity attributable to the Company's equity holders	**26.3%**	28.5%
Net interest-bearing debts divided by total equity	**21.5%**	25.5%

3. FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value on a recurring basis by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

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

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

The following tables present the Group's assets that are measured at fair value at 31 December 2017 and 2016:

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

3. FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

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

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

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

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

The fair value of other unlisted equity instruments that are accounted for as available-for-sale financial assets is valued based on Guideline Publicly Traded Company (the "GPTC") method whereas the key inputs to the valuation models include the market multiples, share prices, volatilities and dividend yields of similar companies that are traded in a public market, discount of lack of marketability with reference to the share prices of listed enterprises in similar industries. At 31 December 2017, if any of the significant unobservable input above was 5% (2016: 5%) higher/lower while all the other variables were held constant, the changes in fair value of the unlisted equity instruments would not be significant to the Group.

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

3. FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

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

The following table presents the changes in level 3 instruments for the years ended 31 December 2017 and 2016:

	Available-for-sale financial assets HK$'million
Year ended 31 December 2017	
As at 1 January 2017	**578**
Acquisition of subsidiaries	**6**
Additions	**97**
Exchange adjustments	**31**
Unrealised fair value gain recognised in other comprehensive income (included in other reserves)	**160**
As at 31 December 2017	**872**
Year ended 31 December 2016	
As at 1 January 2016	585
Exchange adjustments	(25)
Unrealised fair value gain recognised in other comprehensive income (included in other reserves)	18
As at 31 December 2016	578

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 Key sources of estimation uncertainty

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimated recoverability of amounts due from trade debtors

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

(ii) Estimated impairment of goodwill

The Group tests, at least annually, whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2.8. The recoverable amounts of CGUs have been determined based on value in use calculations, where the key input parameters include the future growth rate and discount rates. These calculations require the use of estimates. Where the actual future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a further impairment loss may arise. Details of the impairment loss calculation are set out in note 16.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

4.2 Critical judgements in applying accounting policies

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

(i) Control over investees accounted for as subsidiaries

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

5. REVENUE

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

	2017 **HK$'million**	2016 HK$'million
Ports service, transportation income, container service and container yard management income	**8,185**	7,570
Logistics services income	**410**	405
Gross rental income from investment properties (Note)	**97**	1
	8,692	7,976

Note: Direct operating expenses incurred for gross rental income from investment properties amounted to HK$54 million (2016: HK$13 million) during the year ended 31 December 2017.

6. SEGMENT INFORMATION

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

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

From 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. In prior years, ports operation was evaluated on a geographic basis, including Pearl River Delta excluding Hong Kong, Hong Kong, Yangtze River Delta, other regions in Mainland China, Hong Kong and Taiwan, and other locations outside of Mainland China, Hong Kong and Taiwan. To better reflect the expansions of the Group's ports operation and assessment of performance across different operating units and allocations of resources thereto, the CODM modified the geographical setting in the Group's internal reports to Pearl River Delta, Yangtze River Delta, Bohai Rim and other regions in Mainland China, Hong Kong and Taiwan, and other locations outside of Mainland China, Hong Kong and Taiwan. This led to a change in the segment reporting for all comparable periods.

The Group's reportable segments of the ports operation are therefore modified as follows:

(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 its entire interest in Soares Limited ("Soares"), a wholly-owned subsidiary of the Company whose principal asset was the Group's entire interest in an associate engaging in the port-related manufacturing operation, the segment information of this segment reported to the Group's CODM is up to the date of such disposal. Further details of the disposal of Soares are set out in note 37.

(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.

6. SEGMENT INFORMATION (Continued)

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

Bonded logistics operation and other operations 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.

There was no single customer who accounted for over 10% of the Group's total revenue in any of the years ended 31 December 2017 and 2016.

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

	Revenue		Non-current assets	
	2017	2016	**2017**	2016
	HK$'million	HK$'million	**HK$'million**	HK$'million
Mainland China, Hong Kong and Taiwan	**6,952**	6,747	**83,813**	74,650
Other locations	**1,740**	1,229	**31,246**	19,051
	8,692	7,976	**115,059**	93,701

6. SEGMENT INFORMATION (Continued)

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

	REVENUE									
	Ports operation						Bonded logistics operation	Port-related manufacturing operation	Other operations	Total
	Mainland China, Hong Kong and Taiwan				Other locations	Sub-total			Other investments	
	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
For the year ended 31 December 2017										
Company and subsidiaries	**5,844**	**—**	**77**	**524**	**1,740**	**8,185**	**410**	**—**	**97**	**8,692**
Share of associates	**924**	**11,189**	**2,193**	**17**	**1,202**	**15,525**	**182**	**9,265**	**6,672**	**31,644**
Share of joint ventures	**9**	**401**	**1,180**	**1,182**	**374**	**3,146**	**—**	**—**	**2**	**3,148**
Total segment revenue	**6,777**	**11,590**	**3,450**	**1,723**	**3,316**	**26,856**	**592**	**9,265**	**6,771**	**43,484**
For the year ended 31 December 2016 (restated)										
Company and subsidiaries	5,873	—	106	362	1,229	7,570	405	—	1	7,976
Share of associates	920	9,080	3,151	—	1,057	14,208	207	14,115	4,974	33,504
Share of joint ventures	12	368	1,087	1,094	167	2,728	—	—	13	2,741
Total segment revenue	6,805	9,448	4,344	1,456	2,453	24,506	612	14,115	4,988	44,221

6. SEGMENT INFORMATION (Continued)

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

	For the year ended 31 December 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	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$'million	HK$'million
Operating profit/(loss)	1,860	390	(702)	(20)	764	2,292	132	813	304	(400)	(96)	3,141
Share of profits less losses of												
– Associates	205	3,462	122	10	610	4,409	(4)	187	495	–	495	5,087
– Joint ventures	–	111	240	(35)	86	402	–	–	(17)	–	(17)	385
	2,065	3,963	(340)	(45)	1,460	7,103	128	1,000	782	(400)	382	8,613
Finance costs, net	(1)	1	–	(24)	(239)	(263)	(40)	–	(45)	(820)	(865)	(1,168)
Taxation	(335)	(195)	(16)	(4)	(64)	(614)	(26)	(17)	(87)	–	(87)	(744)
Profit/(loss) for the year	1,729	3,769	(356)	(73)	1,157	6,226	62	983	650	(1,220)	(570)	6,701
Non-controlling interests	(481)	–	–	6	(200)	(675)	(2)	–	4	–	4	(673)
Profit/(loss) attributable to equity holders of the Company	1,248	3,769	(356)	(67)	957	5,551	60	983	654	(1,220)	(566)	6,028
Other information:												
Depreciation and amortisation	813	–	2	193	435	1,443	94	–	2	18	20	1,557
Capital expenditure	1,365	–	1	649	14	2,029	6	–	1	41	42	2,077

6. SEGMENT INFORMATION (Continued)

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

	For the year ended 31 December 2016 (restated)											
	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	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$'million	HK$'million
Operating profit/(loss)	2,134	548	36	90	824	3,632	153	(1)	497	(384)	113	3,897
Share of profits less losses of												
– Associates	180	2,040	123	—	561	2,904	(1)	156	330	—	330	3,389
– Joint ventures	—	112	210	(45)	20	297	—	—	—	—	—	297
	2,314	2,700	369	45	1,405	6,833	152	155	827	(384)	443	7,583
Finance costs, net	(38)	—	—	(31)	(206)	(275)	(30)	—	(4)	(591)	(595)	(900)
Taxation	(482)	328	(20)	(12)	(104)	(290)	(21)	(14)	(150)	(2)	(152)	(477)
Profit/(loss) for the year	1,794	3,028	349	2	1,095	6,268	101	141	673	(977)	(304)	6,206
Non-controlling interests	(558)	—	—	(16)	(136)	(710)	(2)	—	—	—	—	(712)
Profit/(loss) attributable to equity holders of the Company	1,236	3,028	349	(14)	959	5,558	99	141	673	(977)	(304)	5,494
Other information:												
Depreciation and amortisation	822	—	1	121	388	1,332	91	—	—	15	15	1,438
Capital expenditure	604	—	2	185	206	997	80	—	6,259	296	6,555	7,632

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6. SEGMENT INFORMATION (Continued)

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

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

	As at 31 December 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 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
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)

6. SEGMENT INFORMATION (Continued)

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

	As at 31 December 2016 (restated)											
	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	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$'million	HK$'million
ASSETS												
Segment assets (excluding interests in associates and joint ventures)	21,647	3,311	751	3,084	11,156	39,949	2,499	—	7,394	1,290	8,684	51,132
Interests in associates	2,823	18,103	4,187	1	5,934	31,048	388	7,864	3,720	—	3,720	43,020
Interests in joint ventures	7	861	2,338	2,648	3,010	8,864	—	—	45	—	45	8,909
Total segment assets	24,477	22,275	7,276	5,733	20,100	79,861	2,887	7,864	11,159	1,290	12,449	103,061
Taxation recoverable												3
Deferred tax assets												49
Total assets												103,113
LIABILITIES												
Segment liabilities	(2,454)	—	(42)	(1,273)	(6,367)	(10,136)	(1,153)	—	(3,086)	(12,742)	(15,828)	(27,117)
Taxation payable												(285)
Deferred tax liabilities												(1,973)
Total liabilities												(29,375)

7. PROFIT FOR THE YEAR

	2017 HK$'million	2016 HK$'million
Profit for the year has been arrived at after charging:		
Staff costs (including Directors' emoluments) (note 9)	**1,675**	1,558
Depreciation of property, plant and equipment	**1,197**	1,122
Amortisation of intangible assets and land use rights	**360**	316
Auditor's remuneration (including fees for non-audit services)	**17**	20
Operating lease rentals in respect of		
– land and buildings	**246**	220
– plant and machinery	**37**	32

8. OTHER INCOME AND OTHER GAINS, NET

	2017 HK$'million	2016 HK$'million
Dividend income from available-for-sale financial assets	**85**	111
Gain on deemed disposal of interest in an associate	**3**	6
Gain on disposal of an available-for-sale financial asset	**307**	512
(Loss)/gain on disposal of property, plant and equipment	**(1)**	3
Gain on disposal of a subsidiary (note 37)	**813**	—
Increase in fair value of investment properties (note 18)	**247**	594
Indemnification from related parties (Note)	—	442
Impairment loss of interest in an associate (note 21)	**(739)**	—
Net exchange gains/(losses)	**86**	(204)
Others	**69**	97
	870	1,561

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

9. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2017 HK$'million	2016 HK$'million
Wages, salaries and bonus	**1,386**	1,304
Retirement benefit scheme contributions (Note)	**289**	254
	1,675	1,558

Note: No forfeiture was utilised for the year ended 31 December 2017 (2016: nil), leaving no available balance at the year end to reduce future contributions.

10. DIRECTORS' EMOLUMENTS

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

Name of Director	Fees HK$'million	Salary HK$'million	Discretionary bonus HK$'million (Note (i))	Share based payment HK$'million	Employer's contribution to pension scheme HK$'million	2017 Total HK$'million	2016 Total HK$'million
Executive Directors:							
Li Xiaopeng (Note (ii))	—	—	—	—	—	—	—
Hu Jianhua (Note (iii))	—	—	—	—	—	—	—
Wang Hong	—	—	—	—	—	—	—
Hua Li (Note (iv))	—	—	—	—	—	—	—
Su Jian (Note (iv))	—	—	—	—	—	—	—
Bai Jingtao (Note (v))	—	**1.46**	**1.04**	—	**0.19**	**2.69**	2.48
Wang Zhixian (Note (vi))	—	**1.30**	**0.93**	—	**0.14**	**2.37**	2.16
Zheng Shaoping	—	**1.28**	**0.93**	—	**0.14**	**2.35**	2.18
Shi Wei (Note (iv))	—	**0.64**	**0.56**	—	**0.06**	**1.26**	1.96
Li Jianhong (Note (vii))	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	—
Su Xingang (Note (viii))	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	—
Fu Gangfeng (Notes (ix) and (x))	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	—
Yu Liming (Note (ix))	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	—
Deng Renjie (Note (ix))	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	—
Independent non-executive Directors:							
Kut Ying Hay	**0.27**	—	—	—	—	**0.27**	0.26
Lee Yip Wah Peter	**0.27**	—	—	—	—	**0.27**	0.26
Li Kwok Heem John	**0.27**	—	—	—	—	**0.27**	0.26
Li Ka Fai David	**0.27**	—	—	—	—	**0.27**	0.26
Bong Shu Ying Francis	**0.27**	—	—	—	—	**0.27**	0.26
Total for the year ended 31 December 2017	**1.35**	**4.68**	**3.46**	—	**0.53**	**10.02**	
Total for the year ended 31 December 2016	1.30	5.22	3.03	—	0.53		10.08

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

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

10. DIRECTORS' EMOLUMENTS (Continued)

Notes:

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

(ii) Mr. Li Xiaopeng was appointed as the Chairman of the Board of Directors of the Company on 18 February 2016 and resigned as the Chairman of the Board of Directors and an executive director of the Company on 11 January 2018.

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

(iv) Mr. Hua Li and Ms. Shi Wei were appointed as executive directors of the Company on 29 November 2016. Mr. Hua Li resigned as an executive director of the Company and Mr. Su Jian was appointed as an executive director of the Company on 12 October 2017.

(v) Mr. Bai Jingtao is the Managing Director of the Board of Directors of the Company.

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

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

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

(ix) Mr. Fu Gangfeng, Mr. Yu Liming and Mr. Deng Renjie resigned as executive directors of the Company on 29 November 2016.

(x) Mr. Fu Gangfeng was appointed as the Chairman of the Board of Directors and as an executive director of the Company on 20 March 2018.

11. EMPLOYEES' EMOLUMENTS

(a) Emoluments of senior management

Of the ten (2016: ten) senior management of the Company for the year ended 31 December 2017, four (2016: four) of them are directors of the Company and their emoluments has been disclosed in note 10. The total emoluments of the remaining six (2016: six) senior management is as follows:

	2017 **HK$'million**	2016 HK$'million
Salaries, other allowances and benefit-in-kinds	**6**	3
Performance related incentive payments	**4**	2
	10	5

The emoluments fell within the following bands:

	Number of senior management	
	2017	2016
Below HK$1,500,000	**1**	4
HK$1,500,001 - HK$2,000,000	**2**	2
HK$2,000,001 - HK$2,500,000	**3**	—
	6	6

11. EMPLOYEES' EMOLUMENTS (Continued)

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, three (2016: four) are directors (including the chief executive) and two (2016: one) are/is senior management of the Company whose emoluments are included in notes 10 and 11(a), respectively.

12. FINANCE INCOME AND COSTS

	2017 HK$'million	2016 HK$'million
Finance income from:		
Interest income from bank deposits	**118**	43
Others	**17**	17
	135	60
Interest expense on:		
Bank loans	**(489)**	(303)
Listed notes payable	**(559)**	(556)
Unlisted notes payable	**(158)**	(46)
Loans from:		
– non-controlling equity holders of subsidiaries	**(21)**	(19)
– a fellow subsidiary	**(50)**	—
– shareholders	**(15)**	(44)
– an associate	**(3)**	—
Others	**(42)**	(35)
Total borrowing costs incurred	**(1,337)**	(1,003)
Less: amount capitalised on qualifying assets (Note)	**34**	43
Finance costs	**(1,303)**	(960)
Finance costs, net	**(1,168)**	(900)

Note: Apart from the interest expenses incurred on borrowings specifically for the purposes of obtaining qualifying assets, those incurred from the general borrowing pool used for the purpose of obtaining qualifying assets are also capitalised in the consolidated statement of financial position. Capitalisation rate of 4.35% per annum (2016: 4.96% per annum) was applied, representing the weighted average rate of the costs of borrowings used to finance the qualifying assets.

13. TAXATION

Hong Kong Profits Tax has been provided for at the rate of 16.5% (2016: 16.5%) on the estimated assessable profit for the year.

The Group's operations in Mainland China are subject to corporate income tax law of the PRC ("PRC corporate income tax"). The standard PRC corporate income tax rate is 25%. Certain of the Group's subsidiaries are exempted from PRC corporate income tax in the first five profit making years and followed by a 50% reduction in PRC corporate income tax for the next five years thereafter, commencing from the earlier of the first profitable year after offsetting all unexpired tax losses carried forward from the previous years or 1 January 2008. Certain of the Group's subsidiaries enjoy the preferential tax rate of 15% upon the fulfilment of the criteria of the PRC tax laws. Further, 10% withholding income tax is generally imposed on dividends relating to any profits earned commencing from 2008 to foreign investors, while for some PRC entities held by companies incorporated in certain places, including Hong Kong and Singapore, preferential tax rate of 5% will be applied according to PRC tax regulations if such companies are the beneficial owner of over 25% of these PRC entities.

Taxation outside of Hong Kong and Mainland China has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates. Certain of the Group's overseas subsidiaries are exempted from the corporate income tax in the relevant countries.

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

	2017 **HK$'million**	2016 HK$'million
Current taxation		
Hong Kong Profits Tax	**3**	2
PRC corporate income tax	**309**	492
Overseas profits tax	**2**	1
Withholding income tax	**245**	89
Deferred taxation		
Origination and reversal of temporary differences	**185**	207
Deferred taxation on PRC withholding income tax arising from change in tax rate (Note)	**—**	(314)
	744	477

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

13. TAXATION (Continued)

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

	2017 HK$'million	2016 HK$'million
Profit before taxation (excluding share of profits less losses of associates and joint ventures)	**1,973**	2,997
Expected tax calculated at the weighted average applicable tax rate	**562**	575
Income not subject to tax	**(577)**	(129)
Expenses not deductible for tax purposes	**301**	158
Tax losses and other temporary differences not recognised	**91**	33
Utilisation of previously unrecognised tax losses	**(31)**	(8)
Withholding tax on earnings of subsidiaries, associates and joint ventures	**398**	(152)
Tax charge	**744**	477

The weighted average applicable tax rate was 28.5% (2016: 19.2%).

The amount of taxation debited/(credited) to other comprehensive income represents:

	2017 HK$'million	2016 HK$'million
Deferred taxation		
Arising on income and expense recognised in other comprehensive income:		
Revaluation of available-for-sale financial assets	**66**	(185)
Release upon disposal of an available-for-sale financial asset	**(31)**	(51)
	35	(236)

14. DIVIDENDS

	2017 HK$'million	2016 HK$'million
Interim, paid, of 22 HK cents (2016: 22 HK cents) per ordinary share	**698**	575
Special interim dividend, paid, of 135 HK cents (2016: nil) per ordinary share	**4,282**	—
Final, proposed, of 59 HK cents (2016: 65 HK cents) per ordinary share	**1,934**	1,707
	6,914	2,282

Details of scrip dividends offered in respect of the 2016 final and 2017 interim dividends are set out in note 28(b).

At a meeting held on 29 March 2018, the Board of Directors proposed a final dividend of 59 HK cents per ordinary share, which will be satisfied by allotment of new shares of the Company, credited as fully paid, by way of scrip dividend, with an alternative to shareholders to elect to receive such final dividend (or part thereof) in cash in lieu of such allotment. This proposed dividend is not reflected as a dividend payable in these consolidated financial statements.

The amount of proposed final dividend for 2017 was based on 3,277,619,310 (2016: 2,625,735,562) shares in issue as at 29 March 2018.

15. EARNINGS PER SHARE

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

	2017	2016
Basic		
Profit attributable to equity holders of the Company (HK$'million)	**6,028**	5,494
Weighted average number of ordinary shares in issue (Note (a))	**3,277,619,310**	3,129,068,494
Basic earnings per share (HK cents)	**183.90**	175.58
Diluted		
Profit attributable to equity holders of the Company (HK$'million)	**6,028**	5,494
Weighted average number of ordinary shares in issue (Note (a))	**3,277,619,310**	3,129,068,494
Effect of dilutive potential ordinary shares:		
Adjustment for share options (Note (b))	—	499
Weighted average number of ordinary shares for diluted earnings per share	**3,277,619,310**	3,129,068,993
Diluted earnings per share (HK cents)	**183.90**	175.58

Notes:

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

The directors are of the opinion, based on the best information available thereto, including the terms of the MCS and the identities of its holders, that the MCS are substantially the same as ordinary shares of the Company, and accordingly, the MCS 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.

(b) Adjustment represented the additional number of ordinary shares in issue on the assumption of exercise of all outstanding share options except for those with exercise price higher than the average market price of the Company's shares for the year ended 31 December 2016. Calculation to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares during the year) was based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above was compared with the number of shares that would have been issued assuming the exercise of the share options. All outstanding share options had expired in 2016 and there was no outstanding share option in the current year.

16. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Intangible assets		
		Port operating rights	Others	Total
	HK$'million (Note (b))	HK$'million (Note (c))	HK$'million (Note (d))	HK$'million
Year ended 31 December 2017				
As at 1 January 2017	**2,791**	**5,273**	**134**	**5,407**
Exchange adjustments	**200**	**602**	**9**	**611**
Addition	—	**58**	—	**58**
Acquisition of subsidiaries (note 39)	**637**	—	—	—
Amortisation (Note (a))	—	**(148)**	**(3)**	**(151)**
As at 31 December 2017	**3,628**	**5,785**	**140**	**5,925**
As at 31 December 2017				
Cost	**3,628**	**6,211**	**160**	**6,371**
Accumulated amortisation	—	**(426)**	**(20)**	**(446)**
Net book value	**3,628**	**5,785**	**140**	**5,925**
Year ended 31 December 2016				
As at 1 January 2016	2,973	5,514	146	5,660
Exchange adjustments	(182)	(155)	(9)	(164)
Addition	—	43	—	43
Amortisation (Note (a))	—	(129)	(3)	(132)
As at 31 December 2016	2,791	5,273	134	5,407
As at 31 December 2016				
Cost	2,791	5,502	140	5,642
Accumulated amortisation	—	(229)	(6)	(235)
Net book value	2,791	5,273	134	5,407

Notes:

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

	2017 HK$'million	2016 HK$'million
Cost of sales	**148**	129
Administrative expenses	**3**	3
	151	132

16. GOODWILL AND INTANGIBLE ASSETS (Continued)

Notes: (Continued)

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

	2017 HK$'million	2016 HK$'million
Ports operation		
– Mainland China, Hong Kong and Taiwan		
– Pearl River Delta	**2,957**	2,781
– Others	**671**	10
	3,628	2,791

The recoverable amount of a CGU is determined based on higher of fair value less cost of disposal and value in use calculations. The value in use calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period and discounted by rates specific to the relevant CGUs. Management determines the financial budgets based on past performance and its expectations for market development, including the expected economic growth in developed and emerging economies in the short-term and medium-term, China's prospective GDP growth rates, future developments of the ports, among others. Cash flows beyond the five-year period are extrapolated using the estimated growth rate stated below.

The key assumptions used for value in use calculations are as follows:

	Growth rate (Note (i))		**Discount rate (Note (ii))**	
	2017	2016	**2017**	2016
Ports operation				
– Mainland China, Hong Kong and Taiwan				
– Pearl River Delta	**3% - 4%**	3% - 4%	**8.05%**	7.64%
– Others	**5%**	5%	**8.05%**	7.64%

Notes:

(i) Weighted average growth rates are used to extrapolate cash flows beyond the budget period which do not exceed the historical trend of the respective CGUs nor the industry growth rate.

The Group of CGUs in Pearl River Delta was separated into two groups of CGUs in 2016 as Pearl River Delta excluding Hong Kong and Hong Kong, the growth rate used for value in use calculation were 4% and 3% respectively.

(ii) Pre-tax discount rate has been applied to the cash flow projections. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

The discount rate used for both CGUs in Pearl River Delta excluding Hong Kong and Hong Kong in 2016 was 7.64%.

As at 31 December 2017 and 31 December 2016, no impairment of any of its CGUs or group of CGUs containing goodwill with indefinite useful live has been identified. Management believes that any reasonably possible change in any of the above assumptions would not cause the aggregate carrying amount of any of the above CGUs to exceed the respective aggregate recoverable amounts.

16. GOODWILL AND INTANGIBLE ASSETS (Continued)

Notes: (Continued)

(c) Included in port operating rights as at 31 December 2017 is an amount of HK$4,665 million (2016: HK$4,141 million) related to the concession for operation of a terminal in the Port of Lomé in Togo for a concession period of 35 years commenced in 2011 granted by the Government of Togolese Republic. The carrying amount of the concession represents the fair value as at the date of the business combination under which the Group acquired the concession and the fair value of the construction services carried out to-date less its accumulated amortisation. Amortisation is provided for since 2015 and over the period in which the Group operates the relevant terminals on a straight-line basis. The relevant group entity recognises both construction revenue and cost in the amount of HK$57 million (2016: HK$43 million) for the year ended 31 December 2017 by reference to the stage of completion of the construction of the terminal at the end of the reporting period and based on the proportion that contract costs incurred for work performed at the end of the reporting period relative to the estimated total contract costs.

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

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

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'million	Harbour works, buildings and dockyard HK$'million	Plant, machinery, furniture and equipment HK$'million	Others HK$'million (Note (b))	Assets under construction HK$'million (Note (a))	Total HK$'million
Year ended 31 December 2017						
As at 1 January 2017	**760**	**11,484**	**4,653**	**462**	**1,100**	**18,459**
Exchange adjustments	**46**	**668**	**296**	**29**	**111**	**1,150**
Additions	**30**	**16**	**50**	**32**	**1,207**	**1,335**
Acquisition of subsidiaries (note 39)	**275**	**8,967**	**436**	**500**	**992**	**11,170**
Disposals	**(1)**	**(11)**	**(23)**	**(10)**	—	**(45)**
Transfers	**100**	**493**	**122**	**1**	**(716)**	—
Transfer from other non-current assets	**6**	—	**2**	—	—	**8**
Depreciation (Note (c))	**(29)**	**(508)**	**(587)**	**(73)**	—	**(1,197)**
As at 31 December 2017	**1,187**	**21,109**	**4,949**	**941**	**2,694**	**30,880**
As at 31 December 2017						
Cost	**1,521**	**26,553**	**11,311**	**1,669**	**2,694**	**43,748**
Accumulated depreciation and impairment	**(334)**	**(5,444)**	**(6,362)**	**(728)**	—	**(12,868)**
Net book value	**1,187**	**21,109**	**4,949**	**941**	**2,694**	**30,880**
Year ended 31 December 2016						
As at 1 January 2016	726	12,329	5,080	536	899	19,570
Exchange adjustments	(37)	(608)	(220)	(28)	(68)	(961)
Additions	—	45	118	23	530	716
Acquisition of assets through acquisition of subsidiaries (note 38)	93	—	—	—	—	93
Disposals	—	(2)	(12)	(2)	—	(16)
Transfers	—	182	79	—	(261)	—
Transfer from investment properties	2	—	—	—	—	2
Transfer from other non-current assets	—	—	177	—	—	177
Depreciation (Note (c))	(24)	(462)	(569)	(67)	—	(1,122)
As at 31 December 2016	760	11,484	4,653	462	1,100	18,459
As at 31 December 2016						
Cost	1,028	15,449	9,709	996	1,100	28,282
Accumulated depreciation and impairment	(268)	(3,965)	(5,056)	(534)	—	(9,823)
Net book value	760	11,484	4,653	462	1,100	18,459

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

Notes:

(a) Included in assets under construction is capitalised interest of approximately HK$63 million (2016: HK$46 million).

(b) Others mainly comprise vessels and ships, motor vehicles and leasehold improvements with net book values of HK$804 million (2016: HK$339 million), HK$67 million (2016: HK$51 million) and HK$70 million (2016: HK$25 million) respectively as at 31 December 2017.

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

	2017 **HK$'million**	2016 HK$'million
Cost of sales	**1,164**	1,087
Administrative expenses	**33**	35
	1,197	1,122

(d) As at 31 December 2017, harbour works, buildings and dockyard and assets under construction with net book value of HK$369 million (2016: nil) were pledged as security for the Group's bank borrowings (note 32(a)).

(e) As at 31 December 2017, included in the property, plant and equipment are leasehold land and buildings, harbour works, buildings and dockyard and plant, machinery, furniture and equipments amounted to HK$173 million (2016: nil), HK$7,616 million (2016: nil) and HK$3 million (2016: nil), respectively, which are held under finance lease for 99 years and all lease payments were fully paid.

18. INVESTMENT PROPERTIES

	2017 **HK$'million**	2016 HK$'million
As at 1 January	**7,455**	287
Exchange adjustments	**538**	(297)
Increase in fair value (note 8)	**247**	594
Additions	**4**	30
Acquisition of assets through acquisition of subsidiaries (note 38)	—	6,845
Acquisition of subsidiaries (note 39)	**167**	—
Transfer to property, plant and equipment	—	(2)
Transfer to land use rights	—	(2)
As at 31 December	**8,411**	7,455

The investment properties were revalued at the end of each reporting period by independent and professional qualified valuers.

The fair value measurements for all of the Group's investment properties are categorised as level 3 (see note 2.1). The fair value was determined based on the direct comparison approach and investment approach. The direct comparison approach makes reference to the recent transactions for similar properties in the proximity and adjusted for a number of factors, including differences in transaction dates, floor areas, etc., between the comparable properties and the subject matters. If the market price of comparable properties increases, the fair value of investment property increase, and vice versa. The investment approach capitalises the net income from existing tenancies with due allowance for reversionary for individual properties. If the allowance for reversionary increases, the fair value of investment property decrease, and vice versa. A significant increase in rental income would result in a significant increase in the fair value of investment property, and vice versa.

In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique or level of fair value hierarchy during the year.

19. LAND USE RIGHTS

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

	2017 HK$'million	2016 HK$'million
As at 1 January	**7,265**	7,545
Exchange adjustments	**614**	(490)
Additions	**785**	197
Acquisition of subsidiaries (note 39)	**4,396**	—
Acquisition of assets through acquisition of subsidiaries (note 38)	—	195
Transfer from investment property	—	2
Amortisation	**(209)**	(184)
As at 31 December	**12,851**	7,265

Notes:

(a) The Group's interests in land use rights are located in:

	2017 HK$'million	2016 HK$'million
Mainland China, medium-term lease	**10,787**	7,265
Other locations outside of Mainland China and Hong Kong, long-term lease	**2,064**	—
	12,851	7,265

(b) As at 31 December 2017, land use rights with a net book value of HK$197 million (2016: nil) are pledged as security for the Group's bank borrowings (note 32(a)).

20. INTERESTS IN SUBSIDIARIES

(a) Composition of the Group

Particulars of the Company's principal subsidiaries at 31 December 2017 are set out in note 42 to the consolidated financial statements.

(b) The table below shows non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiaries		Proportion of ownership interests held by non-controlling interests		Proportion of voting rights held by non-controlling interests		Accumulated non-controlling interests	
		2017	2016	**2017**	2016	**2017** **HK$'million**	2016 HK$'million
Shenzhen Chiwan Wharf Holdings Limited ("Shenzhen Chiwan")	Note (i)	**66%**	66%	**33%**	33%	**3,764**	3,531
Shantou China Merchants Port Group Co., Ltd ("SPG")	Note (ii)	**40%**	—	**40%**	—	**3,988**	—
Hambantota International Port Group (Private) Limited ("HIPG")	Note (ii)	**15%**	—	**15%**	—	**3,328**	—
Individually immaterial subsidiaries with non-controlling interests						**5,114**	4,299
						16,194	7,830

Notes:

(i) Shenzhen Chiwan is a company listed on the Shenzhen Stock Exchange. Although the Group is only beneficially interested in (excluding those held through an associate of the Group, China Nanshan Development (Group) Incorporation, being an unofficial English name ("China Nanshan"), and its subsidiaries) Shenzhen Chiwan for approximately 34% (2016: 34%), the Group has the power to direct approximately 67% (2016: 67%) of the voting right in Shenzhen Chiwan pursuant to an entrustment agreement entered into with China Nanshan, the beneficial owner of 33% (2016: 33%) equity interest in Shenzhen Chiwan. The ownership interest and voting rights held by numerous other shareholders other than the Group and China Nanshan in Shenzhen Chiwan is approximately 33% (2016: 33%). Therefore, the directors conclude the Group has control over Shenzhen Chiwan and Shenzhen Chiwan is a consolidated subsidiary in these consolidated financial statements.

(ii) Both SPG and HIPG are newly acquired during the year ended 31 December 2017. The directors of the Company consider that the profit or loss, total comprehensive income/(expense) and cash flows for the year arising from SPG and HIPG, are not material to the Group and accordingly, summarised financial information on the profit or loss, total comprehensive income/(expense) and cash flows for the year are not presented. No dividend was paid to non-controlling interests of SPG and HIPG during the year.

The summarised financial information of Shenzhen Chiwan and its subsidiaries ("Shenzhen Chiwan Group"), SPG and its subsidiaries ("SPG Group") and HIPG and its subsidiaries ("HIPG Group") are prepared in accordance with the significant accounting policies of the Group.

20. INTERESTS IN SUBSIDIARIES (Continued)

(b) The table below shows non-wholly-owned subsidiaries of the Group that have material non-controlling interests: (Continued)

Summarised financial information of consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows in respect of Shenzhen Chiwan Group is set out below:

	2017	2016
	Shenzhen Chiwan Group HK$'million	Shenzhen Chiwan Group HK$'million
Financial information of consolidated statement of Profit or loss and other comprehensive income		
Revenue	**2,820**	2,214
Other income and gains	**90**	151
Expenses and taxation	**(2,084)**	(1,583)
Profit for the year	**826**	782
Other comprehensive income/(expense)	**376**	(343)
Total comprehensive income for the year	**1,202**	439
Profit for the year, attributable to:		
Equity holders of the Company	**438**	351
Non-controlling interests of the Group	**388**	431
	826	782
Total comprehensive income for the year, attributable to:		
Equity holders of the Company	**636**	172
Non-controlling interests of the Group	**566**	267
	1,202	439
Dividends paid to non-controlling interests of the Group	**131**	133
Financial information of consolidated statement of cash flows		
Net cash inflow from operating activities	**1,341**	968
Net cash outflow from investing activities	**(112)**	(105)
Net cash outflow from financing activities	**(890)**	(1,176)
Net cash inflow/(outflow)	**339**	(313)

20. INTERESTS IN SUBSIDIARIES (Continued)

(b) The table below shows non-wholly-owned subsidiaries of the Group that have material non-controlling interests: (Continued)

Summarised financial information of consolidated statement of financial position of Shenzhen Chiwan Group, SPG Group and HIPG Group is set out below:

	2017			2016
	Shenzhen Chiwan Group HK$'million	**SPG Group HK$'million**	**HIPG Group HK$'million**	Shenzhen Chiwan Group HK$'million
Non-current assets	**8,619**	**6,276**	**10,922**	7,143
Current assets	**1,385**	**6,001**	**7**	740
Current liabilities	**(1,059)**	**(733)**	**(7)**	(653)
Non-current liabilities	**(626)**	**(1,065)**	—	(450)
	8,319	**10,479**	**10,922**	6,780
Equity attributable to:				
Equity holders of the Company	**4,555**	**6,491**	**7,594**	3,249
Non-controlling interests of the Group	**3,764**	**3,988**	**3,328**	3,531
	8,319	**10,479**	**10,922**	6,780

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

21. INTERESTS IN ASSOCIATES

	2017 HK$'million	2016 HK$'million
Share of net assets of associates, net of impairment:		
Listed associates	**26,093**	28,975
Unlisted associates	**12,101**	10,251
	38,194	39,226
Goodwill:		
Listed associates	**2,276**	1,186
Unlisted associates	**2,844**	2,608
	5,120	3,794
Total	**43,314**	43,020

During the year ended 31 December 2017, the directors of the Company conducted a review of the Group's interest in a listed associate with reference to its economic outlooks and assessed its recoverable amount, with reference to its value in use and fair value less cost of disposal. The recoverable amount is determined to be the fair value less cost of disposal, of which the fair value is valued based on quoted prices in active markets for the identical asset directly and categorized as level 1 (see note 2.1) of the fair value measurement hierarchy, and less than the carrying amount of the Group's interest in the listed associate by HK$739 million. Accordingly, the impairment loss is recognised in the profit or loss in current year.

Particulars of the Group's principal associates at 31 December 2017 are set out in note 43 to the consolidated financial statements.

The Group's material associates at the end of the reporting period include Shanghai International Port (Group) Co., Ltd. ("SIPG") (2016: SIPG and China International Marine Containers (Group) Co., Ltd ("CIMC")). All of the Group's associates are accounted for using equity method in these consolidated financial statements.

Summarised financial information in respect of SIPG (2016: SIPG and CIMC) is set out below. Other associates invested by the Group are not individually material. The summarised financial information below represents the financial information of SIPG (2016: SIPG and CIMC) prepared in accordance with the significant accounting policies of the Group.

21. INTERESTS IN ASSOCIATES (Continued)

(a) Material associate(s)

	2017	2016	
	SIPG	CIMC	SIPG
	HK$'million	HK$'million	HK$'million
Financial information of consolidated statement of profit or loss and other comprehensive income			
Revenue	**42,017**	59,155	36,344
Profit for the year, attributable to the equity holders of the associates	**13,260**	631	8,157
Other comprehensive income/(expense) for the year, attributable to the equity holders of the associates	**6,485**	(1,107)	(7,277)
Total comprehensive income/(expense) for the year, attributable to the equity holders of the associates	**19,745**	(476)	880
Dividends received from associates by the Group during the year	**1,029**	185	1,072
Financial information of consolidated statement of financial position			
Non-current assets	**112,137**	79,668	107,185
Current assets	**60,134**	59,645	26,547
Current liabilities	**(45,565)**	(51,704)	(37,929)
Non-current liabilities	**(33,385)**	(43,859)	(18,542)
Net assets of the associates	**93,321**	43,750	77,261
Reconciliation to the carrying amounts of interests in the associates:			
Net assets of the associates	**93,321**	43,750	77,261
Less: non-controlling interests	**(9,071)**	(11,010)	(8,412)
Less: perpetual medium term note	**—**	(2,290)	—
Net assets attributable to the shareholders of the associates	**84,250**	30,450	68,849
Proportion of the Group's interests in the associates (Note (a))	**26.45%**	24.53%	25.15%
Net assets attributable to the Group's interests in the associates	**22,284**	7,469	17,315
Goodwill	**2,271**	393	788
Carrying amount of the Group's interests in the associates	**24,555**	7,862	18,103
Market value of the listed associates, valued based on the quoted prices in active markets for the identical asset directly, and categorised as level 1 of the fair value hierarchy of the Group's interests in the associates	**48,770**	8,182	33,357

21. INTERESTS IN ASSOCIATES (Continued)

(a) Material associate(s) (Continued)

Note:

(a) Proportion of the Group's interests in the associates

(i) Changes of the Group's interests in SIPG

During the year, 302,685,482 shares (2016: 254,170,980 shares) of SIPG were purchased by the Group from open market for aggregate considerations of HK$2,304 million (2016: HK$1,524 million). Consequently, the Group's interest in SIPG has been increased from 25.15% to 26.45% (2016: from 24.05% to 25.15%)

(ii) Changes of the Group's interest in CIMC

During the year, the Group disposed of its shareholdings in CIMC through the disposal of Soares, further details of the disposal of Soares are set out in note 37.

During the year ended 31 December 2016, 43,277,500 shares of CIMC were purchased by the Group from open market for aggregate considerations of HK$450 million. Consequently, the Group's interest in CIMC had been increased from 23.08% to 24.53%.

(b) Aggregate of other associates

	2017 **HK$'million**	2016 HK$'million
The Group's share of:		
Profit for the year	**1,437**	1,193
Other comprehensive income/(expense)	**1,430**	(679)
Total comprehensive income	**2,867**	514
Aggregate carrying amount of the Group's interests in these associates	**18,759**	17,055

Acquisition of an associate principally engaged in terminal and related logistic services in 2016

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

This transaction had been completed during the year ended 31 December 2016 and the Group's investment in Dalian Port is accounted for as an interest in an associate since then as the directors consider the Group has significant influence over the investee.

The market value of the Group's interest in Dalian Port as at 31 December 2017 is approximately HK$3,828 million (2016: HK$3,719 million), valued based on the quoted prices in active market for the identical asset directly, and categorized as Level 1 of the fair value hierarchy.

22. INTERESTS IN JOINT VENTURES

	2017 HK$'million	2016 HK$'million
Share of net assets of unlisted joint ventures	**9,697**	8,859
Goodwill	**53**	50
	9,750	8,909

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

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

	2017 HK$'million	2016 HK$'million
The Group's share of:		
Profit for the year	**385**	297
Other comprehensive income/(expense)	**452**	(359)
Total comprehensive income/(expense)	**837**	(62)

Note: Particulars of the Group's principal joint ventures at 31 December 2017 are set out in note 44 to the consolidated financial statements.

23. OTHER FINANCIAL ASSETS

	2017 HK$'million	2016 HK$'million
Available-for-sale financial assets, at fair value:		
Listed equity investments in Hong Kong	**216**	152
Listed equity investments in Mainland China	**2,601**	2,620
Unlisted equity investments in Mainland China	**775**	578
Unlisted equity investments in Hong Kong	**97**	—
	3,689	3,350

23. OTHER FINANCIAL ASSETS (Continued)

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

	2017 HK$'million	2016 HK$'million
As at 1 January	**3,350**	5,883
Acquisition of subsidiaries (note 39)	**6**	—
Additions	**97**	—
Disposal	**(392)**	(706)
Exchange adjustments	**32**	(26)
Net change in fair value transferred to equity	**596**	(1,801)
As at 31 December	**3,689**	3,350

91.5% (2016: 95.5%) of the available-for-sale financial assets is denominated in Renminbi and the remaining balance is denominated in Hong Kong dollar.

24. OTHER NON-CURRENT ASSETS

	2017 HK$'million	2016 HK$'million
Prepayments and deposits for purchase of non-current assets	**237**	225
Advance to an associate (Note)	**12**	10
Others	**151**	160
	400	395

Note: The amount is unsecured, interest-bearing at a rate of one-year Euro Interbank Offered Rate plus 50 basis point per annum and repayable in 2021.

25. INVENTORIES

	2017 HK$'million	2016 HK$'million
Raw materials	**79**	57
Spare parts and consumables	**20**	20
	99	77

26. DEBTORS, DEPOSITS AND PREPAYMENTS

	2017 HK$'million	2016 HK$'million
Trade debtors	**1,094**	868
Less: provision for impairment of trade debtors (Note (a))	**(52)**	(58)
Trade debtors, net (Note (c))	**1,042**	810
Amounts due from fellow subsidiaries (Note (f))	**5**	6
Amounts due from associates (Note (g))	**284**	383
Amounts due from joint ventures (Note (f))	**2**	2
Amount due from a related party (Note (h))	**1,181**	—
Dividend receivables	**231**	271
	2,745	1,472
Other debtors, deposits and prepayments	**960**	824
	3,705	2,296

Notes:

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

	2017 HK$'million	2016 HK$'million
As at 1 January	**58**	20
Provision for impairment of trade debtors	**2**	39
Reversal of provision	**(12)**	—
Exchange adjustments	**4**	(1)
As at 31 December	**52**	58

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

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

(b) Bill receivables of HK$20 million (2016: HK$10 million) are included in trade debtors as at 31 December 2017.

26. DEBTORS, DEPOSITS AND PREPAYMENTS (Continued)

Notes: (Continued)

(c) The Group has a credit policy of allowing an average credit period of 90 days (2016: 90 days) to its trade customers. The ageing analysis of trade debtors, based on the invoice date, net of provision for impairment of trade debtors, is as follows:

	2017 HK$'million	2016 HK$'million
0 - 90 days	**862**	742
91 - 180 days	**149**	47
181 - 365 days	**23**	17
Over 365 days	**8**	4
	1,042	810

(d) As at 31 December 2017, trade debtors of HK$583 million (2016: HK$462 million) and balances with related companies of HK$1,703 million (2016: HK$662 million) are neither past due nor impaired and are fully performing.

(e) As at 31 December 2017, trade debtors of HK$428 million (2016: HK$329 million) are past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The ageing analysis of these trade debtors is as follows:

	2017 HK$'million	2016 HK$'million
Days overdue		
– 1 to 90 days	**281**	279
– 91 to 180 days	**147**	50
	428	329

As at 31 December 2017, a provision of HK$52 million (2016: HK$58 million) has been made to individual trade debtors. The individually impaired trade debtors mainly relate to customers which are in difficult financial situations while it is assessed that a portion of the trade debtors is expected to be recovered.

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

(g) The amounts of HK$144 million (2016: HK$134 million) are unsecured, interest-bearing at fixed rate of 1% (2016: 1%) per annum and repayable within twelve months from the end of the reporting period. The amounts of HK$111 million as at 31 December 2016 are unsecured, interest bearing at fixed rate of 9% per annum and has been settled during the year ended 31 December 2017. The remaining balances are unsecured, interest free and repayable on demand.

(h) The related party is an associate of CMG. 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.

27. CASH AND BANK BALANCES

	2017 HK$'million	2016 HK$'million
Cash at bank and in hand	**7,309**	2,696
Short-term time deposits	**1,938**	941
	9,247	3,637

The weighted average effective interest rate on time deposits as at the end of the reporting period is approximately 2.22% (2016: 1.01%) per annum. These deposits had an average maturity period of 48 days (2016: 60 days).

Cash and bank balances are denominated in the following currencies:

	2017 HK$'million	2016 HK$'million
Hong Kong dollar	**2,788**	563
Renminbi	**5,219**	2,295
United States dollar	**952**	721
Euro	**262**	38
Other currencies	**26**	20
	9,247	3,637

28. SHARE CAPITAL

	Company			
	Number of shares		Share capital	
	2017	2016	**2017 HK$'million**	2016 HK$'million
Issued and fully paid:				
As at 1 January	**2,625,732,225**	2,598,715,093	**19,548**	18,994
Issue of shares on exercise of share options (Note (a))	—	70,000	—	2
Issue of scrip dividend shares (Note (b))	**148,751,483**	26,758,997	**3,440**	547
Issue of shares on conversion of MCS (Note (c))	**503,135,602**	188,135	**15,219**	5
As at 31 December	**3,277,619,310**	2,625,732,225	**38,207**	19,548

28. SHARE CAPITAL (Continued)

Notes:

(a) During the year ended 31 December 2016, 70,000 shares were issued upon exercise of share options. Total net proceeds were HK$2 million. The weighted average share price at the time of exercise was HK$23.61 per share. The related transaction costs had been deducted from the proceeds received.

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

	Date of issue	**Number of shares issued**
2016 final dividend	1 July 2017	43,209,660
2017 interim and special interim dividends	16 November 2017	105,541,823
2017 Total		148,751,483
2016 Total		26,758,997

(c) During the year, 503,135,602 (2016: 188,135) shares were issued upon conversion of the MCS. No proceeds were received by the Company for the shares issued.

(d) Share options

The existing share option scheme was approved by the shareholders' resolutions of the Company and adopted on 9 December 2011 (the "New Scheme"), under which the Company's directors may, at their discretion, grant to any director or employee of the Company, the intermediate holding company of the Company or any of its subsidiaries or associates at a price of not less than the higher of (i) the closing price of shares as stated in the daily quotation sheet of the HKSE on the date of the offer of grant; and (ii) the average closing price of shares as stated in the daily quotation sheets of the HKSE for the five trading days immediately preceding the date of the offer of grant. The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the old scheme and any other share option schemes adopted must not in aggregate exceed 30% of the share capital of the Company in issue from time to time. The New Scheme is valid and effective for a period of 10 years.

Upon termination of the old scheme on 9 December 2011, no further options will be granted thereunder. However, the rules of the old scheme will remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior to its termination, or otherwise to the extent as may be required in accordance with the rules of the old scheme. All options granted under the old scheme prior to its termination will continue to be valid and exercisable in accordance with the rules of the old scheme. The terms of the New Scheme and the old scheme are generally similar.

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

No share option was outstanding during the year upon the expiry of all granted share options in 2016.

Movements in the number of share options outstanding under the old scheme and their related weighted average exercise prices during 2016 were as follows:

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

29. MANDATORY CONVERTIBLE SECURITIES

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 semiannually, 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 as at 13 June 2017, the mandatory conversion date, has been converted to ordinary shares of the Company, while during the year ended 31 December 2016, 188,135 units of MCS had been converted to ordinary shares of the Company.

Distribution amounted to HK$304 million (2016: HK$761 million) had been declared and paid to the holders of the MCS during the year before its conversion on 13 June 2017.

30. OTHER RESERVES

	Share-based compensation reserve HK$'million	Capital reserve HK$'million	Investment revaluation reserve HK$'million	Translation reserve HK$'million	Statutory reserves HK$'million (Note)	Total HK$'million
As at 1 January 2017	—	**(1,152)**	**1,659**	**(1,111)**	**2,703**	**2,099**
OTHER COMPREHENSIVE INCOME/(EXPENSE)						
Exchange differences from retranslation of investments in subsidiaries, associates and joint ventures	—	—	—	**4,555**	—	**4,555**
Increase in fair value of available-for-sale financial assets, net of deferred taxation	—	—	**529**	—	—	**529**
Share of reserves of associates	—	**(241)**	**448**	—	—	**207**
Release of reserves upon disposal of a subsidiary	—	**143**	**(21)**	**(36)**	**(608)**	**(522)**
Release of reserve upon disposal of an available-for-sale financial asset, net of deferred taxation	—	—	**(276)**	—	—	**(276)**
Other comprehensive income/(expense) for the year, net of tax	—	**(98)**	**680**	**4,519**	**(608)**	**4,493**
TRANSACTIONS WITH OWNERS						
Transfer from retained earnings	—	—	—	—	**386**	**386**
Total transactions with owners for the year	—	—	—	—	**386**	**386**
As at 31 December 2017	—	**(1,250)**	**2,339**	**3,408**	**2,481**	**6,978**
As at 1 January 2016	48	(1,218)	4,231	2,559	2,565	8,185
OTHER COMPREHENSIVE INCOME/(EXPENSE)						
Exchange differences from retranslation of investments in subsidiaries, associates and joint ventures	—	—	—	(3,670)	—	(3,670)
Decrease in fair value of available-for-sale financial assets, net of deferred taxation	—	—	(1,616)	—	—	(1,616)
Share of reserves of associates	—	38	(495)	—	—	(457)
Release of reserve upon disposal of an available-for-sale financial asset, net of deferred taxation	—	—	(461)	—	—	(461)
Other comprehensive income/(expense) for the year, net of tax	—	38	(2,572)	(3,670)	—	(6,204)
TRANSACTIONS WITH OWNERS						
Transfer from retained earnings	—	—	—	—	138	138
Transfer upon lapse of share options	(48)	—	—	—	—	(48)
Capital contribution to a subsidiary	—	28	—	—	—	28
Total transactions with owners for the year	(48)	28	—	—	138	118
As at 31 December 2016	—	(1,152)	1,659	(1,111)	2,703	2,099

30. OTHER RESERVES (Continued)

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

31. LOANS FROM SHAREHOLDERS

	Loans from an intermediate holding company		**Loans from the ultimate holding company**		**Total**	
	2017 HK$'million	2016 HK$'million	**2017 HK$'million**	2016 HK$'million	**2017 HK$'million**	2016 HK$'million
The loans as at 31 December 2017 and 2016 are repayable as follows:						
Within 1 year	**120**	63	—	336	**120**	399
Between 1 and 2 years	**59**	223	—	—	**59**	223
Between 2 and 5 years	—	56	—	—	—	56
	179	342	—	336	**179**	678
Less: amounts due within one year included under current liabilities	**(120)**	(63)	—	(336)	**(120)**	(399)
Non-current portion	**59**	279	—	—	**59**	279
Interest rates per annum	**4.35%**	4.35%	**N/A**	4.65%		

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

32. OTHER FINANCIAL LIABILITIES

	2017 HK$'million	2016 HK$'million
Bank loans		
Unsecured short-term bank loans		
– variable rate	**239**	1,916
– fixed rate	**586**	648
Unsecured long-term fixed rate bank loans	**30**	112
Long-term variable rate bank loans		
– unsecured	**5,608**	1,375
– secured (Note (a))	**4,284**	4,209
	10,747	8,260
Loans from non-controlling equity holders of subsidiaries (Note (b))	**445**	416
Loans from a fellow subsidiary (Note (c))	**2,261**	—
Loan from an associate (Note (d))	**276**	—
Notes payable (Note (e))		
– US$200 million, 7.125% guaranteed listed notes maturing in 2018	**1,562**	1,546
– US$200 million, 3.5% guaranteed listed notes maturing in 2020	**1,558**	1,544
– US$500 million, 5% guaranteed listed notesmaturing in 2022	**3,877**	3,839
– US$500 million, 4.75% guaranteed listed notes maturing in 2025	**3,888**	3,855
– RMB2,500 million, 4.89% unlisted notes maturing in 2022	**2,991**	—
– RMB300 million, 2.97% unlisted notes maturing in 2019	**358**	334
– RMB250 million, 6.38% unlisted notes maturing in 2018	**299**	—
– RMB100 million, 4.74% unlisted notes maturing in 2018	**119**	—
– RMB1,500 million, 3.19% unlisted notes maturing in 2017	—	1,683
– RMB250 million, 3.9% unlisted notes maturing in 2017	—	279
	14,652	13,080
Total	**28,381**	21,756
Less: amounts due within one year included under current liabilities	**(6,148)**	(4,963)
Non-current portion	**22,233**	16,793

32. OTHER FINANCIAL LIABILITIES (Continued)

Notes:

(a) As at 31 December 2017, the following assets are pledged against the Group's secured bank loans:

	2017 **HK$'million**	2016 HK$'million
Property, plant and equipment (note 17)	**369**	—
Land use rights (note 19)	**197**	—
	566	—

In addition to the above, the entire shareholdings in two (2016: two) subsidiaries, owned by the Company and its subsidiary as at 31 December 2017, are also pledged to various banks for bank facilities granted to the relevant subsidiaries.

(b) The amount of HK$445 million (2016: HK$372 million) is unsecured, interest bearing at 4.65% (2016: 4.65%) per annum and is not required to be repaid within twelve months from the end of the reporting period.

The amount of HK$44 million as at 31 December 2016 was unsecured, interest bearing at 9% per annum and has been settled during the current year.

(c) 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 at 3.83% to 4.35% per annum and repayable within twelve months from the end of reporting period.

(d) The amount as at 31 December 2017 is unsecured, interest bearing at floating interest rate per annum and repayable within twelve months from the end of the reporting period.

(e) Listed notes issued by subsidiaries of the Company amounting to HK$10,885 million (2016: HK$10,784 million) are secured by corporate guarantees provided by the Company.

The effective interest rate of the Group's notes payables are as follows:

	2017	2016
US$200 million, 7.125% guaranteed listed notes maturing in 2018	**7.36%**	7.36%
US$200 million, 3.5% guaranteed listed notes maturing in 2020	**3.64%**	3.64%
US$500 million, 5% guaranteed listed notes maturing in 2022	**5.22%**	5.22%
US$500 million, 4.75% guaranteed listed notes maturing in 2025	**4.83%**	4.83%
RMB2,500 million, 4.89% unlisted notes maturing in 2022	**4.94%**	N/A
RMB300 million, 2.97% unlisted notes maturing in 2019	**3.57%**	3.57%
RMB250 million, 6.38% unlisted notes maturing in 2018	**6.68%**	N/A
RMB100 million, 4.74% unlisted notes maturing in 2018	**4.89%**	N/A
RMB1,500 million, 3.19% unlisted notes maturing in 2017	**N/A**	3.35%
RMB250 million, 3.9% unlisted notes maturing in 2017	**N/A**	3.91%

The fair values of the listed notes payable and the unlisted notes payable were HK$11,530 million (2016: HK$11,422 million) and HK$3,828 million (2016: HK$1,967 million) respectively. The fair value of unlisted notes payable were determined by discounting the future cash flows at the current market interest rate available to the Group and the fair value of the listed notes payable was determined with reference to quoted market price. Other than the listed and unlisted notes payable, the carrying amounts of the other financial liabilities approximate their fair values as at 31 December 2017 and 2016.

(f) As at 31 December 2017, the Group has undrawn facilities of bank loan and other debt financing instruments amounting to HK$29,786 million (2016: HK$20,494 million), of which HK$23,679 million (2016: HK$17,183 million) and HK$6,107 million (2016: HK$3,311 million) are committed and uncommitted credit facilities respectively.

32. OTHER FINANCIAL LIABILITIES (Continued)

Notes: (Continued)

(g) The other financial liabilities as at 31 December 2017 and 2016 are repayable as follows:

	Bank loans		Listed notes payable		Unlisted notes payable		Loans from non-controlling equity holders of subsidiaries		Loans from a fellow subsidiary		Loan from an associate		Total	
	2017 HK$'million	2016 HK$'million	**2017 HK$'million**	2016 HK$'million	**2017 HK$'million**	2016 HK$'million	**2017 HK$'million**	2016 HK$'million	**2017 HK$'million**	2016 HK$'million	**2017 HK$'million**	2016 HK$'million	**2017 HK$'million**	2016 HK$'million
Within 1 year	**1,631**	2,957	**1,562**	—	**418**	1,962	**—**	44	**2,261**	—	**276**	—	**6,148**	4,963
Between 1 and 2 years	**1,811**	516	**—**	1,546	**358**	—	**—**	—	**—**	—	**—**	—	**2,169**	2,062
Between 2 and 5 years	**5,242**	2,455	**5,435**	1,544	**2,991**	334	**—**	—	**—**	—	**—**	—	**13,668**	4,333
Within 5 years	**8,684**	5,928	**6,997**	3,090	**3,767**	2,296	**—**	44	**2,261**	—	**276**	—	**21,985**	11,358
More than 5 years	**2,063**	2,332	**3,888**	7,694	**—**	—	**445**	372	**—**	—	**—**	—	**6,396**	10,398
	10,747	8,260	**10,885**	10,784	**3,767**	2,296	**445**	416	**2,261**	—	**276**	—	**28,381**	21,756

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

	2017	2016
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	**4.54%**	3.35% to 3.92%

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

	2017 HK$'million	2016 HK$'million
Renminbi	**12,611**	6,099
Euro	**2,409**	2,260
United States dollar	**13,361**	13,397
	28,381	21,756

33. OTHER NON-CURRENT LIABILITIES

Included in the balance of other non-current liabilities is the minimum guaranteed royalty and premium provision (the "Royalty Provision") of HK$943 million (2016: HK$948 million) under a Build-Operate-Transfer Agreement (the "BOT Agreement") with Sri Lanka Ports Authority ("SLPA") due by a non-wholly-owned subsidiary, Colombo International Container Terminals Limited, to SLPA.

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

The current portion of the Royalty Provision amounted to HK$52 million (2016: HK$43 million) is included in creditors and accruals in current liabilities. The initial recognition of the Royalty Provision is determined by discounting the future annual guaranteed cash flows at the then market rate.

Included in the balance of other non-current liabilities as at 31 December 2017 is HK$420 million (2016: nil) which represents the net defined benefit obligation for a defined benefit plan.

During the year ended 31 December 2017, the Group acquired SPG (as defined in note 39) who sponsors a funded defined benefit plan for its qualifying employees.

The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality rate of plan participants both during and after their employment and future salaries of plan participants. An increase in the life expectancy and future salaries of the plan participants will both increase the plan's liability.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out as at 31 December 2017 by an independent qualified professional valuer. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit Method.

Of the expense for the year, HK$2 million (2016: nil) has been included in administrative expenses.

The remeasurement of the net defined benefit liability is included in other comprehensive income.

34. DEFERRED TAXATION

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

	2017 **HK$'million**	2016 HK$'million
As at 1 January	**(1,924)**	(2,292)
Exchange adjustments	**(158)**	108
Arising from acquisition of an associate	**–**	(83)
Arising from acquisition of subsidiaries (note 39)	**(557)**	—
(Charged)/credited to consolidated statement of profit or loss (note 13)	**(185)**	107
(Charged)/credited to other comprehensive income		
– Revaluation of available-for-sale financial assets (note 13)	**(66)**	185
– Release upon disposal of an available-for-sale financial asset (note 13)	**31**	51
Disposal of a subsidiary (note 37)	**272**	—
As at 31 December	**(2,587)**	(1,924)

Deferred income tax assets are recognised for tax loss carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK$866 million (2016: HK$766 million) to be carried forward against future taxable income. The entire amount expires in the following years:

	2017 **HK$'million**	2016 HK$'million
2017	—	96
2018	**233**	219
2019	**202**	188
2020	**164**	153
2021	**117**	110
2022	**150**	—
	866	766

34. DEFERRED TAXATION (Continued)

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

Deferred tax liabilities

	Withholding tax relating to unremitted earnings		Accelerated tax depreciation allowance		Fair value gains and others		Total	
	2017 HK$'million	2016 HK$'million	**2017 HK$'million**	2016 HK$'million	**2017 HK$'million**	2016 HK$'million	**2017 HK$'million**	2016 HK$'million
As at 1 January	**(966)**	(1,180)	**(660)**	(722)	**(347)**	(431)	**(1,973)**	(2,333)
Exchange adjustments	**(62)**	66	**(87)**	37	**(13)**	8	**(162)**	111
Arising from acquisition of an associate	—	(83)	—	—	—	—	—	(83)
Arising from acquisition of subsidiaries (note 39)	—	—	**(557)**	—	—	—	**(557)**	—
(Charged)/credited to consolidated statement of profit or loss	**(153)**	231	**33**	25	**(63)**	(160)	**(183)**	96
Credited/(charged) to other comprehensive income								
– Revaluation of available-for-sale financial assets	—	—	—	—	**(66)**	185	**(66)**	185
– Release upon disposal of an available-for-sale financial asset	—	—	—	—	**31**	51	**31**	51
Disposal of a subsidiary (note 37)	**272**	—	—	—	—	—	**272**	—
As at 31 December	**(909)**	(966)	**(1,271)**	(660)	**(458)**	(347)	**(2,638)**	(1,973)

Deferred tax assets

	Provision		Others		Total	
	2017 HK$'million	2016 HK$'million	**2017 HK$'million**	2016 HK$'million	**2017 HK$'million**	2016 HK$'million
As at 1 January	**11**	4	**38**	37	**49**	41
Exchange adjustments	**1**	(1)	**3**	(2)	**4**	(3)
(Charged)/credited to consolidated statement of profit or loss	**(2)**	8	—	3	**(2)**	11
As at 31 December	**10**	11	**41**	38	**51**	49

35. CREDITORS AND ACCRUALS

	2017 HK$'million	2016 HK$'million
Trade creditors (Note (a))	**397**	275
Amounts due to fellow subsidiaries (Note (b))	**193**	220
Consideration payable for acquisition of subsidiaries (notes 38 and 39)	**5,351**	1,131
Other payables and accruals	**3,058**	1,871
	8,999	3,497

Notes:

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

	2017 HK$'million	2016 HK$'million
0 - 90 days	**246**	199
91 - 180 days	**24**	9
181 - 365 days	**43**	7
Over 365 days	**84**	60
	397	275

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

36. INFORMATION OF THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

	2017 HK$'million	2016 HK$'million
Operating profit	**3,141**	3,897
Adjustments for:		
Depreciation and amortisation	**1,557**	1,438
Increase in fair value of investment properties	**(247)**	(594)
Net (reversal of)/provision for impairment of trade debtors	**(10)**	39
Impairment loss of interest in an associate	**739**	—
Gain on disposal of an available-for-sale financial asset	**(307)**	(512)
Loss/(gain) on disposal of property, plant and equipment	**1**	(3)
Gain on deemed disposal of interest in an associate	**(3)**	(6)
Gain on disposal of a subsidiary	**(813)**	—
Operating profit before working capital changes	**4,058**	4,259
Increase in inventories	**(4)**	(2)
Increase in debtors, deposits and prepayments	**(92)**	(464)
Increase in creditors and accruals	**408**	300
Net cash inflow generated from operations	**4,370**	4,093

36. INFORMATION OF THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows used in financing activities.

	Other financial liabilities										
	Loans from shareholders HK$'million	Bank loans HK$'million	Loans from non-controlling equity holders HK$'million	Loans from a fellow subsidiary HK$'million	Loan from an associate HK$'million	Notes payables HK$'million	Interest payable (included in creditors and accruals) HK$'million	Dividend payable to non-controlling equity holders of subsidiaries (included in creditors and accruals) HK$'million	Dividend payable to equity holders of the Company HK$'million	Distribution to MCS holders HK$'million	Total HK$'million
At 1 January 2017	678	8,260	416	—	—	13,080	171	42	—	—	22,647
Financing cash flows	(526)	1,307	(45)	2,180	169	981	(1,192)	(403)	(3,247)	(304)	(1,080)
Non-cash changes											
Acquisition of subsidiaries	—	640	—	—	106	289	7	—	—	—	1,042
Exchange adjustments	27	540	74	81	1	254	17	80	—	—	1,074
Interest capitalised	—	—	—	—	—	—	34	—	—	—	34
Issue of shares in lieu of dividends	—	—	—	—	—	—	—	—	(3,440)	—	(3,440)
Distribution to MCS holders	—	—	—	—	—	—	—	—	—	304	304
Interest expense	—	—	—	—	—	48	1,255	—	—	—	1,303
Declaration of dividend	—	—	—	—	—	—	—	529	6,687	—	7,216
At 31 December 2017	179	10,747	445	2,261	276	14,652	292	248	—	—	29,100

37. DISPOSAL OF A SUBSIDIARY

For the year ended 31 December 2017

In June 2017, the Company completed the disposal of its entire interest in, and the entire amount of the shareholder's loan advanced by the Company to, Soares, a wholly-owned subsidiary of the Company, to a fellow subsidiary for a total cash consideration of HK$8,739 million. The single predominant asset of Soares is its investment in 24.53% of the issued share capital of CIMC, an associate of the Group immediately before the disposal.

	HK$'million
The amounts of assets and liabilities attributable to Soares on the date of disposal were as follows:	
Interest in an associate	**8,205**
Debtors, deposits and prepayments	**50**
Loans from immediate holding company	**(1,689)**
Deferred tax liabilities	**(272)**
Taxation payable	**(5)**
Net assets disposed of	**6,289**
Gain on disposal of Soares:	
Cash consideration	**8,739**
Net assets disposed of	**(6,289)**
Assignment of shareholder's loan	**(1,689)**
Cumulative exchange differences and investment revaluation reserve reclassified to profit or loss upon disposal of Soares	**57**
Costs directly attributable to the disposal	**(5)**
Gain on disposal	**813**

The net cash inflow arising on disposal of Soares amounted to HK$8,739 million has been received by the Group during the current year.

The impact of Soares and CIMC on the Group's results in current and prior years is disclosed under the segment port-related manufacturing operation in note 6.

No cash flows arose from Soares in the year ended 31 December 2017 prior to its disposal (2016: net cash outflows of HK$33 million).

38. ACQUISITION OF ASSETS THROUGH ACQUISITIONS OF SUBSIDIARIES

For the year ended 31 December 2016

During the year ended 31 December 2015, a wholly-owned subsidiary of the Company entered into a share purchase agreement with two fellow subsidiaries to acquire 100% equity interest in 深圳金域融泰投資發展有限公司 (Shenzhen Jinyu Rongtai Investment Development Company Limited, being an unofficial English name) ("Shenzhen Jinyu") from the fellow subsidiaries. The acquisition has been completed during the year ended 31 December 2016 with total consideration of RMB2,047 million (equivalent to approximately HK$2,456 million).

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

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

	HK$'million
The net assets acquired in the transactions were as follows:	
Property, plant and equipment	93
Investment properties	6,845
Land use rights	195
Debtors, deposits and prepayments	4
Cash and bank balances	31
Creditors and accruals	(450)
Other financial liabilities	(1,108)
Total identifiable net assets	5,610
Net cash outflow arising in the acquisitions:	
Cash consideration	5,610
Less: Cash and bank balances acquired	(31)
Deposit paid in previous year	(600)
Cash consideration not yet paid as at 31 December 2016 (note 35)	(1,131)
Total consideration paid during the year ended 31 December 2016	3,848

Consideration of RMB1,011 million not yet been paid as at 31 December 2016 has been settled during the year ended 31 December 2017 at an amount equivalent to HK$1,144 million (2016: equivalent to HK$1,131 million).

39. ACQUISITION OF SUBSIDIARIES

For the year ended 31 December 2017

During the year, the Group completed the acquisition of certain entities engaged in ports operation in Shantou (the "SPG Acquisition") and certain entities engaged in the development, management and operation of the port of Hambantota in Sri Lanka (the "Hambantota Port") (the "HIPG Acquisition", together with the SPG Acquisition, the "Acquisitions")

SPG Acquisition

On 10 April 2017, a wholly-owned subsidiary of the Company entered into a subscription agreement (the "Subscription Agreement") with the State-owned Assets Supervision and Administration Commission of the Shantou Municipal Government and SPG, a company established in the PRC with limited liability. Pursuant to the Subscription Agreement, SPG agreed to issue, and the Group agreed to subscribe for, the shares of SPG representing 60% of the enlarged equity interest in SPG following the completion of the subscription, for a total consideration of RMB5,432 million (equivalent to approximately HK$6,265 million).

SPG Group are principally engaged in ports operation in Shantou, Guangdong Province, the PRC. The Group considers the acquisition of the SPG Group will further strengthen its port network in the southern part of Mainland China.

The transaction has been completed on 9 August 2017 and since then, the Group obtained the majority voting power in the board of directors of SPG, by which the relevant activities that significantly affect the return of SPG is determined on a simple majority basis. SPG is therefore accounted for as a subsidiary of the Company.

HIPG Acquisition

On 29 July 2017, the Company entered into a concession agreement (the "Concession Agreement") with SLPA, the Government of the Democratic Socialist Republic of Sri Lanka ("GOSL"), HIPG, a private limited company incorporated in Sri Lanka, and Hambantota International Port Services Company (Private) Limited ("HIPS"), a private limited company incorporated in Sri Lanka, in relation to the development, management and operation of the Hambantota Port. Both HIPG and HIPS are wholly-owned subsidiaries of SLPA as at the date of the Concession Agreement.

The Hambantota Port is located at a strategic position of the main shipping route from Asia to Europe. The Group considers that this investment will further strengthen its global port network.

Pursuant to the Concession Agreement, the Company agreed to acquire and SLPA agreed to sell 85% of the issued share capital of HIPG for a consideration of approximately US$974 million (equivalent to approximately HK$7,611 million) and at the same time, HIPG agreed to acquire and SLPA agreed to sell 58% of the total issued share capital of HIPS. The Company also agreed to deposit an amount of USD146 million into a bank account under its name in Sri Lanka within one year which will be utilised for port and marine-related activities in Hambantota as may be agreed with the GOSL, the Company shall be entitled to repatriate any amounts in the bank account at the expiration of such one-year period if no agreement has been reached with GOSL for the use of such funds. As at 31 December 2017, the Group has not yet deposited in any amount the said account.

39. ACQUISITION OF SUBSIDIARIES (Continued)

For the year ended 31 December 2017 (Continued)

HIPG Acquisition (Continued)

The transaction has been completed on 8 December 2017 and since then, the Group obtained the majority voting power in the board of directors of HIPG. The relevant activities that significantly affect the return of HIPG are determined by the boards of directors on a simple majority basis and HIPG is therefore accounted for as a subsidiary of the Company.

Further details of the Acquisitions, including considerations, fair values of identifiable assets acquired and liabilities assumed, non-controlling interests and goodwill arising, if any, are set out below:

	SPG Group HK$'million	HIPG Group HK$'million	Total HK$'million
Consideration satisfied/to be satisfied in cash	**6,265**	**7,611**	**13,876**
Fair value of identifiable assets acquired and liabilities assumed:			
Property, plant and equipment (Note)	**2,297**	**8,873**	**11,170**
Investment properties	**167**	—	**167**
Land use rights	**2,330**	**2,066**	**4,396**
Interests in associates	**265**	—	**265**
Other non-current assets	**37**	—	**37**
Other financial assets	**6**	—	**6**
Inventories	**8**	**5**	**13**
Debtors, deposits and prepayments	**179**	—	**179**
Cash and bank balances	**6,406**	—	**6,406**
Other financial liabilities	**(1,035)**	—	**(1,035)**
Creditors and accruals	**(72)**	—	**(72)**
Deferred tax liabilities	**(557)**	—	**(557)**
Other non-current liabilities	**(557)**	—	**(557)**
Total identifiable net assets	**9,474**	**10,944**	**20,418**

Fair values of identifiable assets acquired and liabilities assumed are determined by reference to valuations performed by independent and professional qualified valuers based on investment approach, cost replacement approach or market approach, as appropriate. Significant assumptions of the valuations include the growth rates, discount rates and expected future cash inflows/outflows of SPG Group and HIPG Group.

Note: Included in the property, plant and equipment of HIPG Group are land and buildings, harbour works, buildings and dockyard and plant, machinery, furniture and equipments amounted to HK$174 million, HK$7,628 million and HK$3 million, respectively, which are held under finance lease and all lease payments were fully paid.

39. ACQUISITION OF SUBSIDIARIES (Continued)

For the year ended 31 December 2017 (Continued)

Net cash outflow arising in the Acquisitions:

	SPG Group HK$'million	HIPG Group HK$'million	Total HK$'million
Cash consideration	**6,265**	**7,611**	**13,876**
Less: Cash and bank balances acquired	**(6,406)**	—	**(6,406)**
Cash consideration not yet paid as at 31 December 2017 (note 35)	—	**(5,351)**	**(5,351)**
Net cash (inflow)/outflow during the year ended 31 December 2017	**(141)**	**2,260**	**2,119**

The fair value of trade and other receivables at the date of acquisition amounted to HK$179 million which is also the gross contractual amounts and best estimate contractual cash flow at the date of acquisition.

The non-controlling interests in SPG Group and HIPG 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$39 million in aggregate have been excluded from the consideration transferred and have been recognised as an expense in the current year, within administrative expenses, in the consolidated statement of profit or loss.

39. ACQUISITION OF SUBSIDIARIES (Continued)

For the year ended 31 December 2017 (Continued)

Goodwill arising on the Acquisitions:

	SPG Group HK$'million	HIPG Group HK$'million	Total HK$'million
Cash consideration	**6,265**	**7,611**	**13,876**
Add: Non-controlling interests	**3,846**	**3,333**	**7,179**
Less: Fair values of identifiable net assets acquired	**(9,474)**	**(10,944)**	**(20,418)**
Goodwill arising on acquisition	**637**	—	**637**

Goodwill arose in the acquisition of SPG because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies as a result of the further strengthen the Group's port network in the southern part of Mainland China. 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 year are net loss of HK$37 million and revenue of HK$173 million generated by SPG Group and HIPG Group in aggregate.

Had the Acquisitions been completed on 1 January 2017, total group revenue for the year would have been HK$8,981 million, and profit for the year would have been HK$6,705 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 Acquisitions been completed on 1 January 2017, nor is it intended to be a projection of future results.

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

- calculated depreciation of property, plant and equipment and land use rights acquired on the basis of the fair values arising in the accounting for the business combination 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 business combination.

40. COMMITMENTS AND CONTINGENT LIABILITIES

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

	2017 HK$'million	2016 HK$'million
Group:		
Property, plant and equipment and intangible assets	**3,214**	1,150
Land use rights	—	728
	3,214	1,878
Joint ventures:		
Property, plant and equipment	**556**	407
	3,770	2,285

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

	2017 HK$'million	2016 HK$'million
Group:		
– Ports projects	**6**	579
– Investment in an available-for-sale investment	—	4
– Investment in an associate	—	63
– Acquisition of subsidiaries (note 46 (a))	**7,228**	—
	7,234	646

(c) Commitments under operating leases

As at 31 December 2017, the Group has future aggregate minimum lease payments under non-cancellable operating leases for property, plant and equipment and land use rights as follows:

	2017 HK$'million	2016 HK$'million
Within one year	**211**	175
In the second to fifth year inclusive	**280**	245
After the fifth year	**1,705**	1,739
	2,196	2,159

40. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

(d) Future operating lease receivables

As at 31 December 2017, the Group has future aggregate lease receivables under non-cancellable operating leases for investment properties and property, plant and equipment as follows:

	2017 **HK$'million**	2016 HK$'million
Within one year	**188**	116
In the second to fifth year inclusive	**428**	195
After the fifth year	**183**	110
	799	421

(e) Contingent liabilities

As at 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$131 million (2016: HK$148 million) arising from the above loan facilities and other obligations.

In addition to above, the Group also provides guarantees for banking facilities granted to and other obligations borne by associates of the Group. The total amount guaranteed by the Group is HK$391 million (2016: HK$410 million) and the aggregate amount utilised by the relevant associates amounted to HK$64 million (2016: HK$100 million).

The directors assessed the risk of default of the associates in serving the aforesaid loan facilities and other obligations at the end of the reporting period and considered the risk to be insignificant and it is not likely that any guaranteed amount will be claimed.

41. RELATED PARTY TRANSACTIONS

The directors regard CMG, a stated-owned enterprise registered in the PRC and is controlled by the PRC Government, as being the ultimate holding company of the Company.

Related parties refer to entities in which CMG has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions, or directors or officers of the Company and its subsidiaries. A summary of significant related party transactions entered into in the normal course of business between the Group and its related parties during the year and balances arising from related transactions as at 31 December 2017 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	**2017 HK$'million**	2016 HK$'million
Rental income from fellow subsidiaries	(i)	**12**	7
Rental expenses paid to	(i)		
– fellow subsidiaries		**114**	99
– associates		**86**	79
Service income from	(ii)		
– the ultimate holding company		**1**	—
– fellow subsidiaries		**90**	77
– joint ventures		**91**	124
– associates		**61**	98
Service fees paid to	(iii)		
– fellow subsidiaries		**65**	47
– joint ventures		**19**	37
Interest income from			
– associates	(iv)	**9**	—
– a related party	(iv)	**8**	—
– a fellow subsidiary	(v)	**4**	—
Interest expenses and upfront fees paid to			
– the ultimate holding company	(vi)	**5**	28
– an intermediate holding company	(vi)	**10**	16
– a fellow subsidiary	(vi)	**50**	—
– an associate	(vi)	**3**	—

41. RELATED PARTY 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 note 26 to the consolidated financial statements on the outstanding amounts due from associates of the Group and a related party.

(v) As at 31 December 2017, the Group placed deposits of HK$724 million (2016: nil) 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 1.15% to 1.89%.

(vi) Interest expenses were charged at interest rate as specified in notes 31 and 32 to the consolidated financial statements on the outstanding amounts due to the ultimate and intermediate holding companies, a fellow subsidiary and an associate.

(vii) During the year ended 31 December 2017, the Company disposed of its entire interest in Soares, a wholly-owned subsidiary of the Company, to a subsidiary of CMG for a cash consideration of HK$8,739 million. Further details of the disposal of Soares are set in note 37.

(viii) During the year ended 31 December 2016, the Group completed the acquisition of 100% equity interest in Shenzhen Jinyu and Shenzhen Qianhaiwan for an aggregate cash consideration of RMB4,868 million (equivalent to approximately HK$5,610 million) from certain subsidiaries of CMG, details are disclosed in note 38.

(ix) During the year ended 31 December 2013, a wholly-owned subsidiary of the Company entered into a transaction with a fellow subsidiary for acquisition of a land use right located in Shenzhen, the PRC, at a consideration of HK$17 million. The transaction has not yet been completed at the end of the reporting period and the amount paid by the Group as at 31 December 2017 amounting to HK$17 million (2016: HK$17 million) was also accounted for as a prepayment for purchase of non-current assets set out in note 24.

(x) During the year ended 31 December 2017, a non-wholly-owned subsidiary of the Company completed a transaction with a fellow subsidiary for acquisition of a land use right located in Shenzhen, the PRC, at a consideration of HK$527 million.

(xi) As at 31 December 2017, the Group placed deposits of HK$1,111 million (2016: HK$982 million) with China Merchants Bank Co., Ltd. ("CMB"), an associate of CMG.

During the year, interest income from CMB amounted to HK$31 million (2016: HK$10 million).

As at 31 December 2017, the Group borrowed loans, including the outstanding balance of accrued interest, of HK$48 million (2016: nil) from CMB.

During the year ended 31 December 2017, interest expense paid and payable to CMB amounted to HK$7 million (2016: HK$1 million).

The balances with entities within CMG Group as at 31 December 2017 and 31 December 2016 are disclosed in notes 24, 26, 31, 32 and 35 to the consolidated financial statements.

41. RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with other PRC state-controlled entities

A number of subsidiaries of the Company operate in the Mainland China, an economic environment currently predominated by entities controlled, jointly controlled or significantly influenced by the PRC Government. These PRC subsidiaries therefore have substantial volumes of transactions with other PRC state-controlled entities during their ordinary course of businesses including but not limited to the purchases of assets, construction of ports and related facilities, bank deposits and borrowings, among others.

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

	2017 **HK$'million**	2016 HK$'million
Interest expense paid (Note)	**21**	19

Note: Interest expense was charged at interest rate as specified in note 32 to the consolidated financial statements on the outstanding loans from non-controlling equity holders of subsidiaries.

The balances with non-controlling equity holders of subsidiaries as at 31 December 2017 and 2016 are disclosed in note 32 to the consolidated financial statements.

(d) Key management compensation

	2017 **HK$'million**	2016 HK$'million
Salaries and other short-term employee benefits	**19**	14

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

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

Name of subsidiary	Place of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of effective ownership interest held by the Company				Principal activities
			Directly		Indirectly		
			2017 %	2016 %	2017 %	2016 %	
China Merchants Container Services Limited	Hong Kong	HK$500,000	—	—	**100.00**	100.00	Provision of container terminal services and ports transportation
China Merchants International Terminals (Ningbo) Limited	British Virgin Islands	US$1	**100.00**	100.00	—	—	Investment holding
China Merchants International Container Terminal (Qingdao) Co., Ltd. (Note (a))	PRC	US$206,300,000	—	—	**100.00**	100.00	Provision of container terminal services and ports transportation
China Merchants International Terminal (Qingdao) Company Ltd. (Note (b))	PRC	US$44,000,000	—	—	**90.10**	90.10	Port, container terminal and logistic business
China Merchants Bonded Logistics Co., Limited (Note (b))	PRC	RMB700,000,000	—	—	**78.26**	78.26	Provision of container related logistics services
China Merchants Port Services (Shenzhen) Company Limited (Note (a))	PRC	RMB550,000,000	—	—	**100.00**	100.00	Provision of terminal services and ports transportation
CMH International (China) Investment Co., Ltd. (Note (a))	PRC	US$30,000,000	**100.00**	100.00	—	—	Investment holding
Colombo International Container Terminals Limited	Republic of Sri Lanka	US$150,000,088	**85.00**	85.00	—	—	Provision of container terminal services
Hambantota International Port Group (Private) Limited (Note (e))	Republic of Sri Lanka	US$794,000,000	—	—	**85.00**	—	Port development, management and operation

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of effective ownership interest held by the Company				Principal activities
			Directly		Indirectly		
			2017	2016	**2017**	2016	
			%	%	**%**	%	
Hambantota International Port Services Company (Private) Limited (Notes (d) and (e))	Republic of Sri Lanka	US$606,000,000	—	—	**49.30**	—	Port management
Lomé Container Terminal S.A. (Note (c))	Togolese Republic	XOF200,000,000	—	—	**35.00**	35.00	Provision of container terminal services
Mega Shekou Container Terminals Limited	British Virgin Islands	US$120	—	—	**80.00**	80.00	Investment holding
Shantou China Merchants Port Group Co., Ltd. (formerly known as Shantou "Prot Group Corp. Co. Ltd.") (Note (e))	PRC	RMB125,000,000	—	—	**60.00**	—	Port operations
Shekou Container Terminals Ltd. (Note (a))	PRC	HK$618,201,150	—	—	**80.00**	80.00	Operation of berth No. 1 & 2 in Shekou, PRC
Shekou Container Terminals (Phase II) Company Limited (Note (a))	PRC	RMB608,549,000	—	—	**80.00**	80.00	Operation of berth No. 3 & 4 in Shekou, PRC
Shekou Container Terminals (Phase III) Company Limited (Note (a))	PRC	RMB1,276,000,000	—	—	**80.00**	80.00	Operation of berth No. 5 to No.9 in Shekou, PRC
Shenzhen Chiwan Wharf Holdings Limited (A, B Shares listed in the Mainland China) (Notes (b) and (d))	PRC	RMB644,763,730	—	—	**45.66**	45.66	Port operations
Shenzhen Haiqin Engineering Supervision & Management Co., Ltd. (Note (a))	PRC	RMB3,000,000	—	—	**100.00**	100.00	Provision of services on ports construction
Shenzhen Haixing Harbour Development Company Ltd. (Note (b))	PRC	RMB530,729,167	—	—	**67.00**	67.00	Provision of container terminal services
Shenzhen Mawan Port Service Co., Ltd. (Note (b))	PRC	RMB200,000,000	—	—	**83.70**	83.70	Operation of berth No. 5 in Mawan, Shenzhen, PRC
Shenzhen Mawan Terminals Co., Ltd. (Note (b))	PRC	RMB335,000,000	—	—	**83.70**	83.70	Operation of berths No. 6 & No. 7 in Mawan, Shenzhen, PRC

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of effective ownership interest held by the Company				Principal activities
			Directly		Indirectly		
			2017 %	2016 %	**2017 %**	2016 %	
Shenzhen Mawan Wharf Co., Ltd. (Note (b))	PRC	RMB200,000,000	—	—	**83.70**	83.70	Operation of berth No. 0 in Mawan, Shenzhen, PRC
Xia Men Bay China Merchants Terminals Co., Ltd. (Notes (b) and (d))	PRC	RMB354,050,000	—	—	**31.00**	31.00	Provision of container terminal services and ports transportation
Zhangzhou China Merchants Port Co., Ltd. (Note (b))	PRC	RMB1,000,000,000	—	—	**60.00**	60.00	Operation of berths No. 3 to No. 6 in the Zhangzhou Economic Development Zone, Fujian Province, PRC
Zhangzhou China Merchants Tugboat Company Limited (Note (b))	PRC	RMB15,000,000	—	—	**70.00**	70.00	Operation of tugboats in the Zhangzhou Economic Development Zone, Fujian Province, PRC
China Merchants Holdings (International) Information on Technology Co., Ltd. (Note (b))	PRC	RMB50,000,000	**76.84**	76.84	**10.57**	10.57	Provision of computer network services
安通捷碼頭倉儲服務(深圳)有限公司 (Note (a))	PRC	HK$100,000,000	—	—	**100.00**	100.00	Holding of a piece of land in Shekou, PRC
安速捷碼頭倉儲服務(深圳)有限公司 (Note (a))	PRC	HK$100,000,000	—	—	**100.00**	100.00	Holding of a piece of land in Shekou, PRC
安運捷碼頭倉儲服務(深圳)有限公司 (Note (a))	PRC	RMB60,600,000	—	—	**80.00**	80.00	Holding of certain pieces of land in Shekou, PRC
Guangdong Yide Port Limited (Note (b))	PRC	RMB216,000,000	—	—	**51.00**	51.00	Port operations
Shenzhen Jinyu Rongtai Investment Development Company Limited	PRC	RMB800,000,000	—	—	**100.00**	100.00	Property holding
Shenzhen China Merchants Qianhaiwan Property Company Limited	PRC	RMB200,000,000	—	—	**100.00**	100.00	Property holding

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Notes:

(a) Foreign investment enterprises

(b) Sino-foreign joint ventures

(c) This entity is considered to be a subsidiary of the Company despite the Group holds effective equity interest of 35% (2016: 35%) therein as the Group has the power to appoint and remove the majority of the executive committee of the entity, which is empowered to direct the relevant activities of control of the investee by virtue of the shareholders' agreement.

(d) These entities are considered to be subsidiaries of the Company despite the Group holds less than half of the equity interest therein as the Group has the power to appoint and remove the majority of the board of directors of the relevant entities and holds more than half of the voting rights at the relevant board of director's and shareholders' meetings of the respective entity by virtue of agreements with other investors.

(e) Acquired during the year

43. PARTICULARS OF PRINCIPAL ASSOCIATES

Name of associate	Place of incorporation/ registration and operation	Proportion of effective ownership interest indirectly held by the Company 2017 %	2016 %	Principal activities
Asia Airfreight Terminal Company Limited	Hong Kong	**20.00**	20.00	Airfreight services
China International Marine Containers (Group) Co., Ltd. (shares listed on the HKSE and the Shenzhen Stock Exchange) (Notes (a) and (b))	PRC	—	24.53	Design, manufacture and sales of dry freight containers and refrigerated containers, road transportation vehicle, energy, chemical and food equipment and offshore engineering
China Nanshan Development (Group) Incorporation (Note (a))	PRC	**37.01**	37.01	Investment holding
Chu Kong River Trade Terminal Co., Limited	British Virgin Islands	**20.00**	20.00	Provision of shuttle-barge ports services
Dalian Port (PDA) Company Limited (shares listed on the HKSE and the Shanghai Stock Exchange) (Note (a))	PRC	**21.05**	21.05	Provision of terminal business and logistic services
Modern Terminals Limited	Hong Kong	**27.01**	27.01	Provision of container terminal services and warehouse services

43. PARTICULARS OF PRINCIPAL ASSOCIATES (Continued)

Name of associate	Place of incorporation/ registration and operation	Proportion of effective ownership interest indirectly held by the Company 2017 %	2016 %	Principal activities
Port de Djibouti S.A.	Republic of Djibouti	**23.50**	23.50	Operations of seaports and terminals and port related business in Djibouti
Shanghai International Port (Group) Co., Ltd. (A shares listed on the Shanghai Stock Exchange) (Note (a))	PRC	**26.45**	25.15	Ports and container terminal business and related services
Terminal Link SAS	French Republic	**49.00**	49.00	Operations of container terminals in Europe, Mediterranean Basil, Africa, Americas and Asia
Tianjin Haitian Bonded Logistics Co., Ltd. (Note (a))	PRC	**49.00**	49.00	Provision of container terminal services and warehouse services
Tin-Can Island Container Terminal Ltd.	Federal Republic of Nigeria	**28.50**	28.50	Provision of container terminal services

Notes:

(a) Sino-foreign joint ventures

(b) Disposed during the year

44. PARTICULARS OF PRINCIPAL JOINT VENTURES

Name of joint venture	Issued capital/ registered capital	Proportion of effective ownership interest held by the Company indirectly 2017 %	2016 %	Principal activities
Ningbo Daxie China Merchants International Terminals Co., Ltd (Note (a))	RMB1,209,090,000	**45.00**	45.00	Ports and container terminal business
Qingdao Qianwan United Container Terminal Co., Ltd.	RMB2,000,000,000	**50.00**	50.00	Ports and container terminal business
Qingdao Qianwan West Port United Terminal Co., Ltd.	RMB500,000,000	**49.00**	49.00	Ports and bulk cargo terminal business
Regional Merchants International Freight Forwarding Co., Ltd. (Note (a) and (b))	HK$12,000,000	—	20.00	Provision of transportation service
Zhanjiang Port (Group) Co., Ltd. (Note (a))	RMB4,020,690,955	**40.29**	40.29	Ports and container terminal business
Qingdao Port Dongjiakou Ore Terminal Co., Ltd (Note (a))	RMB1,880,000,000	**25.00**	25.00	Ports and bulk cargo terminal business
Euro-Asia Oceangate S.ar.l.	USD940,141,587.60	**40.00**	40.00	Ports and container terminal business

Notes:

(a) Sino-foreign joint ventures

(b) Deregistered during the year

Under the relevant shareholders' agreement, decisions of relevant activities of the entitles above require unanimous consent from relevant joint venture partner(s). Accordingly, neither the Group nor the other venture partners(s) has the ability to control the relevant entities unilaterally and each of the entity above is considered as jointly controlled by the Group and the relevant joint venture partner(s).

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2017 HK$'million	2016 HK$'million
ASSETS		
Non-current assets		
Property, plant and equipment	**448**	463
Interests in subsidiaries	**52,723**	46,537
Other financial assets	**97**	—
Prepayment	**6**	6
	53,274	47,006
Current assets		
Debtors, deposits and prepayments	**1,190**	50
Advances to subsidiaries	**2,701**	6,766
Cash and bank balances	**2,821**	562
	6,712	7,378
Total assets	**59,986**	54,384
EQUITY		
Capital and reserves attributable to equity holders of the Company		
Share capital	**38,207**	19,548
Mandatory convertible securities	—	15,219
Reserves (Note)	**4,494**	3,890
Proposed dividend (Note)	**1,934**	1,707
Total equity	**44,635**	40,364

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

	2017 HK$'million	2016 HK$'million
LIABILITIES		
Non-current liability		
Advances from subsidiaries	**9,323**	10,790
Other financial liabilities	**2,991**	—
	12,314	10,790
Current liabilities		
Advances from subsidiaries	**2,835**	1,490
Creditors and accruals	**202**	57
Other financial liabilities	—	1,683
	3,037	3,230
Total liabilities	**15,351**	14,020
Total equity and liabilities	**59,986**	54,384
Net current assets	**3,675**	4,148
Total assets less current liabilities	**56,949**	51,154

The statement of financial position of the Company was approved and authorised for issue by the Board of Directors on 29 March 2018 and are signed on its behalf by:

Mr. Fu Gangfeng
DIRECTOR

Mr. Bai Jingtao
DIRECTOR

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note: The reserves of the Company at 31 December 2017 and 2016 are as follows:

	Share-based compensation reserve HK$'million	Capital reserve HK$'million (Note (i))	Retained earnings HK$'million	Total HK$'million
As at 1 January 2017	—	**2,340**	**3,257**	**5,597**
Profit for the year	—	—	**7,822**	**7,822**
Dividends paid (Note (ii))	—	—	**(6,687)**	**(6,687)**
Distribution to MCS holders	—	—	**(304)**	**(304)**
As at 31 December 2017	—	**2,340**	**4,088**	**6,428**
Retained earnings as at 31 December 2017 representing:				
Reserves			**2,154**	
Proposed dividend			**1,934**	
			4,088	
As at 1 January 2016	48	2,340	3,967	6,355
Transfer upon lapse of share options	(48)	—	48	—
Profit for the year	—	—	2,007	2,007
Dividends paid (Note (ii))	—	—	(2,004)	(2,004)
Distribution to MCS holders	—	—	(761)	(761)
As at 31 December 2016	—	2,340	3,257	5,597
Retained earnings as at 31 December 2016 representing:				
Reserves			1,550	
Proposed dividend			1,707	
			3,257	

Notes:

(i) The Company's capital reserve, which arose in 1998 upon reduction of share premium as confirmed by the order of the High Court of the Hong Kong Special Administrative Region, is a non-distributable reserve and may be applied by the Company in paying up its unissued shares to be allotted to members of the company as fully paid bonus shares.

(ii) Dividends paid in the years are as follows:

	2017 HK$'million	2016 HK$'million
Interim, paid, of 22 HK cents (2016: 22 HK cents) per ordinary share	**698**	575
Special interim dividend, paid, of 135 HK cents (2016: nil) per ordinary share	**4,282**	—
2016 final of 65 HK cents (2016: 2015 final of 55 HK cents) per ordinary share	**1,707**	1,429
	6,687	2,004

46. EVENTS AFTER THE REPORTING PERIOD

(a) Acquisition of subsidiaries for port operation in Brasil

On 4 September 2017, the Group (as the purchaser) entered into a share purchase agreement with TCP Participações S.A. (as the intervening party) (the "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 "Acquisition of TCP").

The aggregate purchase price for the acquisition of the Initial Sale Shares and the Individual Sellers Shares is R$2,891 million (equivalent to approximately HK$7,228 million).

Upon closing, the Group will hold 90% of the total issued share capital of TCP. TCP Group is principally engaged in operation of port facilities in Brasil. The Acquisition of TCP has been completed in February 2018 and since then become a subsidiary of the Group as the Group has the right to appoint the majority of board members to the board of directors of TCP, which is the authority to have power to direct the relevant activities of TCP. The directors of the Company are in the process of assessing the fair value of assets and liabilities of the TCP Group as at the completion date and the relevant financial impact to the Group.

(b) Disposal of Shenzhen Chiwan

On 5 February 2018, the Group entered into two share purchase agreements with the CMG Group, pursuant to which the Group agreed to disposed of its approximately 34% equity interest of Shenzhen Chiwan for an aggregate consideration of approximately HK$5,748 million, subject to adjustment of a number of ex-dividend or ex-right event as set out in the agreements. On the same date, China Nanshan entered into another share purchase agreement with CMG, pursuant to which China Nanshan agreed to disposed of its entire approximately 33% equity interest of Shenzhen Chiwan for a consideration of approximately HK$6,510 million, subject to adjustment of a number of ex-dividend or ex-right event as set out in the agreement. The above transactions of the Group and China Nanshan with CMG are collectively be referred to as the "Disposal".

As set out in note 20(b), the Company is 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. The Company and China Nanshan entered into an agreement to terminate the said entrustment agreement on 5 February 2018 conditional on the completion of the Disposal.

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

46. EVENT AFTER THE REPORTING PERIOD (Continued)

(c) Acquisition of a joint venture engaged in port operation in Australia

On 6 February 2018, the Company entered into an acquisition agreement with CMU 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 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 acquisition, 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 (equivalent to approximately HK$3,809 million), subject to certain adjustments as set forth in the relevant agreement.

The port of Newcastle comprises of 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.

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

Independent Auditor's Report

Deloitte. 德勤

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

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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

Key audit matter	How our audit addressed the key audit matter

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

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

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

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

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

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

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

Other Information

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

29 March 2017

Consolidated Statement of Profit or Loss

For the Year Ended 31 December 2016

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

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31 December 2016

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

Consolidated Statement of Financial Position

As at 31 December 2016

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

Consolidated Statement of Financial Position

As at 31 December 2016

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

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

Mr. Li Xiaopeng	**Mr. Bai Jingtao**
DIRECTOR	*DIRECTOR*

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2016

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

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2016

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

Consolidated Statement of Cash Flows

For the Year Ended 31 December 2016

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

For the Year Ended 31 December 2016

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

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION

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

The Company is a limited liability company incorporated in Hong Kong and has its shares listed on The Stock Exchange of Hong Kong Limited (the "HKSE"). As at 31 December 2016, China Merchants Group Limited ("CMG"), directly and indirectly, including through China Merchants Union (BVI) Limited ("CMU"), a company incorporated in British Virgin Islands held as to 50% by CMG, held an effective interest of 43.88% of the issued share capital of the Company. Pursuant to an entrustment agreement entered into between CMG and CMU, CMG has the power to direct the voting right over the approximately 21.81% of the total issued share capital of the Company held by CMU. CMG, directly and indirectly, including through CMU, has the power to direct voting right over approximately 54.78% of the total issued share capital of the Company. Accordingly, the Directors regard CMG, a state-owned enterprise registered in the People's Republic of China ("PRC"), as being the ultimate holding company. CMG is regulated and directly managed by the State-owned Assets Supervision and Administration Commission of the State Council, the PRC government.

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

The address of the Company's registered office is 38/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies of the Group applied below are the same as the accounting policies of the Group's reportable segments. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the HKSE (the "Listing Rules").

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

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

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

Notes:

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

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

HKFRS 9 "Financial Instruments"

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

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

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods with subsequent changes in fair value recognised in profit or loss. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

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

HKFRS 15 "Revenue from Contracts with Customers"

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

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

HKFRS 16 "Leases"

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

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

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

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

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

Furthermore, extensive disclosures are required by HKFRS 16.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

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

Amendments to HKAS 7 "Disclosure Initiative"

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

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

2.2 Consolidation

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

(i) Subsidiaries

Control is achieved when the Company:

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(i) Subsidiaries (Continued)

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

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

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

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

(a) Business combinations

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(i) Subsidiaries (Continued)

(a) Business combinations (Continued)

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date (see note 2.20 below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

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

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

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

Acquisition-related costs are expensed as incurred.

2.2 Consolidation (Continued)

(i) Subsidiaries (Continued)

(a) Business combinations (Continued)

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

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed as at acquisition date. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the consolidated statement of profit or loss after reassessment of all identifiable assets and liabilities.

(b) Acquisition of a subsidiary not constituting a business

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

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

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

(d) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, a joint venture or a financial asset. Difference between the total fair value of the consideration and retained interest and the carrying amount of the net assets of the subsidiary attributable to the owners of the Company is recognised in the consolidated statement of profit or loss. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the consolidated statement of profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(ii) Associates and joint ventures

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Interests in associates are accounted for using the equity method of accounting.

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating party has unilateral control over the economic activity.

The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. For associates and joint ventures using accounting policies that differ from those of the Group for like transactions and events in similar circumstances, appropriate adjustments have been made to conform the accounting policies of the associates and/or the joint ventures to those of the Group. Under the equity method, the investment is initially recognised at cost from the date on which the investee becomes an associate or a joint venture, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss and other comprehensive income of the investee after the date of acquisition. The Group's interests in associates and joint ventures include goodwill identified on acquisition.

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

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate or joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value pursuant to the requirements of HKAS 39 with respect to the Group's investment in the associate or joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment and recognises the amount in the consolidated statement of profit or loss. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(ii) Associates and joint ventures (Continued)

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

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

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

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the key management team of the Company that makes strategic decisions.

2.4 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars ("HK$") which is the Company's functional and the Group's presentation currency.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Foreign currency translation (Continued)

(ii) Transactions and balances

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

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

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

(iii) Group companies

The results and financial position of all group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the year end exchange rate;
- income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the year end exchange rate. Exchange differences arising therefrom are recognised in other comprehensive income.

(iv) Disposal and partial disposal of foreign operation

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Foreign currency translation (Continued)

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

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

2.5 Property, plant and equipment

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

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

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

Leasehold land classified as finance lease	Shorter of remaining lease term of 50 years or useful life
Buildings	Shorter of the lease term or 50 years
Harbour works, buildings and dockyard	8 to 50 years
Plant and machinery	3 to 20 years
Furniture and equipment	3 to 20 years
Vessels and ships	15 to 25 years
Motor vehicles	5 to 10 years
Leasehold improvements	Shorter of the lease term or 5 to 20 years

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

No depreciation is provided on assets under construction. All direct costs relating to the construction of property, plant and equipment including interests and finance costs and foreign exchange differences on interests of the related borrowed funds during the construction period are capitalised as the cost of the property, plant and equipment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Property, plant and equipment (Continued)

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

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

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

2.6 Investment properties

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. It also includes properties that are being constructed or developed for future use as investment properties. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases.

Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition at cost, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recognised in the consolidated statement of profit or loss as part of a valuation gain or loss in "other income and other gains, net".

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

2.7 Goodwill and intangible assets

(i) Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the consideration transferred over the Company's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Goodwill and intangible assets (Continued)

(i) Goodwill (Continued)

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

(ii) Port operating rights

Port operating right primarily resulted from the entering of agreement for the right to construct, operate, manage and develop container terminals. Operating right is carried at cost less accumulated amortisation and impairment. Amortisation is calculated using an economic usage basis which is based on the ratio of minimum guaranteed output volume compared to the total minimum guaranteed output volume over the periods which the Group is granted the operating rights on the relevant container terminals. When the pattern of consumption of future economic benefits of the asset cannot be determined reliably, the straight-line method over the period in which the Group operates the relevant terminals is used. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

(iii) Other intangible assets

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

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

2.8 Impairment of non-financial assets

Tangible and intangible assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. Non-financial assets other than goodwill that suffered from an impairment are reviewed for possible reversal of the impairment at each reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Financial assets

(i) Classification

The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets except for those expected to be realised more than 12 months after the end of the reporting period, not intends for sell or consume in its normal operating cycle, or not primarily for trading purposes, and are classified as non-current assets. The Group's loans and receivables comprise debtors (included in "debtors, deposits and prepayments") and "cash and bank balances" in the consolidated statement of financial position.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless investment matures or management intends to dispose of within 12 months of the end of the reporting period.

(ii) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

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

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

Dividends on available-for-sale equity instruments are recognised in the consolidated statement of profit or loss as part of "other income and other gains, net" when the Group's right to receive payments is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Impairment of financial assets

(i) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties;
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - (a) adverse changes in the payment status of borrowers in the portfolio; or
  - (b) national or local economic conditions that correlate with defaults on the assets in the portfolio; or
- any other objective evidence that indicate an impairment of the financial asset may exist.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Impairment of financial assets (Continued)

(i) Assets carried at amortised cost (Continued)

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

(ii) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated statement of profit or loss - is removed from equity and recognised in the consolidated statement of profit or loss. Impairment losses recognised in the consolidated statement of profit or loss on equity instruments are not reversed through the consolidated statement of profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of profit or loss, the impairment loss is reversed through the consolidated statement of profit or loss.

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.12 Debtors

Trade debtors are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection from debtors are expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Debtors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.13 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the consolidated statement of financial position, bank overdrafts are shown within other financial liabilities in current liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

2.15 Creditors

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Creditors are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer), is held primarily for trading, or the Group has no unconditional right to defer the settlement for at least 12 months after the end of the reporting period. If not, they are presented as non-current liabilities.

Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.16 Other financial liabilities

Other financial liabilities are recognised initially at fair value, net of transaction costs incurred. Other financial liabilities are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of profit or loss using effective interest method over the period of such other financial liabilities.

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

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Other financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.17 Borrowing costs

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Borrowing costs (Continued)

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

2.18 Current and deferred income tax

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

(i) Current income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of reporting period in the countries where the Company and its subsidiaries, associates and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Current and deferred income tax (Continued)

(ii) Deferred income tax (Continued)

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

Deferred income tax is provided on temporary differences arising on interests in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(iii) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.19 Employee benefits

(i) Pension obligations

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

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group contributes to defined contribution provident funds, including the scheme set up under the Hong Kong Mandatory Provident Fund Ordinance ("MPF Scheme"), which are available to all employees in Hong Kong. In accordance with the terms of the provident funds, contributions to the schemes by the Group and the employees are calculated as a percentage of the employees' basic salaries. For the MPF Scheme, both the employees and the employer are required to contribute 5% of the employees' monthly salaries up to a specified maximum amount ("mandatory contribution") and employees can choose to make additional contributions. The employees are entitled to 100% of the employer's mandatory contributions upon their retirement age of 65 years old, death or total incapacity. For the schemes other than the MPF Scheme, the unvested benefits of employees forfeited upon termination of employment can be utilised by the Group to reduce future levels of contributions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Employee benefits (Continued)

(ii) Other post-employment obligations

The Group also participates in the employee retirement benefits plan of the respective governments in various jurisdiction where the Group operates. The Group is required to make monthly contributions calculated as a percentage of the monthly payroll costs and the respective municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group.

The Group's contributions to the schemes are expensed as incurred.

(iii) Termination obligations

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

2.20 Share-based payments

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Company. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and requiring an employee working in the entity over a specified time period); and
- including the impact of any non-vesting conditions.

Non-market performance and services conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised on a straight-line basis over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of profit or loss, with a corresponding adjustment to equity (share-based compensation reserve).

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Provisions

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

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

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

2.22 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of sales tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Provision of services

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

(ii) Sales of goods

Sales of goods are recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title is passed.

(iii) Rental income

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.23 Interest income

Interest income from a financial asset is recognised on a time-proportion basis using effective interest method when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

2.24 Dividend income

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

2.25 Leases

(i) The Group as lessee

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

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

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

(ii) Leasehold land and building

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Leases (Continued)

(ii) Leasehold land and building (Continued)

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

2.26 Dividend distribution

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

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

2.27 Distribution for MCS

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

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(i) Market risk

(a) Foreign exchange risk

Majority of the subsidiaries of the Company operate in Mainland China and most of their transactions are denominated in Renminbi, Hong Kong dollar or United States dollar. The Group is exposed to foreign exchange risk primarily through sales and purchases, capital expenditure and expenses transactions that are denominated in currencies other than the functional currency of the subsidiaries.

The Group considers its foreign currency exposure is mainly arising from the exposure of Hong Kong dollar against Renminbi, United States dollar and Euro.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(i) Market risk (Continued)

(a) Foreign exchange risk (Continued)

The Group manages its exposures to foreign currency transactions by monitoring the level of foreign currency receipts and payments. The Group ensures that the net exposure to foreign exchange risk is kept to an acceptable level from time to time. The Group is presently not using forward exchange contracts to hedge foreign exchange risk arising from sales and purchase, capital expenditure and expenses transactions.

The Group also regularly monitors its portfolio of local and international customers and the currencies in which the transactions are denominated so as to minimise the Group's exposure to foreign exchange risk.

60% (2015: 71%) of the Group's borrowings (including loans from shareholders) as at 31 December 2016 are denominated in Hong Kong dollar and United States dollar, 30% (2015: 16%) are denominated in Renminbi and 10% (2015: 13%) are denominated in Euro. Majority of the Group's operating subsidiaries draw loans in their functional currencies to finance their funding requirements and no significant foreign exchange risk is expected to arise from these borrowings. The Group also utilised its United States dollar and Renminbi denominated notes payable to finance its capital investments and working capital.

At 31 December 2016, if Renminbi had strengthened/weakened against the other currencies by 3% (2015: 3%) with all other variables held constant, profit for the year would have been approximately HK$92 million higher/lower (2015: HK$146 million higher/lower) mainly as a result of increase/decrease in net foreign exchange gains on translation of cash and cash equivalents, debtors, creditors and other financial liabilities denominated in non-functional currencies of the relevant group companies.

At 31 December 2016, no significant change on profit for the respective years as a result of the 0.1% (2015: 0.1%) strengthened/weakened of United States dollar against Hong Kong dollar.

(b) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group that are classified on the consolidated statement of financial position as available-for-sale financial assets. At 31 December 2016, if there had been a 10% (2015: 10%) increase/decrease in the listed share prices with all other variables held constant, the Group's available-for-sale financial assets would have increased/decreased by approximately HK$335 million (2015: HK$588 million). Other components of equity would increase/decrease as a result of gains/losses on equity securities classified as available-for-sale financial assets. The Group is not exposed to commodity price risks and has not entered into any derivatives to manage exposures of price risk.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(i) Market risk (Continued)

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

The Group's interest rate risk mainly arises from interest-bearing borrowings. Financial assets and financial liabilities issued at variable rates expose the Group to cash flow interest rate risk whilst borrowings issued at fixed rates expose the Group to fair value interest rate risk.

The Group adopts a policy of maintaining an appropriate mix of fixed and floating rate borrowings which is achieved primarily through the contractual terms of borrowings. The position is regularly monitored and evaluated by reference of anticipated changes in market interest rate. The Group did not use any interest rate swap to hedge its interest rate risk during the year.

Other than bank deposits as at 31 December 2016, the Group has no significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Accordingly, management does not anticipate any significant impact resulting from changes in interest rates on interest-bearing assets.

At 31 December 2016, if interest rates on borrowings had been 100 basis points (2015: 100 basis points) higher/lower with all other variables held constant, post-tax profit for the year would have been HK$75 million (2015: HK$56 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(ii) Credit risk

Credit risk arises if a customer or other counterparty fails to meet its contractual obligations. The credit risk of the Group mainly arises from debtors and deposits with banks and financial institutions.

Credit risk on trade debtors is managed by the management of the individual business units and monitored by the Group's management on a group basis. The Group's trade debtors are mainly contributed by ports operation where their customers are mainly sizable and renowned international liners or market leaders in their industries with manageable credit risk. Management assesses, reviews and updates credit profile of the Group's debtors by considering its financial position, past experience and other relevant factors, in order to identify if any are of higher risks of default. For trade debtors spotted as of higher credit risks, management of the Group also implemented measures such as tightened credit terms and closer monitoring of the settlement patterns. Debtors with overdue balances will be requested to settle their outstanding balance.

The Group believes that adequate provision for doubtful debts has been made in the consolidated financial statements. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in their impairment assessments.

The Group has policies that limit the amount of credit exposure to any financial institutions. The Group's bank deposits are all deposited in reputable banks or financial institutions. Management considers that the credit risk associated with the deposits with these banks and financial institutions is low.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(iii) Liquidity risk

Cash flow forecasts are prepared by management. Management monitors rolling forecasts on the Group's liquidity requirements to ensure the Group maintains sufficient liquidity reserve to support sustainability and growth of the Group's and the Company's business. Currently, the Group and the Company finances the working capital requirements through a combination of funds generated from operations and borrowings.

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

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 1 year		Between 1 and 2 years		Between 2 and 5 years		More than 5 years		Total	
	2016 HK$'million	2015 HK$'million	**2016 HK$'million**	2015 HK$'million	**2016 HK$'million**	2015 HK$'million	**2016 HK$'million**	2015 HK$'million	**2016 HK$'million**	2015 HK$'million
Interest-bearing debts	**6,261**	2,595	**3,022**	2,124	**6,097**	7,168	**11,330**	12,684	**26,710**	24,571
Other financial liabilities	**3,360**	2,425	**—**	—	**—**	—	**—**	—	**3,360**	2,425
	9,621	5,020	**3,022**	2,124	**6,097**	7,168	**11,330**	12,684	**30,070**	26,996

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

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the overall cost of capital.

The Group prepares a five-year rolling forecast on its capital requirement in anticipation of funding requirement of new capital investments, capital expenditures of existing projects and repayment of borrowings. In order to maintain or adjust the capital structure, the Group may raise additional short-term or long-term borrowings, issue new shares or sell assets of non-core operations to reduce debts.

The Group monitors capital with reference to, inter alia, the net gearing ratios. These ratios are calculated as net interest bearing debts divided by net assets attributable to the Company's equity holders and total equity.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital risk management (Continued)

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

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

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value on a recurring basis by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

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

3. FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

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

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

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

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

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

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

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

3. FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

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

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

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

	Financial asset at fair value through profit or loss HK$'million	Available-for-sale financial assets HK$'million	Total HK$'million
Year ended 31 December 2016			
As at 1 January 2016	—	**585**	**585**
Exchange adjustments	—	**(25)**	**(25)**
Unrealised fair value gain recognised in other comprehensive income (included in other reserves)	—	**18**	**18**
As at 31 December 2016	—	**578**	**578**
Year ended 31 December 2015			
As at 1 January 2015	580	667	1,247
Exchange adjustments	—	(20)	(20)
Unrealised fair value loss recognised in other comprehensive income (included in other reserves)	—	(62)	(62)
Disposal of subsidiaries	(580)	—	(580)
As at 31 December 2015	—	585	585

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 Key sources of estimation uncertainty

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimated recoverability of amounts due from trade debtors

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

(ii) Estimated impairment of goodwill

The Group tests, at least annually, whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2.8. The recoverable amounts of CGUs have been determined based on value in use calculations, where the key input parameters include the future growth rate and discount rates. These calculations require the use of estimates. Where the actual future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, a further impairment loss may arise. Details of the impairment loss calculation are set out in note 16.

4.2 Critical judgements in applying accounting policies

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

(i) Control over investees accounted for as subsidiaries

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

5. REVENUE

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

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

6. SEGMENT INFORMATION

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

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

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

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

   (a) Mainland China, Hong Kong and Taiwan

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

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

6. SEGMENT INFORMATION (Continued)

(ii) Bonded logistics and cold chain operations include logistic park operation, ports transportation, cold storage and logistics operation and airport cargo handling operated by the Group and its associates and joint ventures.

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

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

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

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

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

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

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

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

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

6. SEGMENT INFORMATION (Continued)

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

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

6. SEGMENT INFORMATION (Continued)

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

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

6. SEGMENT INFORMATION (Continued)

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

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

6. SEGMENT INFORMATION (Continued)

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

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

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

6. SEGMENT INFORMATION (Continued)

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

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

7. PROFIT FOR THE YEAR

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

8. OTHER INCOME AND OTHER GAINS, NET

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

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

9. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

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

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

10. DIRECTORS' EMOLUMENTS

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

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

10. DIRECTORS' EMOLUMENTS (Continued)

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

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

Notes:

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

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

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

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

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

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

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

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

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

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

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

11. EMPLOYEES' EMOLUMENTS

(a) Emoluments of senior management

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

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

The emoluments fell within the following bands:

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

11. EMPLOYEES' EMOLUMENTS (Continued)

(b) Five highest paid individuals

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

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

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

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

12. FINANCE INCOME AND COSTS

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

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

13. TAXATION

Hong Kong Profits Tax has been provided for at the rate of 16.5% (2015: 16.5%) on the estimated assessable profit for the year.

The Group's operations in Mainland China are subject to corporate income tax law of the PRC ("PRC corporate income tax"). The standard PRC corporate income tax rate is 25%. Certain of the Group's subsidiaries are exempted from PRC corporate income tax in the first five profit making years and followed by a 50% reduction in PRC corporate income tax for the next five years thereafter, commencing from the earlier of the first profitable year after offsetting all unexpired tax losses carried forward from the previous years or 1 January 2008. Certain of the Group's subsidiaries enjoy the preferential tax rate of 15% upon the fulfilment of the criteria of the PRC tax laws. Further, 10% withholding income tax is generally imposed on dividends relating to any profits earned commencing from 2008 to foreign investors, while for some PRC entities held by companies incorporated in certain places, including Hong Kong and Singapore, preferential tax rate of 5% will be applied according to PRC tax regulations if such companies are the beneficial owner of over 25% of these PRC entities.

Taxation outside of Hong Kong and Mainland China has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates. Certain of the Group's overseas subsidiaries are exempted from the corporate income tax in the relevant countries.

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

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

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

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

13. TAXATION (Continued)

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

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

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

The amount of taxation credited to other comprehensive income represents:

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

14. DIVIDENDS

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

14. DIVIDENDS (Continued)

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

At a meeting held on 29 March 2017, the Board of Directors proposed a final dividend of 65 HK cents per ordinary share, which will be satisfied by allotment of new shares of the Company, credited as fully paid, by way of scrip dividend, with an alternative to shareholders to elect to receive such final dividend (or part thereof) in cash in lieu of such allotment. This proposed dividend is not reflected as a dividend payable in these consolidated financial statements.

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

15. EARNINGS PER SHARE

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

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

Notes:

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

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

(b) Adjustment represents the additional number of ordinary shares in issue on the assumption of exercise of all outstanding share options except for those with exercise price higher than the average market price of the Company's shares for the year. Calculation to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) is based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

16. GOODWILL AND INTANGIBLE ASSETS

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

Notes:

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

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

16. GOODWILL AND INTANGIBLE ASSETS (Continued)

Notes: (Continued)

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

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

The recoverable amount of a CGU is determined based on higher of fair value less cost of disposal and value in use calculations. The value in use calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period and discounted by rates specific to the relevant CGUs. Management determines the financial budgets based on past performance and its expectations for market development, including the expected economic growth in developed and emerging economies in the short-term and medium-term, China's prospective GDP growth rates, future developments of the ports, among others. Cash flows beyond the five-year period are extrapolated using the estimated growth rate stated below.

The key assumptions used for value in use calculations are as follows:

	Growth rate (Note (i))		**Discount rate (Note (ii))**	
	2016	2015	**2016**	2015
Ports operation				
– Mainland China, Hong Kong and Taiwan				
– PRD excluding HK	**4%**	4%	**7.64%**	8.41%
– Hong Kong	**3%**	3%	**7.64%**	8.41%
– Others	**5%**	5%	**7.64%**	8.41%

Notes:

(i) Weighted average growth rates are used to extrapolate cash flows beyond the budget period which do not exceed the historical trend of the respective CGUs nor the industry growth rate.

(ii) Pre-tax discount rate has been applied to the cash flow projections. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

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

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

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

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

17. PROPERTY, PLANT AND EQUIPMENT

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

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

Notes:

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

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

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

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

18. INVESTMENT PROPERTIES

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

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

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

19. LAND USE RIGHTS

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

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

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

20. INTERESTS IN SUBSIDIARIES

(a) Composition of the Group

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

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

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

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

20. INTERESTS IN SUBSIDIARIES (Continued)

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

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

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

20. INTERESTS IN SUBSIDIARIES (Continued)

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

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

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

21. INTERESTS IN ASSOCIATES

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

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

21. INTERESTS IN ASSOCIATES (Continued)

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

(a) Material associates

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

21. INTERESTS IN ASSOCIATES (Continued)

(a) Material associates (Continued)

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

Notes:

(a) Acquisition of additional interest in SIPG

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

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

(b) Acquisition of additional interest in CIMC

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

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

21. INTERESTS IN ASSOCIATES (Continued)

(b) Aggregate of other associates

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

Notes:

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

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

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

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

22. INTERESTS IN JOINT VENTURES

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

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

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

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

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

23. OTHER FINANCIAL ASSETS

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

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

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

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

24. OTHER NON-CURRENT ASSETS

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

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

25. INVENTORIES

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

26. DEBTORS, DEPOSITS AND PREPAYMENTS

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

Notes:

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

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

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

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

(b) Bill receivables of HK$10 million (2015: HK$24 million) are included in trade debtors as at 31 December 2016.

26. DEBTORS, DEPOSITS AND PREPAYMENTS (Continued)

Notes: (Continued)

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

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

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

(e) As at 31 December 2016, trade debtors of HK$329 million (2015: HK$442 million) are past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The ageing analysis of these trade debtors is as follows:

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

As at 31 December 2016, it is noted that provision for impairment may be required in respect of trade debtors for the gross amount of HK$77 million (2015: HK$37 million) and a provision of HK$58 million (2015: HK$20 million) has been made thereon. The individually impaired trade debtors mainly relate to customers which are in difficult financial situations while it is assessed that a portion of the trade debtors is expected to be recovered.

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

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

27. CASH AND BANK BALANCES

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

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

27. CASH AND BANK BALANCES (Continued)

Cash and bank balances are denominated in the following currencies:

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

28. SHARE CAPITAL

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

Notes:

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

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

During the year, no ordinary shares were repurchased.

28. SHARE CAPITAL (Continued)

Notes: (Continued)

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

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

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

(d) Share options

The existing share option scheme was approved by the shareholders' resolutions of the Company and adopted on 9 December 2011 (the "New Scheme"), under which the Company's directors may, at their discretion, grant to any director or employee of the Company, the intermediate holding company of the Company or any of its subsidiaries or associates at a price of not less than the higher of (i) the closing price of shares as stated in the daily quotation sheet of the HKSE on the date of the offer of grant; and (ii) the average closing price of shares as stated in the daily quotation sheets of the HKSE for the five trading days immediately preceding the date of the offer of grant. The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the old scheme and any other share option schemes adopted must not in aggregate exceed 30% of the share capital of the Company in issue from time to time. The New Scheme is valid and effective for a period of 10 years.

Upon termination of the old scheme on 9 December 2011, no further options will be granted thereunder. However, the rules of the old scheme will remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior to its termination, or otherwise to the extent as may be required in accordance with the rules of the old scheme. All options granted under the old scheme prior to its termination will continue to be valid and exercisable in accordance with the rules of the old scheme. The terms of the New Scheme and the old scheme are generally similar.

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

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

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

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

29. MANDATORY CONVERTIBLE SECURITIES

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

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

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

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

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

30. OTHER RESERVES

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

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

31. LOANS FROM SHAREHOLDERS

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

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

32. OTHER FINANCIAL LIABILITIES

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

32. OTHER FINANCIAL LIABILITIES (Continued)

Notes:

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

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

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

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

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

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

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

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

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

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

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

32. OTHER FINANCIAL LIABILITIES (Continued)

Notes: (Continued)

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

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

33. OTHER NON-CURRENT LIABILITIES

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

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

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

34. DEFERRED TAXATION

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

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

34. DEFERRED TAXATION (Continued)

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

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

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

Deferred tax liabilities

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

34. DEFERRED TAXATION (Continued)

Deferred tax assets

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

35. CREDITORS AND ACCRUALS

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

Notes:

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

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

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

36. INFORMATION OF THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of operating profit to net cash inflow from operations:

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

37. DISPOSAL OF SUBSIDIARIES

For the year ended 31 December 2015

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

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

37. DISPOSAL OF SUBSIDIARIES (Continued)

For the year ended 31 December 2015 (Continued)

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

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

38. ACQUISITION OF ASSETS THROUGH ACQUISITIONS OF SUBSIDIARIES

For the year ended 31 December 2016

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

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

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

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

39. ACQUISITION OF A SUBSIDIARY

For the year ended 31 December 2015

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

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

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

The non-controlling interest in Yide Port recognised at the acquisition date was measured by reference to the fair value of the identifiable assets acquired and liabilities assumed and amounted to HK$66 million.

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

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

40. COMMITMENTS AND CONTINGENT LIABILITIES

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

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

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

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

(c) Commitments under operating leases

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

	2016 HK$'million	2015 HK$'million
Within one year	**175**	164
In the second to fifth year inclusive	**245**	311
After the fifth year	**1,739**	1,738
	2,159	2,213

40. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

(d) Future operating lease receivables

As at 31 December 2016, the Group has future aggregate lease receivables under non-cancellable operating leases for investment properties and property, plant and equipment as follows:

	2016 HK$'million	2015 HK$'million
Within one year	**116**	103
In the second to fifth year inclusive	**195**	139
After the fifth year	**110**	35
	421	277

(e) Contingent liabilities

As at 31 December 2016, the other shareholder of an associate of which the Group held as to 49% of its issued share capital provided corporate guarantees to the full amount for certain loan facilities granted by banks to and other obligations borne by the relevant associate. A counter indemnity in favour of the other shareholder of the associate is executed pursuant to which the Group undertakes to indemnify the other shareholder 49% of the liabilities in the aggregate amount of HK$148 million (2015: HK$217 million) arising from the above loan facilities and other obligations.

In addition to above, the Group also provides guarantees for banking facilities granted to and other obligations borne by associates of the Group. The total amount guaranteed by the Group is HK$410 million (2015: HK$11 million) and the aggregate amount utilised by the relevant associates amounted to HK$100 million (2015: HK$5 million).

The directors assessed the risk of default of the associate in serving the aforesaid loan facilities and other obligations at the end of the reporting period and considered the risk to be insignificant and it is not likely that any guaranteed amount will be claimed.

41. RELATED PARTY TRANSACTIONS

The directors regard CMG, a stated-owned enterprise registered in the PRC and is controlled by the PRC Government, as being the ultimate holding company of the Company.

Related parties refer to entities in which CMG has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions, or directors or officers of the Company and its subsidiaries. A summary of significant related party transactions entered into in the normal course of business between the Group and its related parties during the year and balances arising from related transactions as at 31 December 2016 are as follows:

41. RELATED PARTY TRANSACTIONS (Continued)

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

	Note	**2016** **HK$'million**	2015 HK$'million
Rental income from	(i)		
– an intermediate holding company		—	36
– fellow subsidiaries		**7**	3
– associates		—	15
Rental expenses paid to	(i)		
– an intermediate holding company		—	1
– fellow subsidiaries		**99**	123
– associates		**79**	81
Service income from	(ii)		
– fellow subsidiaries		**77**	61
– joint ventures		**124**	137
– associates		**98**	54
Service fees paid to	(iii)		
– fellow subsidiaries		**47**	32
– joint ventures		**37**	27
Interest expenses and upfront fees paid to	(iv)		
– ultimate holding company		**28**	65
– an intermediate holding company		**16**	47

Notes:

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

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

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

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

(v) During the year ended 31 December 2016, the Group completed the acquisition of 100% equity interest in Shenzhen Jinyu and Shenzhen Qianhaiwan for an aggregate cash consideration of RMB4,868 million (equivalent to approximately HK$5,610 million) from certain subsidiaries of CMG, details are disclosed in note 38.

(vi) During the year ended 31 December 2015, the Company entered into a share purchase agreement with an intermediate holding company of the Company, pursuant to which the Company agreed to sell the entire issued share capital of USL and to assign the shareholder's loan to the intermediate holding company. The total consideration was HK$1,426 million.

The Company also entered into a share purchase agreement with a wholly-owned subsidiary of CMG, the ultimate holding company of the Company, pursuant to which the Company agreed to sell the entire issued share capital of SAH and to assign the shareholder's loan to the wholly-owned subsidiary of CMG. The total consideration was HK$760 million.

(vii) During the year ended 31 December 2015, a wholly-owned subsidiary of the Group transferred certain assets to a joint venture at a consideration of HK$74 million.

41. RELATED PARTY TRANSACTIONS (Continued)

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

Notes: (Continued)

(viii) During the year ended 31 December 2015, a non-wholly-owned subsidiary of the Company completed a transaction with a fellow subsidiary for acquisition of a land use right located in Zhangzhou, the PRC, at a consideration of HK$24 million.

(ix) During the year ended 31 December 2013, a wholly-owned subsidiary of the Company entered into another transaction with a fellow subsidiary for acquisition of a land use right located in Shenzhen, the PRC, at a consideration of HK$17 million. The transaction has not yet been completed at the end of the reporting period and the amount paid by the Group as at 31 December 2016 and 2015 amounting to HK$17 million (2015: HK$17 million) was also accounted for as a prepayment for purchase of non-current assets set out in note 24.

(x) As at 31 December 2016, the Group placed deposits of HK$982 million (2015: HK$4,295 million) with China Merchants Bank Co., Ltd. ("CMB"), an associate of CMG.

During the year, interest income from CMB amounted to HK$10 million (2015: HK$53 million).

During the year ended 31 December 2016, interest expense paid and payable to CMB amounted to HK$1 million (2015: HK$2 million).

The balances with entities within CMG Group as at 31 December 2016 and 31 December 2015 are disclosed in notes 24, 26, 31 and 35 to the consolidated financial statements.

(b) Transactions with other PRC state-controlled entities

A number of subsidiaries of the Company operate in the Mainland China, an economic environment currently predominated by entities controlled, jointly controlled or significantly influenced by the PRC Government. These PRC subsidiaries therefore have substantial volumes of transactions with other PRC state-controlled entities during their ordinary course of businesses including but not limited to the purchases of assets, construction of ports and related facilities, bank deposits and borrowings, among others.

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

	2016 HK$'million	2015 HK$'million
Interest expense paid (Note)	**19**	16

Note: Interest expense was charged at interest rate as specified in note 32 to the consolidated financial statements on the outstanding loans from non-controlling equity holders of subsidiaries.

The balances with non-controlling equity holders of subsidiaries as at 31 December 2016 and 2015 are disclosed in note 32 to the consolidated financial statements.

(d) Key management compensation

	2016 HK$'million	2015 HK$'million
Salaries and other short-term employee benefits	**14**	14

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

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

Name of subsidiary	Place of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of ownership interest held by the Company Directly 2016 %	Directly 2015 %	Indirectly 2016 %	Indirectly 2015 %	Principal activities
China Merchants Container Services Limited	Hong Kong	HK$500,000	—	—	**100.00**	100.00	Provision of container terminal services and ports transportation
China Merchants (CIMC) Investment Limited	Hong Kong	HK$10,000	**100.00**	100.00	—	—	Investment holding and securities trading
China Merchants International Terminals (Ningbo) Limited	British Virgin Islands	US$1	**100.00**	100.00	—	—	Investment holding
China Merchants International Container Terminal (Qingdao) Co., Ltd. (Note (a))	PRC	US$206,300,000	—	—	**100.00**	100.00	Provision of container terminal services and ports transportation
China Merchants International Terminal (Qingdao) Company Ltd. (Note (b))	PRC	US$44,000,000	—	—	**90.10**	90.10	Port, container terminal and logistic business
China Merchants Bonded Logistics Co., Limited (Note (b))	PRC	RMB700,000,000	—	—	**78.26**	78.26	Provision of container related logistics services
China Merchants Port Services (Shenzhen) Company Limited (Note (a))	PRC	RMB550,000,000	—	—	**100.00**	100.00	Provision of terminal services and ports transportation
CMH International (China) Investment Co., Ltd. (Note (a))	PRC	US$30,000,000	**100.00**	100.00	—	—	Investment holding
Colombo International Container Terminals Limited	Republic of Sri Lanka	US$150,000,088	**85.00**	85.00	—	—	Provision of container terminal services
Lomé Container Terminal S.A. (Note (c))	Togolese Republic	XOF200,000,000	—	—	**35.00**	35.00	Provision of container terminal services
Mega Shekou Container Terminals Limited	British Virgin Islands	US$120	—	—	**80.00**	80.00	Investment holding

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of ownership interest held by the Company Directly 2016 %	Directly 2015 %	Indirectly 2016 %	Indirectly 2015 %	Principal activities
Shekou Container Terminals Ltd. (Note (a))	PRC	HK$618,201,150	—	—	**80.00**	80.00	Operation of berth No. 1 & 2 in Shekou, PRC
Shekou Container Terminals (Phase II) Company Limited (Note (a))	PRC	RMB608,549,000	—	—	**80.00**	80.00	Operation of berth No. 3 & 4 in Shekou, PRC
Shekou Container Terminals (Phase III) Company Limited (Note (a))	PRC	RMB1,276,000,000	—	—	**80.00**	80.00	Operation of berth No. 5 to No.9 in Shekou, PRC
Shenzhen Chiwan Wharf Holdings Limited (A, B Shares listed in the Mainland China) (Notes (b) and (d))	PRC	RMB644,763,730	—	—	**45.66**	45.66	Port operations
Shenzhen Haiqin Engineering Supervision & Management Co., Ltd. (Note (a))	PRC	RMB3,000,000	—	—	**100.00**	100.00	Provision of services on ports construction
Shenzhen Haixing Harbour Development Company Ltd. (Note (b))	PRC	US$15,151,500	—	—	**67.00**	67.00	Provision of container terminal services
Shenzhen Mawan Port Service Co., Ltd. (Note (b))	PRC	RMB200,000,000	—	—	**83.70**	83.70	Operation of berth No. 5 in Mawan, Shenzhen, PRC
Shenzhen Mawan Terminals Co., Ltd. (Note (b))	PRC	RMB335,000,000	—	—	**83.70**	83.70	Operation of berths No. 6 & No. 7 in Mawan, Shenzhen, PRC
Shenzhen Mawan Wharf Co., Ltd. (Note (b))	PRC	RMB200,000,000	—	—	**83.70**	83.70	Operation of berth No. 0 in Mawan, Shenzhen, PRC
Xia Men Bay China Merchants Terminals Co., Ltd. (Notes (b) and (d))	PRC	RMB315,000,000	—	—	**31.00**	31.00	Provision of container terminal services and ports transportation
Zhangzhou China Merchants Port Co., Ltd. (Note (b))	PRC	RMB1,000,000,000	—	—	**60.00**	60.00	Operation of berths No. 3 to No. 6 in the Zhangzhou Economic Development Zone, Fujian Province, PRC
Zhangzhou China Merchants Tugboat Company Limited (Note (b))	PRC	RMB15,000,000	—	—	**70.00**	70.00	Operation of tugboats in the Zhangzhou Economic Development Zone, Fujian Province, PRC
招商局國際信息技術有限公司 (Note (b))	PRC	RMB50,000,000	**76.84**	76.84	**10.57**	10.57	Provision of computer network services
安通捷碼頭倉儲服務(深圳)有限公司 (Note (a))	PRC	HK$100,000,000	—	—	**100.00**	100.00	Holding of a piece of land in Shekou, PRC

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of ownership interest held by the Company Directly 2016 %	2015 %	Indirectly 2016 %	2015 %	Principal activities
安速捷碼頭倉儲服務(深圳)有限公司 (Note (a))	PRC	HK$100,000,000	—	—	**100.00**	100.00	Holding of a piece of land in Shekou, PRC
安運捷碼頭倉儲服務(深圳)有限公司 (Note (a))	PRC	RMB60,600,000	—	—	**80.00**	80.00	Holding of certain pieces of land in Shekou, PRC
廣東頤德港口有限公司(Note (b))	PRC	RMB216,000,000	—	—	**51.00**	51.00	Port operations
深圳金域融泰投資發展有限公司 (Note (e))	PRC	RMB800,000,000	—	—	**100.00**	—	Property holding
深圳市招商前海灣置業有限公司 (Note (e))	PRC	RMB200,000,000	—	—	**100.00**	—	Property holding

Notes:

(a) Foreign investment enterprises

(b) Sino-foreign joint ventures

(c) This entity is considered to be a subsidiary of the Company despite the Group holds effective equity interest of 35% (2015: 35%) therein as the Group has the power to appoint and remove the majority of the executive committee of the entity, which is empowered to direct the relevant activities of control of the investee by virtue of the shareholders' agreement.

(d) These entities are considered to be subsidiaries of the Company despite the Group holds less than half of the equity interest therein as the Group has the power to appoint and remove the majority of the board of directors of the relevant entities and holds more than half of the voting rights at the relevant shareholders' meetings of the respective entity by virtue of agreements with other investors.

(e) Acquired during the year.

43. PARTICULARS OF PRINCIPAL ASSOCIATES

Name of associate	Place of incorporation/ registration and operation	Proportion of ownership interest indirectly held by the Company 2016 %	2015 %	Principal activities
Asia Airfreight Terminal Company Limited	Hong Kong	**20.00**	20.00	Airfreight services
China International Marine Containers (Group) Co., Ltd. (shares listed on the HKSE and the Shenzhen Stock Exchange) (Note (a))	PRC	**24.53**	23.08	Design, manufacture and sales of dry freight containers and refrigerated containers, road transportation vehicle, energy, chemical and food equipment and offshore engineering

43. PARTICULARS OF PRINCIPAL ASSOCIATES (Continued)

Name of associate	Place of incorporation/ registration and operation	Proportion of ownership interest indirectly held by the Company 2016 %	2015 %	Principal activities
China Nanshan Development (Group) Incorporation (Note (a))	PRC	**37.01**	37.01	Investment holding
Chu Kong River Trade Terminal Co., Limited	British Virgin Islands	**20.00**	20.00	Provision of shuttle-barge ports services
Dalian Port (PDA) Company Limited (shares listed on the HKSE and the Shanghai Stock Exchange) (Notes (a) and (b))	PRC	**21.05**	—	Provision of terminal business and logistic services
Modern Terminals Limited	Hong Kong	**27.01**	27.01	Provision of container terminal services and warehouse services
Port de Djibouti S.A.	Republic of Djibouti	**23.50**	23.50	Operations of seaports and terminals and port related business in Djibouti
Shanghai International Port (Group) Co., Ltd. (A shares listed on the Shanghai Stock Exchange) (Note (a))	PRC	**25.15**	24.05	Ports and container terminal business and related services
Terminal Link SAS	French Republic	**49.00**	49.00	Operations of container terminals in Europe, Mediterranean Basil, Africa, Americas and Asia
Tianjin Haitian Bonded Logistics Co., Ltd. (Note (a))	PRC	**49.00**	49.00	Provision of container terminal services and warehouse services
Tin-Can Island Container Terminal Ltd.	Federal Republic of Nigeria	**28.50**	28.50	Provision of container terminal services

Notes:

(a) Sino-foreign joint ventures

(b) Acquired during the year

44. PARTICULARS OF PRINCIPAL JOINT VENTURES

Name of joint venture	Issued capital/ registered capital	Proportion of ownership interest indirectly held by the Company 2016 %	2015 %	Principal activities
Ningbo Daxie China Merchants International Terminals Co., Ltd (Note (a))	RMB1,209,090,000	**45.00**	45.00	Ports and container terminal business
Qingdao Qianwan United Container Terminal Co., Ltd.	RMB2,000,000,000	**50.00**	50.00	Ports and container terminal business
Qingdao Qianwan West Port United Terminal Co., Ltd.	RMB500,000,000	**49.00**	49.00	Ports and bulk cargo terminal business
Regional Merchants International Freight Forwarding Co., Ltd. (Note (a))	HK$12,000,000	**20.00**	20.00	Provision of transportation service
Regional Merchants Maritime Ltd. (Notes (a) and (b))	HK$8,000,000	—	20.00	Provision of shipping service
Zhanjiang Port (Group) Co., Ltd. (Note (a))	RMB4,020,690,955	**40.29**	40.29	Ports and container terminal business
Qingdao Port Dongjiakou Ore Terminal Co., Ltd (Note (a))	RMB1,400,000,000	**25.00**	25.00	Ports and bulk cargo terminal business
Euro-Asia Oceangate S.ar.l.	USD940,141,587.60	**40.00**	40.00	Ports and container terminal business

Notes:

(a) Sino-foreign joint ventures

(b) Deregistered during the year

Under the relevant shareholders' agreement, decisions of relevant activities of the entities above require unanimous consent from relevant joint venture partner(s). Accordingly, neither the Group nor the other venture partners(s) has the ability to control the relevant entities unilaterally and each of the entity above is considered as jointly controlled by the Group and the relevant joint venture partner(s).

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2016 HK$'million	2015 HK$'million
ASSETS		
Non-current assets		
Property, plant and equipment	**463**	478
Interests in subsidiaries	**46,537**	39,888
Prepayment	**6**	6
	47,006	40,372
Current assets		
Debtors, deposits and prepayments	**50**	7
Advances to subsidiaries	**6,766**	3,921
Cash and bank balances	**562**	7,490
	7,378	11,418
Total assets	**54,384**	51,790
EQUITY		
Capital and reserves attributable to equity holders of the Company		
Share capital	**19,548**	18,994
Mandatory convertible securities	**15,219**	15,224
Reserves (Note)	**3,890**	4,926
Proposed dividend (Note)	**1,707**	1,429
Total equity	**40,364**	40,573
LIABILITIES		
Non-current liabilities		
Advances from subsidiaries	**10,790**	10,748
Current liabilities		
Advances from subsidiaries	**1,490**	397
Creditors and accruals	**57**	72
Other financial liabilities	**1,683**	—
	3,230	469
Total liabilities	**14,020**	11,217
Total equity and liabilities	**54,384**	51,790
Net current assets	**4,148**	10,949
Total assets less current liabilities	**51,154**	51,321

The statement of financial position of the Company was approved and authorised for issue by the Board of Directors on 29 March 2017 and are signed on its behalf by:

Mr. Li Xiaopeng
DIRECTOR

Mr. Bai Jingtao
DIRECTOR

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note: The reserves of the Company at 31 December 2016 and 2015 are as follows:

	Share-based compensation reserve HK$'million	Capital reserve HK$'million (Note (i))	Retained earnings HK$'million	Total HK$'million
As at 1 January 2016	**48**	**2,340**	**3,967**	**6,355**
Transfer upon lapse of share options	**(48)**	—	**48**	—
Profit for the year	—	—	**2,007**	**2,007**
Dividends paid (Note (ii))	—	—	**(2,004)**	**(2,004)**
Distribution to MCS holders	—	—	**(761)**	**(761)**
As at 31 December 2016	—	**2,340**	**3,257**	**5,597**
Retained earnings as at 31 December 2016 representing:				
Reserves			**1,550**	
Proposed dividend			**1,707**	
			3,257	
As at 1 January 2015	76	2,340	4,942	7,358
Transfer upon exercise of share options	(28)	—	—	(28)
Profit for the year	—	—	2,075	2,075
Dividends paid (Note (ii))	—	—	(1,983)	(1,983)
Distribution to MCS holders	—	—	(1,067)	(1,067)
As at 31 December 2015	48	2,340	3,967	6,355
Retained earnings as at 31 December 2015 representing:				
Reserves			2,538	
Proposed dividend			1,429	
			3,967	

Notes:

(i) The Company's capital reserve, which arose in 1998 upon reduction of share premium as confirmed by the order of the High Court of the Hong Kong Special Administrative Region, is a non-distributable reserve and may be applied by the Company in paying up its unissued shares to be allotted to members of the company as fully paid bonus shares.

(ii) Dividends paid in the years are as follows:

	2016 HK$'million	2015 HK$'million
Interim of 22 HK cents (2015: 22 HK cents) per ordinary share	**575**	569
2015 final of 55 HK cents (2015: 2014 final of 55 HK cents) per ordinary share	**1,429**	1,414
	2,004	1,983

46. EVENT AFTER THE REPORTING PERIOD

Formation of joint ventures in connection with investment in the Djibouti International Free Trade Zone

On 16 January 2017, the Company entered into a shareholders' agreement with two fellow subsidiaries ("Agreement I") and another shareholders' agreement with the same fellow subsidiaries, the controlling shareholder of an associate and an independent third party ("Agreement II") (all of the parties as stated above, together with the Company, collectively referred to as the "Joint Investors"), in connection with proposed investments in the Djibouti International Free Trade Zone (the "Djibouti IFTZ Investment"). Two joint venture entities were formed by the Joint Investors as platforms to co-invest into the Djibouti IFTZ Investment. Details of these investments are set out in the announcement of the Company on 16 January 2017. Up to the date these consolidated financial statements were authorised for issuance, the Company has agreed to contribute US$12 million (equivalent to approximately HK$94 million) under Agreement I and has paid US$320,400 (equivalent to approximately HK$2.50 million) under Agreement II.

Registered Office of the Issuer

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Registered Office of the Guarantor

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Fiscal Agent and Principal Paying Agent

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Hong Kong

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

CMHI FINANCE (BVI) CO., LTD

(incorporated in the British Virgin Islands with limited liability)

US$[ ] [ ] per cent. Guaranteed Notes due [ ]
US$[ ] [ ] per cent. Guaranteed Notes due [ ]

OFFERING MEMORANDUM

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

Bank of China (Hong Kong)	**DBS Bank Ltd.**	**HSBC**	**MUFG**	**UBS**

The date of this Offering Memorandum is [ ] 2018