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

Stock Code : 00144

ANNUAL REPORT 2017

WE CONNECT THE WORLD

2017

Contents

Financial Highlights

	2017 HK$'million	2016 HK$'million	Year-on-year changes
Consolidated statement of profit or loss highlights			
Revenue[1]	**43,484**	44,221	(1.7%)
Profit attributable to equity holders of the Company	**6,028**	5,494	9.7%
Non-recurrent gains, net of tax[2]	**(536)**	(913)	(41.3%)
Recurrent profit	**5,492**	4,581	19.9%
Earnings per share (HK cents)			
Basic	**183.90**	175.58	4.7%
Diluted	**183.90**	175.58	4.7%
Dividend per share (HK cents)			
Interim dividend	**22.00**	22.00	—
Special interim dividend	**135.00**	—	N/A
Final dividend	**59.00**	65.00	(9.2%)
	216.00	87.00	148.3%
Consolidated statement of financial position highlights			
Total assets	**131,951**	103,113	28.0%
Capital and reserves attributable to equity holders of the Company	**73,447**	65,908	11.4%
Net interest-bearing debts[3]	**19,313**	18,797	2.7%
Consolidated statement of cash flows highlights			
Net cash generated from operating activities	**5,757**	5,552	3.7%

	2017 HK$'million	2016 HK$'million	Year-on-year changes
Revenue[1]			
Ports operation	26,856	24,506	9.6%
Bonded logistics operation	592	612	(3.3%)
Port-related manufacturing operation	9,265	14,115	(34.4%)
Other operations	6,771	4,988	35.7%
Total	43,484	44,221	(1.7%)
EBITDA[4]			
Ports operation	12,693	11,542	10.0%
Bonded logistics operation	249	266	(6.4%)
Port-related manufacturing operation	835	1,211	(31.0%)
Other operations	1,552	1,659	(6.4%)
EBITDA	15,329	14,678	4.4%
Unallocated net income[6]	722	133	442.9%
Net interest expenses[5]	(2,140)	(2,020)	5.9%
Taxation[5]	(2,313)	(1,876)	23.3%
Depreciation and amortisation[5]	(4,206)	(4,190)	0.4%
Non-controlling interests[5]	(1,364)	(1,231)	10.8%
Profit attributable to equity holders of the Company	6,028	5,494	9.7%

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

2 For 2017, include gain on disposal of a subsidiary of HK$813 million, gain on disposal of an available-for-sale financial asset, net of tax of HK$276 million, gain on deemed disposal of interest in an associate of HK$3 million, increase in fair value of investment properties, net of tax of HK$183 million and impairment loss of interest in an associate of HK$739 million. For 2016, include gain on disposal of an available-for-sale financial asset, net of tax of HK$461 million, gain on deemed disposal of interest in an associate of HK$6 million and increase in fair value of investment properties, net of tax of HK$446 million.

3 Interest-bearing debts less cash and bank balances.

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

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

6 For 2017, include expenses for corporate function, gain on disposal of a subsidiary, gain on disposal of an available-for-sale financial asset and gain on deemed disposal of interest in an associate. For 2016, include expenses for corporate function, gain on disposal of an available-for-sale financial asset and gain on deemed disposal of interest in an associate.

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

Casablanca, Morocco
Somaport

Tangiers, Morocco
Eurogate Tanger

Marsaxlokk, Malta
Malta Freeport Terminals

Fos, France
Eurofos

Le Havre, France
Terminal de France
Terminal Nord

Dunkirk, France
Terminal des Flandres

Montoir, France
Terminal du Grand Ouest

Antwerp, Belgium
Antwerp Gateway

Istanbul, Turkey
Kumport

Others

Busan, South Korea
Busan New Container Terminal

Miami, United States
South Florida Container Terminal

Houston, United States
Terminal Link Texas

Mainland China, Hong Kong and Taiwan

Ports

Logistics

Pearl River Delta

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
China Merchants Bonded Logistics

Yangtze River Delta

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

South-East Region

Zhangzhou China Merchants Port
Shantou China Merchants Port Group

South-West Region

Zhanjiang Port

Kaohsiung, Taiwan

Kao Ming Container Terminal

Bohai Rim

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
China Merchants International Terminal (Qingdao)
Tianjin Haitian Bonded Logistics


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MAERSK
SEALAND

Corporate Profile

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

Top Ten Container Ports in China - 2017 — Unit: million TEUs

	Port	CMPort Presence	2017	17 vs 16 Change
1.	Shanghai	●	40.23	8.3%
2.	Shenzhen	●	25.25	5.3%
3.	Ningbo - Zhoushan	●	24.64	14.3%
4.	Hong Kong	●	20.77	4.8%
5.	Guangzhou		20.10	7.7%
6.	Qingdao	●	18.30	1.4%
7.	Tianjin	●	15.04	3.6%
8.	Xiamen		10.40	8.2%
9.	Dalian	●	9.70	1.3%
10.	Yingkou		6.27	3.0%

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

CMPort's strives to, as a gateway to China's foreign trade and with its expanding global ports portfolio, provide its customers with timely and efficient port and related maritime logistics services by pursuing its management style that emphasises determination, discipline and efficiency. In addition, CMPort also invests in bonded logistics operation for the extension of port's value chain. Through synergies achieved by its existing ports network, CMPort seeks to enhance its value creation for its shareholders.

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

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

Major Milestones in

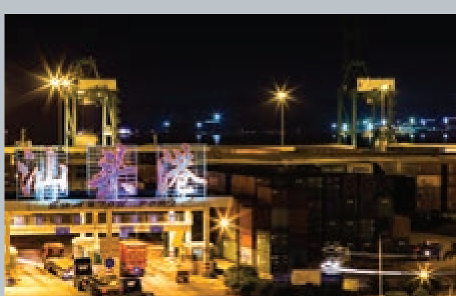
2017

Jan

CMPort entered into the Shareholders Agreements for the Asset Joint Venture and the operation and management Joint Venture in relation to the proposed investment in the Djibouti International Free Trade Zone. CMPort owns 40% and 26.7% equity interests in the two joint ventures respectively.

Apr

CMPort and the State-owned Assets Supervision and Administration Commission of the Shantou Municipal Government ("**Shantou SASAC**") and Shantou Ports Group Corp Co., Ltd. ("**SPG**") entered into the Subscription Agreement in relation to the subscription of equity interests in SPG. After the subcription was completed in August, CMPort holds 60% of the equity interests in SPG and Shantou SASAC holds the remaining 40%.



Apr

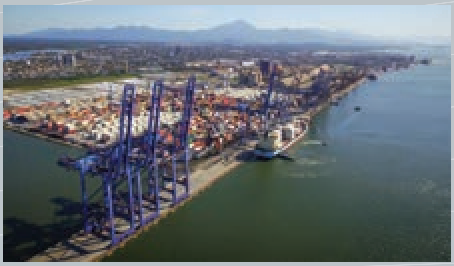
CMPort entered into the Share Purchase Agreement with China Merchants Industry Holdings Company Limited for the proposed disposal of its entire indirect interest of 24.53% Shareholding in China International Marine Containers (Group) Co., Ltd. The disposal was completed in June after it was approved by the Extraordinary General Meeting.

Jun

CMPort's Mandatory Convertible Securities, which were issued in 2014, were fully converted into 503 million ordinary shares.

Sept

CMPort entered into the Share Purchase Agreement with the selling shareholders and TCP Participações S.A. ("**TCP**") in relation to the sale and purchase of 90% equity interests in TCP in Brazil. The transaction was duly completed in February 2018.



Jul

CMPort entered into the Concession Agreement with 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, which became officially effective in December after the relevant Supplementary Concession Agreement, Conditions Precedent Amendment Letter and relevant Shareholders Agreements were signed.

Chairman's Statement

It is with great delight that I present China Merchants Port Holdings Company Limited (the "**Company**") and its subsidiaries' (the "**Group**") 2017 annual report and its audited financial statements for the year ended 31 December 2017.

In 2017, the global economy experienced a relatively strong recovery with broad-based economic growth, more balanced supply-demand relationship and improved investment climate, and the trading landscape has ushered in a new round of balance and adjustment despite of the tug-of-war between globalisation and anti-globalisation. Developed economies, emerging markets and developing economies were growing at a faster rate than expected, while international trade recorded strong growth in recent months. In view of the stablilised macroeconomic condition, the Group adhered to its strategic directives, with building up core competitiveness as a pivot and "five key objectives" as direction (namely homebase port development, ports consolidation, overseas expansion, integration of industry with elements of finance, and business innovation), pursued various designated tasks in a comprehensive and pragmatic manner, and achieved the preliminary strategic goals formulated last year and successfully accomplished various operational goals.

In 2017, the overall operating performance of the Group was satisfactory with steady growth of scale, remarkable improvement of performance, powerful "Dual Drives" and outstanding overseas projects. In terms of ports operation, the domestic and overseas port projects in which the Group invested delivered a record-high container throughput of 102.90 million TEUs during the year, up 7.4% over 2016, among which the container throughput handled by the Group's overseas ports grew by 7.9% year-on-year to 18.30 million TEUs, with Colombo International Container Terminals Limited ("**CICT**") in Sri Lanka continuing a significant growth and achieved 2.39 million TEUs. In terms of key objectives, overseas port projects, including Hambantota International Port Group (Private) Limited ("**Hambantota Port**") and TCP Participações S.A. ("**TCP**") in Paranaguá, Brazil, have made substantial progress. The consolidation of domestic ports operation has also achieved preliminary results, including became the controlling shareholder of Shantou China Merchants Port Group Co., Ltd. ("**Shantou Port**") through capital injection, participated in the research of ports consolidation in Liaoning Province, as well as further deepened the regional cooperation with Shanghai International Port (Group) Co., Ltd. ("**SIPG**"), Zhejiang Port Investment and Operation Group Co., Ltd. (浙江省海港投資運營集團有限公司) ("**Zhejiang PG**") and Tianjin Port (Group) Co., Ltd. (天津港 (集團) 有限公司) ("**Tianjin PG**"). The official launch of "E-port" marked a new milestone in the development of Internet services and information technology based on the Group's core business of West Shenzhen homebase port. Moreover, capital management in existing portfolio driven by integration of industry with elements of finance has provided strong support for the upgrade of the existing operations and growth of results of the Group.

Operating Results

Profit attributable to equity holders of the Group in 2017 amounted to HK$6,028 million, representing an increase of 9.7% over 2016. Of this amount, recurrent profit [Note 1] totalled HK$5,492 million, an increase of 19.9% over 2016. The proportion of EBITDA [Note 2] derived from the Group's core port operations increased from 78.6% in 2016 to 82.8% in 2017.

Dividends

The Board of Directors of the Group has resolved to propose at the forthcoming Annual General Meeting the payment of a final dividend of 59 HK cents per ordinary share which, together with the interim dividend of 22 HK cents per share, represented a full year payout ratio of 43.7%. The total dividend for the year was 216 HK cents per ordinary share, including a special interim dividend already paid of 135 HK cents per share for celebrating the 25th listing anniversary.

Note 1 Profit attributable to equity holders of the Company net of non-recurrent gains after tax. Non-recurrent gains include: for 2017, gain on disposal of a subsidiary, gain on disposal of an available-for-sale financial asset, gain on deemed disposal of interest in an associate, impairment loss of interest in an associate and change in fair value of investment properties; while for 2016, gain on disposal of an available-for-sale financial asset, gain on deemed disposal of interest in an associate and change in fair value of investment properties.

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

Subject to the approval by shareholders at the forthcoming Annual General Meeting, the final dividend for ordinary shares will be payable on or around 17 July 2018 to shareholders whose names appear on the register of members of the Company as at 8 June 2018.

Review for the Year

In 2017, global economic growth was higher than expected. However, due to the potential adverse effects of accumulation of financial vulnerability, implementation of inward-looking policies and geopolitical tensions, the global macroeconomic environment was under numerous challenges and there were still uncertainties. According to the "World Economic Outlook" report published by the International Monetary Fund ("**IMF**") in January 2018, the global economy grew by 3.7% in 2017, up 0.5 percentage point as compared to 2016, among which developed economies grew 2.3%, up 0.6 percentage point from that of 2016, which was higher than expected, while emerging markets and developing economies recorded a growth of 4.7%, up 0.3 percentage point as compared to that of 2016. Total global trade volume (including goods and services) grew by 4.7%, representing an increase of 2.2 percentage points as compared to that of 2016.

In 2017, China's Gross Domestic Product grew by 6.9% for the year and its economic growth rate remained at the top position among major economies. The economic development trend is broadly stable with steady growth. Attributing to the growth of external demand, rapid growth was seen in China's import and export value for the year, with total trade value amounting to US$4.10 trillion, representing an increase of 11.4% over that of 2016, a successfully turnaround from the downward trend in the previous two years. Container throughput handled by ports of significant scale in China totalled 237 million TEUs during 2017, representing a year-on-year increase of 8.3%, or an increase of 4.7 percentage points over that of 2016.

Driven by the recovery of global economy and trade, the global ports business continued to improve in 2017. Benefitted from the growth from hub terminals along the China coast and overseas greenfield projects, the Group's ports operation recorded a total container throughput of 102.90 million TEUs, which represented a 7.4% year-on-year growth, and bulk cargo throughput of 507 million tonnes, representing an increase of 10.3% year-on-year. Looking into the regional performance, container throughput handled by the Group's ports in Mainland China totalled 77.12 million TEUs, up 7.2%. Ports in Hong Kong and Taiwan handled a combined container throughput of 7.48 million TEUs, up 8.8%, while overseas operations delivered a container throughput of 18.30 million TEUs, up 7.9%. Among the major ports in the Group's portfolio, SIPG, handled a container throughput of 40.23 million TEUs, or an increase of 8.3%, continued to be the world's largest port for eight consecutive years. Container throughput handled by the Group's terminals in West Shenzhen Port Zone was 11.18 million TEUs for the year, up 2.0%. In the overseas arena, CICT in Sri Lanka delivered a noticeable growth of 18.5%, handling a container throughput of 2.39 million TEUs. Lomé Container Terminal S.A. in Togo handled a container throughput of 0.89 million TEUs in 2017, representing a significant growth of 67.5%. Port de Djibouti S.A. handled a container throughput of 0.93 million TEUs, down 6.0%. Although Terminal Link SAS disposed of its 20% equity interest in Project Xinhaida in Xiamen at the beginning of 2017, it handled container throughput of 12.56 million TEUs, up by 1.8%.

In 2017, the Group adhered to its strategic directives and focused on the three major strategies towards domestic markets, overseas markets and innovation, seeking to achieve breakthroughs in "five key objectives", including homebase port development, ports consolidation, overseas expansion, integration of industry with elements of finance, and business innovation. The Group has actively promoted the implementation of key works over the past year, thus maintaining the steady growth of the Group's core ports operation and its operating results.

With respect to homebase port development, the phase II of Tonggu Channel widening project has commenced construction in November 2016 and is expected to be completed in the first half of 2018. The project will create conditions for the improvement of navigation conditions and for mega vessels to call at West Shenzhen Port Zone. The Renovation project for Haixing Port in West Shenzhen Port Zone has commenced in September 2017, which will be built into a professional container terminal and promote the construction of a smart port. The Group proceeded with the upgrade and transformation of the Qianhai-Shekou Free Trade Zone in accordance with the construction of "Single Window" for free trade zones carried out by the municipal government, with a view to improving the customs clearance environment of the free trade zones on an ongoing basis.

As for ports consolidation, based on "regional consolidation and enhancement of synergy", the Group proactively captured the opportunities arising from consolidation and reform of ports along coastal regions in China. In Bohai Rim, the Group participated in the discussion on the consolidation of ports in Liaoning Province and studied the cooperation with Tianjin PG. In Yangtze River Delta region, the Group also further strengthened the cooperation with SIPG and Zhejiang PG. In the South-East region of Mainland China, the Group completed the acquisition of 60% equity interests in Shantou Port in August 2017, which further promoted resources consolidation for the Group's ports in the South-East region of Mainland China.

Regarding overseas expansion, the Group further refined and improved its overseas development strategy, and strengthened its presence in overseas markets with the goals to "solidify ports layout in Asia, improve ports network in Africa, expand footprint in Europe and acquire new exposure in Americas". In 2017, the Group actively promoted a number of projects in South Asia, Africa and Central and South America. In December 2017, the Hambantota Port project in Sri Lanka was officially delivered. In the future, it will form synergies with CICT project and further promote the construction of the Group's overseas homebase port in Sri Lanka. Doraleh Multi-Purpose Port in Djibouti, Africa, was opened for operation. The Group further enhanced the cooperation with the Togolese government. It also signed an equity acquisition agreement regarding the TCP project in Brazil which expanded its presence in Central and South America for the first time. Moreover, the Group followed up closely on the progress of various port projects in Europe, South Asia and Africa. In 2017, container throughput handled by the Group's overseas ports contributed 17.8% to its total container throughput, which has become an important driver for the Group's business growth.

With respect to integration of industry with elements of finance, the Group completed a series of assets optimisation work by systematically sorting out existing assets and vigorously carrying out capital management. In order to focus more on its core ports operation, in June 2017, the Group completed the disposal of its equity interests in China International Marine Containers (Group) Co., Ltd. to achieve a one-off net gain of approximately HK$813 million. The Group continued to optimise asset structure and enhance returns from capital management, which has provided strong support for performance growth.

With regards to business innovation, in 2017, the Group established a dedicated innovation working group to further perfect the management and incentive system for innovation, thereby created a new atmosphere for innovation. On 1 April 2017, the "E-port" project for West Shenzhen Port Zone was officially launched to create a one-stop unified customer service platform, which in turn enhanced coordinated management and service capabilities, as well as port competitiveness. The Group has also continued to promote the construction of digital port, invest in innovative technology enterprises, and further expand port ecosystem.

Future prospects

Looking into 2018, it is expected that the global economic growth will further improve. The economic uptrend in European and Asian regions is particularly prominent. The global growth is broad-based, and the growth of emerging markets and developing economies are still the main drivers for the global economic growth. However, the accumulation of financial vulnerability, increase in trade barriers, geopolitical situation, effects of extreme weather and other factors will add uncertainties to the global economic growth. According to the latest forecast published by IMF, the global economic growth rate in 2018 is expected to be 3.9%, up 0.2 percentage point from that in 2017, while developed economies are projected to grow by 2.3%, remaining flat with 2017. Among which, the projected growth of the United States, Japan and the Euro Zone is 2.7%, 1.2% and 2.2% respectively, representing an increase of 0.4 percentage point from 2017 for the United States and a decrease of 0.6 percentage point and 0.2 percentage point for Japan and the Euro Zone respectively. The emerging markets and developing economies are forecasted to grow by 4.9% in 2018, up 0.2 percentage point from that in 2017, while the total world trade volume (including goods and services) is projected to grow by 4.6% in 2018, down 0.1 percentage point from that in 2017. China's economy is expected to show a stable growth of 6.6% in 2018 as structural reforms will continue to deepen.

In 2018, amid the relatively strong global economic growth and restorative growth of world trade, the global ports business is expected to recover continuously in 2018. However, with the shipping market still remaining in the normal of low freight rate and the industry trend of deploying mega vessels and forming shipping alliances, the global port industry is expected to witness lower volatility in the overall market but less room for making profit. Regional ports will actively take the initiative to shift from competition to consolidation, and technological development such as ports automation will become a highlight. In 2018, it is expected that the Group's ports operation will sustain a relatively positive growth, mainly driven by the rapid growth of new projects and overseas projects.

The year of 2018 is critical to achieving the three-year strategic goal. Constantly gravitating upon the strategic vision of "to be a world's leading comprehensive port service provider", the Group will enhance core capability, improve quality and efficiency at the same time, capture opportunities in this era, further promote the construction of a port ecosystem, and strengthen, optimise and expand the core ports operation. The Group will adhere to the principle of "enhancing capability, quality and efficiency" as a means to focus on both denotative and connotative development, and make efforts in business expansion, platform construction and capacity building with designed tasks as set out below:

Firstly, in respect of homebase port development, the Group will dedicate itself to constantly pursue consolidation and unification of operation in the West Shenzhen Port Zone and step up its efforts in improving both software and hardware of the homebase port. The Group will ensure the construction progress of Tonggu Channel and Haixing Port are on schedule and will actively strive for additional routes to maintain its market share. Construction of overseas homebase port in Sri Lanka is in the initial stage, while the synergies between CICT project and Hambantota Port Project are strengthening, thereby forming differentiated competitiveness to give full play to the role of a strategic overseas fulcrum.

Secondly, in respect of consolidation of ports in China, the Group will seek for opportunities for consolidation and cooperation on an ongoing basis across the five main coastal regions, namely the Bohai Rim, the Yangtze River Delta region, the Pearl River Delta region, the South-East coastal region and the South-West coastal region, further expanding and improving the ports network layout within China. The Group will lead to new directions for consolidation of regional ports with key focus and full efforts.

Thirdly, in terms of the expansion of overseas ports network, the Group will optimise the ports network by leveraging on the opportunities offered by the implementation of "Belt and Road" initiative and study investment opportunities. The Group will actively promote the construction of overseas homebase port in Sri Lanka, with a view to building an overseas headquarters with regional influence, so as to establish an overseas base of talents, knowledge and innovative initiatives. It will formulate specific work plan as scheduled, while closely monitoring the key projects to facilitate the implementation of new projects.

Fourthly, with regards to the construction of a port ecosystem, under the new strategy of comprehensive port development, the Group will strive to upgrade itself from a terminal operator to a comprehensive port services provider. It will step up its efforts in promoting the "Port-Park-City" model, and optimise the organisational structure and build up its capacity to stay in line with the new business model. It will also increase its inputs in innovation and continuously enrich its business contents as a comprehensive port service provider to expand into targeted cross-sector industries and promote the gradual realisation of a comprehensive port ecosystem. In respect of key projects in East Africa and South Asia, the Group will promote comprehensive development and implement the "Port-Park-City" model as planned.

Lastly, in terms of integration of industry with elements of finance, the Group will formulate medium- to long-term plans for capital management for existing portfolio, to promote transformation of such capital management towards three "directions", namely normalisation, diversification and industry-leading. The Group will strike a balance between efficiency and strategies by continuously promoting optimisation of existing assets, while continuously optimising asset structure through refined proposals of the utilisation of innovative financial instruments, with a view to boosting the integration of industry with elements of finance on multiple levels, thereby achieving the goal of improving production efficiency with elements of finance.

Looking into 2018, with continuous recovery of the global economy, the overall supply and demand gradually move to balance. Amid a relatively strong recovery of the global economy and trade and supply glut in the shipping market, the prospect of the global port industry remains challenging. Nonetheless, we will tackle these situations rationally by taking proactive actions to seek for innovations and changes to overcome all difficulties, and endeavour to enhance the Group's operating results with an aim to deliver better investment return for shareholders.

Investor Relations

The Group, as always, strives to maintain smooth investor relations through enhanced communication and exchanges with the investment community with a view to raising their timely understanding of and confidence towards the Group. More than 750 visits by investors and analysts were received and/or met by the Group in 2017, including on-site visits and meetings with our senior management. The Group also keeps close contact with its shareholders and the investors through regular roadshow activities conducted from time to time across international investment markets, as a means to enhance the Group's transparency and, in turn, governance standards, all towards establishing for the Group a positive corporate image as a listed company.

Credit Rating

The Group's credit rating by Moody's maintained at Baa1, while the Group's credit rating by Standard and Poor's downgraded to BBB in 2017.

Appreciation

With effect from 11 January 2018, Mr. Li Xiaopeng ceased to be the Chairman of the Board of Directors and the Executive Director of the Group. From 20 March 2018, I was appointed as the Chairman of the Board of Directors and the Executive Director. Over the years, Mr. Li has devoted a great deal of effort to the development of the Company and made outstanding contributions. On behalf of the Board of Directors of the Group, I would like to express my heart-felt gratitude to Mr. Li and wish him greater achievements in his new job.

Amid the better than expected macroeconomic and trade environment in 2017, the Group seized opportunities to actively seek for development by leveraging on its advantages, and successfully accomplished various tasks with steadily growing results. All of these could not have been accomplished without the dedication from all of our staff or the support from our shareholders and investors, business partners and those in the society who have taken to heart the Group's interest. For this, I would like to extend my most sincere appreciation and deepest gratitude.

Fu Gangfeng
Chairman

Hong Kong, 29 March 2018

Management Discussion and Analysis

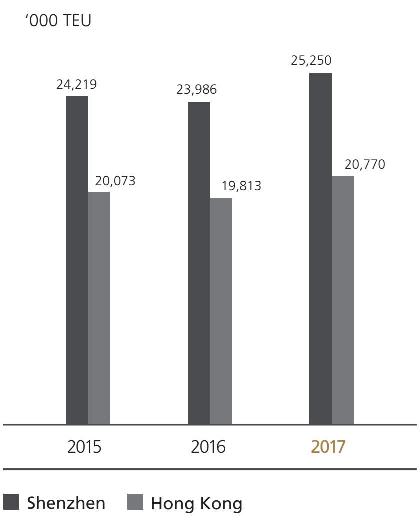
General overview

In 2017, the global economy entered into a relatively strong recovery trajectory. Since mid-2016, driven by cyclical factors, plus enhancement of internal production growth momentum, improvement of environment in financial sector and continuous recovery of market demand, the trend of cyclical upswing in 2017 continued to strengthen, and about 120 economies, accounting for three quarters of the global Gross Domestic Product ("**GDP**"), have seen a pickup in growth in year-on-year terms, which was the broadest synchronised upsurge of global growth since 2010. The growth rates of developed economies, notably in Germany, Japan, Korea and the United States, and major emerging markets and developing economies, including Brazil, China and South Africa, were generally higher than expected. Supported by investment sentiment rebound, appetite among developed economies, and the growth of manufacturing output in Asia, global trade witnessed a strong growth in 2017. According to the "World Economic Outlook" report published by the International Monetary Fund ("**IMF**") on 19 January 2018, the global economic growth rate of 2017 was expected to be 3.7%, up 0.5 percentage point as compared to that of 2016, within which developed economies grew at 2.3%, up 0.6 percentage point as compared to that of 2016; and emerging markets and developing economies were projected at 4.7%, up 0.3 percentage point as compared to that of 2016. Total global trade volume (including goods and services) was predicted to grow by 4.7%, representing an increase of 2.2 percentage points as compared to that of 2016.

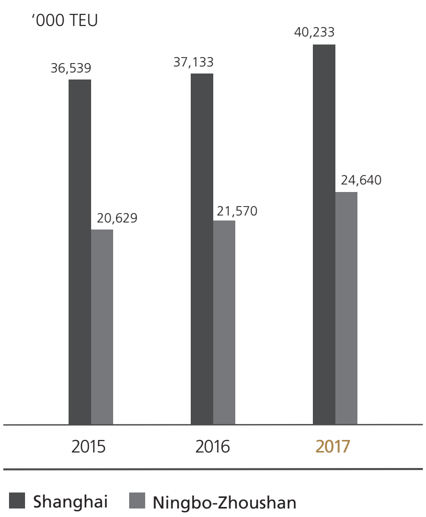
In 2017, China's GDP growth was 6.9%, higher than expected target of 6.5%. The Chinese government has made efforts to promote supply-side structural reform, persisted in innovation and improved macroeconomic regulation and control, and vigorously fostered the development of innovative industries. China's economy had shifted from the phase of high-speed growth to high-quality development, the leading role of innovation has been further strengthened, and consumption structure and industrial structure have accelerated the upgrades and development. Amid the overall global trade growth, China's total foreign trade import and export value amounted to US$4.10 trillion in 2017, representing a year-on-year increase of 11.4%, among which the total export value was US$2.26 trillion, indicating a 7.9% year-on-year increase, while total import value was US$1.84 trillion, reflecting a year-on-year increase of 15.9%.

Driven by the growth of global economy and trade, global ports business generally showed a recovering growth in 2017, while Chinese ports business growth also demonstrated a relatively high growth rate. Data published by the Ministry of Transport of China revealed that container throughput handled by Chinese ports of significant scale totalled 237 million TEUs in 2017, representing an increase of 8.3% year-on-year and an increase of 4.7 percentage points as compared to the growth rate of previous year.

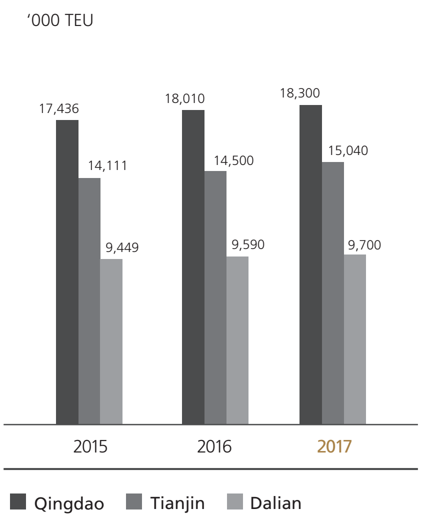
Container throughput in Shenzhen and Hong Kong 2015-2017



Container throughput in Shanghai and Ningbo-Zhoushan 2015-2017



Container throughput in Qingdao, Tianjin and Dalian 2015-2017



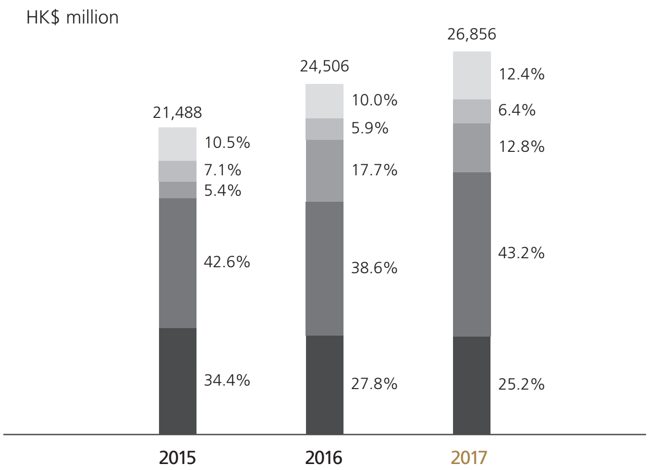
In 2017, the Group's ports handled a total container throughput of 102.90 million TEUs, grew by 7.4% as compared with last year. Bulk cargo volume handled by the Group's ports was 507 million tonnes, representing an increase of 10.3% as compared with last year. As of 31 December 2017, profit attributable to equity holders of the Company amounted to HK$6,028 million, representing an increase of 9.7% over last year. Recurrent profit [Note 1] was HK$5,492 million, up by 19.9% as compared to last year. EBITDA[Note 2] derived from the Group's core ports operation amounted to HK$12,693 million, up by 10.0% as compared to last year, contributing 82.8% of the Group's total EBITDA.

Business review

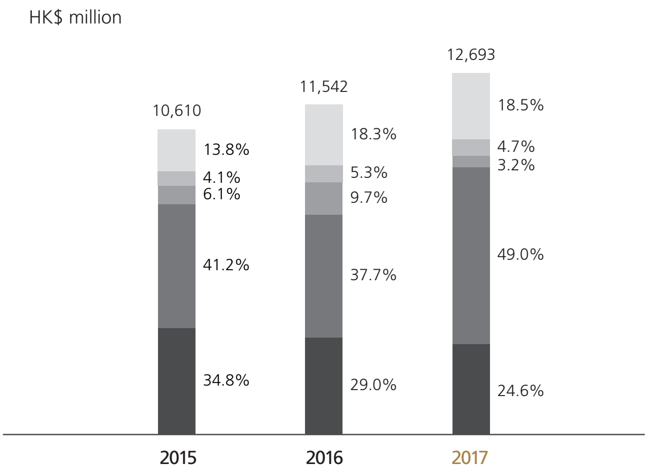
Ports operation

In 2017, the Group's ports handled a total container throughput of 102.90 million TEUs, up by 7.4% year-on-year, among which the Group's ports in Mainland China contributed container throughput of 77.12 million TEUs, indicating an increase of 7.2% year-on-year, which was mainly driven by steady recovery of the Mainland China's economy and improvement of import and export trade. The Group's operations in Hong Kong and Taiwan contributed an aggregate container throughput of 7.48 million TEUs, representing a growth of 8.8% over last year. Benefitted from the rapid growth of the ports operation of Colombo International Container Terminals Limited ("**CICT**") in Sri Lanka, Lomé Container Terminal S.A. ("**LCT**") in Togo and Kumport Liman Hizmetleri ve Lojistik Sanayi ve Ticaret Anonim Şirketi ("**Kumport**") in Turkey, a total container throughput handled by the Group's overseas ports grew by 7.9% year-on-year to 18.30 million TEUs. Bulk cargo volume handled by the Group's ports increased by 10.3% year-on-year to 507 million tonnes, within which the Group's ports in Mainland China handled a total bulk cargo volume of 502 million tonnes, representing an increase of 10.7% year-on-year.

Ports Revenue



Ports EBITDA



Mainland China, Hong Kong and Taiwan

Pearl River Delta | Yangtze River Delta | Bohai Rim | Others | Other locations

Note 1 Profit attributable to equity holders of the Company net of non-recurrent gains after tax. Non-recurrent gains include: for 2017, gain on disposal of a subsidiary, gain on disposal of an available-for-sale financial asset, gain on deemed disposal of interest in an associate, impairment loss of interest in an associate and change in fair value of investment properties; while for 2016, gain on disposal of an available-for-sale financial asset, gain on deemed disposal of interest in an associate and change in fair value of investment properties.

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

Pearl River Delta region

In the Pearl River Delta region, the Group's terminals in West Shenzhen Port Zone handled a container throughput of 11.18 million TEUs, up by 2.0% year-on-year, of which international container throughput totalled 10.31 million TEUs, up by 1.9% year-on-year. Chu Kong River Trade Terminal Co., Ltd. handled a total container throughput of 1.35 million TEUs, down by 2.6% year-on-year. Bulk cargo volume handled by the West Shenzhen Port Zone amounted to 21.80 million tonnes, up by 14.7% year-on-year, mainly driven by recovering growth of grain business. Dongguan Machong Terminal, aided by further release of production capacity, handled bulk cargo volume of 12.80 million tonnes during the year, representing an increase of 4.5% year-on-year. The overall container throughput handled by ports in Hong Kong increased by 4.8% year-on-year, of which the container throughput handled by the ports in Kwai Tsing area increased by 6.8% year-on-year. Modern Terminals Limited and China Merchants Container Services Limited delivered an aggregate container throughput of 5.79 million TEUs, up by 12.4% year-on-year, which outperformed the overall growth of Hong Kong.

Yangtze River Delta region

Shanghai International Port (Group) Co., Ltd. ("**SIPG**") handled a container throughput of 40.23 million TEUs, up by 8.3% year-on-year. Bulk cargo volume handled during the year increased by 11.4% year-on-year to 164 million tonnes, which was mainly driven by the increase in import and export volume benefitted from recovery of trade and the increase in number of shipping routes due to reorganisation of shipping alliances. Ningbo Daxie China Merchants International Terminals Co., Ltd. handled a container throughput of 3.01 million TEUs, representing an increase of 13.4% year-on-year, which was mainly benefitted from the adjustment of certain shipping routes.

Bohai Rim region

Dalian Port (PDA) Company Limited handled a container throughput of 10.75 million TEUs, representing an increase of 11.2% year-on-year, and handled bulk cargo volume of 130 million tonnes, representing an increase of 20.8% year-on-year. Qingdao Qianwan United Container Terminal Co., Ltd. handled a container throughput of 6.24 million TEUs, representing a decrease of 4.1% year-on-year. Qingdao Qianwan West Port United Terminal Co., Ltd. handled bulk cargo volume of 13.12 million tonnes, representing a decrease of 11.2% year-on-year, mainly affected by reduction of bulk cargo business. Qingdao Port Dongjiakou Ore Terminal Co., Ltd. handled bulk cargo volume of 55.36 million tonnes, indicating a decrease of 2.8% year-on-year. Tianjin Five Continents International Container Terminals Co., Ltd. handled a total container throughput of 2.63 million TEUs, indicating an increase of 2.3% year-on-year.

South-East region of Mainland China

Zhangzhou China Merchants Port Co., Ltd. ("**ZCMP**"), located in Xiamen Bay Economic Zone, handled a container throughput of 0.40 million TEUs, increased by 19.0% year-on-year, which was mainly benefitted from the increase in domestic shipping routes. With the recovery of wood processing and aquaculture industries in the hinterland of ZCMP, bulk cargo volume handled by ZCMP amounted to 10.43 million tonnes, up by 5.3% year-on-year. In August 2017, the Group completed the capital injection in Shantou China Merchants Port Group Co., Ltd. ("**Shantou Port**") which handled a container throughput of 0.37 million TEUs and bulk cargo volume of 3.22 million tonnes, for the period from August to December.

South-West region of Mainland China

Zhanjiang Port (Group) Co., Ltd. handled a total container throughput of 0.90 million TEUs, up by 24.3% year-on-year; and a total bulk cargo volume of 90.27 million tonnes, up by 6.1% year-on-year.

Taiwan

Kao Ming Container Terminal Corporation in Kaohsiung handled a total container throughput of 1.70 million TEUs, reflecting a slight decrease of 1.8% year-on-year.

Overseas operation

In 2017, a total container throughput handled by the Group's overseas operations increased by 7.9% year-on-year to 18.30 million TEUs, among which container throughput handled by CICT in Sri Lanka rose significantly by 18.5% year-on-year to 2.39 million TEUs. Container throughput handled by LCT in Togo increased significantly by 67.5% year-on-year to 0.89 million TEUs. Container throughput handled by Tin-Can Island Container Terminal Limited in Nigeria was 0.47 million TEUs, representing an increase of 14.0% year-on-year. Container throughput handled by Port de Djibouti S.A. in Djibouti amounted to 0.93 million TEUs, down by 6.0% year-on-year. Although Terminal Link SAS disposed its 20% equity interest in Xinhaida project in Xiamen at the beginning of the year, it handled a total container throughput of 12.56 million TEUs, up by 1.8% year-on-year. Container throughput handled by Kumport in Turkey increased by 59.8% year-on-year to 1.06 million TEUs.

Strategic deployments in the ports operation

In 2017, moving towards its core vision of "to be a world's leading comprehensive port service provider", the Group proposed the operation philosophy of "enhancing capability, improving quality and efficiency, striving for self-improvement and integrating to achieve mutual benefits". The Group continued to strengthen its strategic management and control, and constantly optimised and refined its strategic planning and strategy research with a focus on strengthening the implementation of strategic operation and further enhancing the target management at all levels. It also stepped up its efforts in decomposition and evaluation of strategic performance indicators to highlight the weight attributable to evaluation of strategic planning and all-round control, thereby establishing a top-down system that can effectively break down tasks and allocate responsibilities. Meanwhile, the Group effectively facilitated strategy research on various aspects, including the comprehensive development model of "Port-Park-City", "Port-Shipping Integration", comprehensive port ecosystem, regional ports consolidation and Guangdong-Hong Kong-Macao Bay Area.

Regarding the development of its West Shenzhen homebase port, the Group proactively promoted resources consolidation and made steady progress in various fundamental works. As for the upgrade of hardware of West Shenzhen Port Zone, phase II of Tonggu Channel and Western Public Channel have commenced substantial construction, while the "Mawan smart ports" project has been officially launched. With respect to the optimisation of its cargo collection-distribution system, a cooperative agreement was signed for the complex port project. As for strengthening the intelligent management of its West Shenzhen homebase port, the "E-port" project has been making satisfactory progress. The construction of phase II was well underway, and the preliminary research on extending the "E-port" project to financial services has been carried out in an orderly manner. The 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. The construction of "EDI" platform has also commenced, and deployment tests have been conducted on Tencent's cloud platform. Various payment methods including WeChat and Alipay have been introduced and launched officially on the online and offline platforms of "ePay". The Qianhai Sub-platform of International Trade "Single Window", which helps trade facilitation, was officially put into operation, and the acceptance inspections were conducted by the Ministry of Transport for the sea-rail intermodal transportations project.

As for overseas expansion, by seizing the development opportunities arising from the "Belt and Road" initiative promoted by China, the Group reviewed its development strategy for its overseas projects and that of key overseas regions with a view to optimising the layout of its overseas operation. On 24 May 2017, the Djibouti project Doraleh Multi-Purpose Port Phase I was put into operation and the work in relation to the transformation of old ports was commenced. On 4 September 2017, an equity acquisition agreement for the TCP Participações S.A. project in Paranaguá, Brazil was signed and the transaction was completed in February 2018. In December 2017, the Hambantota port project was officially delivered, which further pushed ahead the construction of the overseas homebase port in Sri Lanka. On 6 February 2018, the Company entered into an acquisition agreement in relation to acquisition of 50% interest of Port of Newcastle in Australia, which is the World's largest thermal coal export port. Upon completion, the Group's ports layout will achieve its coverage in six continents.

With respect to the Chinese port market, the Group continued to capture the opportunities arising from the ports consolidation in China, so as to optimise the structure of domestic ports resources and ports network. It has also designed a multi-beneficial cooperation model based on the port condition of different regions and resources available in various hinterlands. On 10 April 2017, the Group entered into a subscription agreement to acquire 60% equity interest in Shantou Port, which will further strengthen the Group's ports network in Southern China. On 5 February 2018, the Group entered into two share purchase agreements in relation to disposal of its approximately 34% equity interest of Shenzhen Chiwan Wharf Holdings Limited in order to honour its undertaking to resolve the completion issue.

With regard to innovative development, the Group promoted the "Internet + Port" business model in an innovative and orderly manner in 2017. The Group also formed a special working team for innovations to focus on promoting the establishment of a comprehensive port ecosystem on the foundation of ports operation, and enhanced the synergy and cooperation between the relevant involved parties in port business and strengthened its ability in creating values for customers through innovation of business models and cross-sector integration, which would facilitate its business expansion towards the high end of the ports value chain, thereby realising the transformation from a terminal operator to a comprehensive port service provider. Key projects included smart ports construction, which integrated port-related businesses such as customs, port and trade via "E-Port" unified customer service platform. It launched the global intelligent container project and built container cargo status analysis platform based on big data. The Group signed a batch of letter of intent for strategic cooperation on data, trade and technological innovation such as Yingkou port financing project and digital port project, in order to promote the implementation of port AI project and commence deep cooperation in the fields of port big data and intelligent hardware and software by focusing on the direction of "Smart Port". The Group has built a comprehensive port ecosystem and has developed a highly vertical ecosystem for port and port-related industries.

Bonded logistics operation

In 2017, the Group's bonded logistics business performed differently. The utilisation rate of the warehouses of China Merchants Bonded Logistics Co., Ltd. in Shenzhen increased to 88.5% year-on-year, gradually recovered from the impact of the change of customs policies. China Merchants International Terminal (Qingdao) Co., Ltd. made full use of its resources to develop self-operated business and the warehouse utilisation rate was 100%. Tianjin Haitian Bonded Logistics Co., Ltd., an associate of the Group, recorded an utilisation rate of 60.0% of its warehouses, representing a decrease attributable to the impact brought by the Tianjian Port Explosion and relevant customs policies in respect of cross-border e-commerce.

In 2017, the total cargo volume handled at the three major air cargo terminals in Hong Kong amounted to 4.33 million tonnes, representing an increase of 8.0% year-on-year. Asia Airfreight Terminal Company Limited, in which the Group has interest, handled a total cargo volume of 0.59 million tonnes, representing an increase of 0.8% year-on-year and a market share of 13.5%, down by 1.0 percentage point as compared with last year.

Financial review

For the year ended 31 December 2017, the Group's revenue[Note 3] recorded HK$43,484 million, representing a slight decrease of 1.7% over last year. During the year, revenue from the core ports operation increased by 9.6% over last year to HK$26,856 million, as a result of a rise in business volume. Profit attributable to equity holders of the Company amounted to HK$6,028 million, up 9.7% over last year, of which the Group completed the disposal of equity interest in China International Marine Containers (Group) Co., Ltd. ("**CIMC**") during the year and recognised disposal gain of approximately HK$813 million. Due to an impairment provision of HK$739 million for the investment in an associate with ports operation, profit attributable to equity holders of the Company derived from the core ports operation amounted to HK$5,551 million, basically flat with last year.

As at 31 December 2017, total assets of the Group increased by 28.0% from HK$103,113 million as at 31 December 2016 to HK$131,951 million, mainly due to completion of acquisition of Shantou Port and the Hambantota port project during the year. Net assets attributable to equity holders of the Company was HK$73,447 million as at 31 December 2017, representing an increase of 11.4% from that as at 31 December 2016, mainly resulted from the issue of shares under scrip dividend scheme and exchange differences from retranslation of foreign investments.

In general, the Group's ports operation continued to yield stable cash inflow. The Group's total net cash inflow from operating activities for the year ended 31 December 2017 was HK$5,757 million, an increase of 3.7% year on year. Due to an amount of HK$8,739 million received from disposal of CIMC during the year and the fact that capital expenditure on business acquisitions was slightly lower than that of last year, the Group has generated net cash inflow of HK$525 million from investment activities for the year ended 31 December 2017, as compared to a net cash outflow of HK$10,856 million in the last year. The Group's net cash outflow from financing activities amounted to HK$902 million for the year ended 31 December 2017, as compared to a net cash outflow of HK$1,143 million in the last year.

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

Liquidity and treasury policies

As at 31 December 2017, the Group had approximately HK$9,247 million in cash, 30.2% of which was denominated in Hong Kong dollars, 10.3% in US dollars, 56.4% in Renminbi and 3.1% in other currencies.

The Group mainly derived its funding sources from its operating activities related to ports operation, bonded logistics operation and property investment, and investment returns received from associates and joint ventures, which amounted to HK$5,757 million in total.

During the year, the Group incurred capital expenditure amounted of HK$2,077 million while the Group adhered to a prudent financial policy and to maintain a sound financial position. In addition, as a significant portion of the Group's bank loans were medium- to long-term loans, the Group, supported by adequate undrawn bilateral facilities, does not anticipate any difficulty in refinancing its short-term loans while the pressure for repaying the short-term loans is limited.

Share capital and financial resources

As at 31 December 2017, the Company had 3,277,619,310 shares in issue. During the year, the Company issued 148,751,483 shares under the Company's scrip dividend scheme and 503,135,602 new shares upon conversion of the MCS. The market capitalisation of the Company was HK$67,027 million (based on the closing price) as at 29 December 2017, indicating a significant increase of 32.7% as compared to its market capitalisation of HK$50,519 million (based on the closing price) as at 30 December 2016.

As at 31 December 2017, the Group's net gearing ratio [Note 4] was approximately 21.5%.

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

During the year, the Company issued fixed-rate unlisted note maturing in 2022 for the amount of RMB2,500 million to finance the Group's working capital. A non-wholly-owned subsidiary of the Company issued fixed-rate unlisted note maturing in 2018 for the amount of RMB100 million to finance its working capital.

The Group had aggregate bank loans and listed notes payable of HK$16,571 million as at 31 December 2017 that contain customary cross default provisions.

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

As at 31 December 2017, the Group's outstanding interest bearing debts are analysed as below:

	2017 HK$'million	2016 HK$'million
Floating-rate bank loans which are repayable as follows (Note):		
Within 1 year	**1,045**	2,225
Between 1 and 2 years	**1,811**	516
Between 2 and 5 years	**5,242**	2,455
More than 5 years	**2,033**	2,304
	10,131	7,500
Fixed-rate bank loans which are repayable as follows:		
Within 1 year	**586**	732
More than 5 years	**30**	28
	616	760
Fixed-rate listed notes payable which are repayable:		
In 2018	**1,562**	1,546
In 2020	**1,558**	1,544
In 2022	**3,877**	3,839
In 2025	**3,888**	3,855
	10,885	10,784
Fixed-rate unlisted notes payable which are repayable:		
In 2017	—	1,962
In 2018	**418**	—
In 2019	**358**	334
In 2022	**2,991**	—
	3,767	2,296
Loans from the ultimate holding company		
Repayable within 1 year	—	336
Loans from an intermediate holding company which are repayable as follows:		
Within 1 year	**120**	63
Between 1 and 2 years	**59**	223
Between 2 and 5 years	—	56
	179	342
Loans from a fellow subsidiary		
Repayable within 1 year	**2,261**	—
Loan from an associate		
Repayable within 1 year	**276**	—
Loans from non-controlling equity holders of subsidiaries which are repayable as follows:		
Within 1 year	—	44
More than 5 years	**445**	372
	445	416

Note: All bank loans are unsecured except for HK$4,284 million (2016: HK$4,209 million).

The interest bearing debts are denominated in the following currencies:

	Bank loans HK$'million	Listed notes payable HK$'million	Unlisted notes payable HK$'million	Loans from an intermediate holding company HK$'million	Loans from the ultimate holding company HK$'million	Loans from a fellow subsidiary HK$'million	Loan from an associate HK$'million	Loans from non-controlling equity holders of subsidiaries HK$'million	Total HK$'million
As at 31 December 2017									
USD	**2,200**	**10,885**	—	—	—	—	**276**	—	**13,361**
RMB	**6,583**	—	**3,767**	**179**	—	**2,261**	—	—	**12,790**
EURO	**1,964**	—	—	—	—	—	—	**445**	**2,409**
	10,747	**10,885**	**3,767**	**179**	—	**2,261**	**276**	**445**	**28,560**
As at 31 December 2016									
USD	2,569	10,784	—	—	—	—	—	44	13,397
RMB	3,803	—	2,296	342	336	—	—	—	6,777
EURO	1,888	—	—	—	—	—	—	372	2,260
	8,260	10,784	2,296	342	336	—	—	416	22,434

Assets charge

As at 31 December 2017, bank loans of HK$120 million (2016: Nil) borrowed by subsidiaries of the Company were secured by property, plant and equipment with carrying value of HK$369 million (2016: Nil) and land use rights with carrying value of HK$197 million (2016: Nil). In addition, the entire shareholdings in two subsidiaries owned by the Company and its subsidiary were pledged to various banks for bank loans of HK$4,164 million (2016: HK$4,209 million).

Employees and remuneration

As at 31 December 2017, the Group employed 8,040 full time staff, of which 194 worked in Hong Kong, 6,811 worked in Mainland China, and the remaining 1,035 worked overseas. The remuneration paid by the Group for the year amounted to HK$1,675 million, representing 26.1% of the total operating expenses of the Group. The remuneration policy of the Group is reviewed every year and appropriate adjustments are made to an individual's remuneration with reference to the Group's performance, individual's performance, conditions of the human resources market and general economy.

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

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

Corporate social responsibility

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

Aiming at "energy conservation and efficiency enhancement" with "technological innovations" as the means while fulfilling the corporate social responsibility of "conserving energy, reducing emission and carbon footprint, and protecting the environment", the Group has continued its efforts in promoting the building of low-carbon green port. The Group encouraged its ports to actively carry out energy conservation management and to reduce energy consumption and control emission of greenhouse gas, such as carbon dioxide, through special operation management model and research and development of innovative energy conservation and emission reduction technologies. The Group continued to develop new process and technologies such as "Upgrade of Automated Track Crane (軌道吊自動化改造)" and "Container Intelligent Positioning System (集裝箱智能選位系統)". It also promoted and extended the application of successful cases such as "substitution of fuel-powered equipment with electricity-powered equipment (油改電)" and "shore-powered supply for vessels (船舶岸基供電)" at its ports so as to further expand the application of new energy conservation technologies and products with a view to establishing a new and modern container port zone that is green, efficient, eco-friendly and sustainable with the use of clean energy and green power.

The Group is committed to integrating its corporate core values into the community by participating actively in various community and charitable activities. In 2017, the Group's charitable activities adhered to the theme of "Shaping Blue Dreams Together (共鑄藍色夢想)", which concerns the ocean and humanities. The Group's South China Container Terminal once again organised the public welfare activity named "Shaping Blue Dreams Together - Summer Camp for Caring of Left-behind Children (共鑄藍色夢想 — 關愛留守兒童夏令營)", donated over RMB40 million to the Kashgar Prefecture of Xinjiang for the support of construction of a comprehensive bonded zone in Kashgar, and donated cash of RMB350,000 and arranged the shippment of emergency aid of batches of food to flooded areas in Sri Lanka; donated US$25,000 to earthquake-stricken areas in Hambantota, Sri Lanka to support local home reconstruction and fisheries recovery after disaster. It also continued to run the "Shaping Blue Dreams Together — C Blue Restore Sight Project (共鑄藍色夢想 — 招商局一帶一路光明行)", providing free surgeries for patients who were poor and suffered from eye diseases in Hambantota, Sri Lanka and the surrounding areas. During the year, the Group also organised the advanced-level port and shipping training programme named "Shaping Blue Dreams Together — C Blue Training Programme in the 21st Century (共鑄藍色夢想 — 21世紀海上絲綢之路優才計劃)". The programme adopted an education model that combines theoretical courses with researches and investigations, which can provide training for overseas trainees to acquire professional knowledge and enhance operational capability, at the same time promoting the economic development and social progress of countries along the "Belt and Road" on a continuous basis.

Future prospects

Looking into 2018, it is expected that the strong growth in 2017 will continue. The favourable global financial environment and the strong market sentiment will help to maintain the rapid growth of demand, especially the demand in investment, which will have a significant impact on the growth of economies with large export volume. It is expected that the tax reform and related fiscal stimulus measures in the United States will temporarily lift the growth rate of the United States and will have a positive spillover effect on the demand of the trade partners of the United States, especially Canada and Mexico during this period. IMF expected that the global economy will grow a 3.9% in 2018, up 0.2 percentage point as compared to that of 2017. In particular, the developed economies will grow at 2.3%, which will remain the same as compared to that of 2017; and the emerging markets and developing economies will grow at 4.9%, up 0.2 percentage point as compared to that of 2017. Global trade volume (including goods and services) will grow by 4.6%, down 0.1 percentage point as compared with that of 2017. However, IMF also indicated that there will still be downside risk in the medium term. A significant threat to growth is the tightening of global financing conditions from the current loose condition, both in the near future and afterwards. In terms of downside risks, the response of the investment from the United States to changes in tax policy is more modest than the benchmark and brings an accompanying reaction to the strong external demands for the major United States trading partners. If the financial conditions remain easy, potential financial vulnerabilities will accumulate, and the widening of external imbalances of some countries may increase the pressure on the inward-looking policies, coupled with non-economic factors such as political uncertainties, may bring obvious downside risk.

China's economy is expected to sustain a steady pace of growth. The forecast published by the IMF suggested that the Chinese economy will grow by 6.6% in 2018, down 0.2 percentage point as compared to that in 2017. The shift of China's economy from high speed growth stage to high quality development stage as well as the implementation of strategies such as deepening of the supply-side reform, "Belt and Road" initiative and collaboration over international production capacity will be further promoted, which are expected to have positive effect on the growth of trade and economies.

Driven by continued recovery of global economy and trade, demand in the shipping industry has picked up. The tax reduction policy of the United States will boost the export demand for container shipping with reasonable shrink of the supply side of dry bulk shipping, as such, the industry will continue to improve and the port industry will benefit from the overall recovery of shipping industry.

Based on the aforementioned analysis and considerations, in 2018, the Group will focus its work on "enhancing core capability, insisting on both quality and efficiency, capitalising on opportunities of this era and striving to become a world's leading enterprise" as the main direction. The Group will also, with "enhancing capability, improving quality and efficiency" as a pivot, push forward balanced development in terms of regions, businesses and stages, and continue to deepen, optimise, refine and strengthen the Group's strategies, thereby gradually realising its strategic goal of "to be a world's leading comprehensive port service provider" with its best endeavours.

Regarding the development of homebase port, the Group will dedicate efforts to promote construction of West Shenzhen homebase port ancillary facilities. The Group will focus on promoting the Tonggu Channel dredging and widening project and actively win over new routes from shipping alliance, especially striving to enable mega vessels to call at West Shenzhen Port Zone, while simultaneously completing the waterway dredging and widening project of the public channel and related waters at West Shenzhen Port Zone. The Group will strengthen the construction of a fully automated and intelligent port, with key projects including "E-port" Phase II and Phase III, "EDI" platform system, call centre, big data platform and visualised platform. By connecting the external customer service to the internal intelligent automated terminal operations and compounded by the use of various technologies such as LBS system, Internet of Things, big data, etc., the Group will construct an intelligent port. The Group will accelerate the application of innovative projects and implement innovative projects including "Container Storage Yard Operation Safety System" and "RTG Storage Capacity Control".

With respect to ports consolidation, by paying continuous attention to and seizing the opportunities arising from the supply-side reform and the restructuring of regional ports, the Group will leverage on its own advantages in brand and resources of being the world's leading comprehensive port service provider to maintain the cooperation with major port groups along the coastal regions and fully leverage the positive role of domestic ports consolidation, with a view to enhancing synergies within the Group's domestic port network and its resources and thus further elevating the Group's influence in the domestic and foreign port market.

As for overseas expansion, led by projects and with projects as the entry point, the Group will establish and improve the regional market database for the East Africa, West Africa and South Asia. The Group will conduct studies on the overseas network along the "East-West route, South-North route, regions along Belt and Road Initiatives" with a view to continuously optimising expansion strategies and implementation routes for overseas projects and improving the security system for providing support to business. The Group will pursue business transformation from the single core business of port loading and unloading to comprehensive business development by promoting the development model of "Port-Park-City". It will also consolidate resources and seize opportunities to promote comprehensive regional development and construction with a focus on ports operations in an effort to promoting collaboration between logistics parks and adjacent ports, thereby enhancing the comprehensive servicing capability of its ports and promoting the market development on a global scale.

With regards to innovative development, the Group will promote the construction of fully automated port projects and play a leading role in the industry in the field of core business technology. The Group will persist in taking the core business as the foundation and selectively expand cross-sector industries in order to promote gradual establishment of the comprehensive port ecosystem. The Group will promote technological innovation while at the same time continuing to take follow-up actions on "RTG remote control", digital port and other technology innovation projects and continue to explore more room for cooperation in innovation.

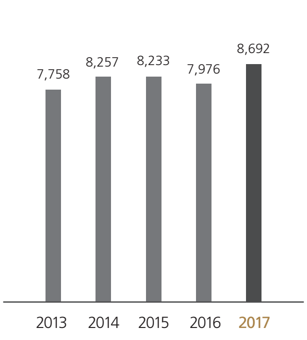
In 2018, although the global trade and economic growth will face potential adverse effects, such as the accumulation of financial vulnerability, inward-looking policy pressure, and political uncertainties, it is still highly possible to see steady growth and that the ports industry is on course to continue the recovery trend. In facing the opportunities and that challenges brought by the changing ports operation, the Group will, through clearly visualising the prevailing conditions and endeavouring to steadily progress, navigate its business operations and adjust operational strategies by following the strategic guidance. As always, the Group will endeavour to maximise shareholder value while enhancing profitability, thereby delivering better returns for its shareholders.

Five-year Financial Summary

	2017 HK$'million	2016 HK$'million	2015 HK$'million	2014 HK$'million	2013 HK$'million
RESULTS					
Revenue	**8,692**	7,976	8,233	8,257	7,758
Profit before taxation	**7,445**	6,683	6,315	6,169	5,781
Profit for the year	**6,701**	6,206	5,525	5,018	4,939
Non-controlling interests	**673**	712	717	492	726
Profit attributable to equity holders of the Company	**6,028**	5,494	4,808	4,526	4,213
ASSETS AND LIABILITIES					
Non-current assets	**118,899**	97,100	90,063	88,551	83,389
Net current (liabilities)/assets	**(2,477)**	(3,131)	7,498	3,520	1,050
Total assets less current liabilities	**116,422**	93,969	97,561	92,071	84,439
Non-current liabilities	**26,781**	20,231	20,912	16,925	28,013
Non-controlling interests	**16,194**	7,830	7,821	7,716	7,827
Capital and reserves attributable to equity holders of the Company	**73,447**	65,908	68,828	67,430	48,599
RETURN TO SHAREHOLDERS					
Earnings per share					
– Basic (HK cents)	**183.90**	175.58	155.07	159.41	166.89
– Diluted (HK cents)	**183.90**	175.58	154.91	159.28	166.59
Dividend per share (HK cents)	**216.00**	87.00	77.00	77.00	77.00

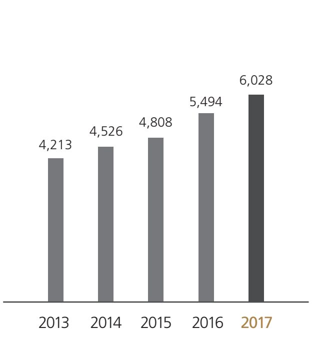
Revenue

HK$ million



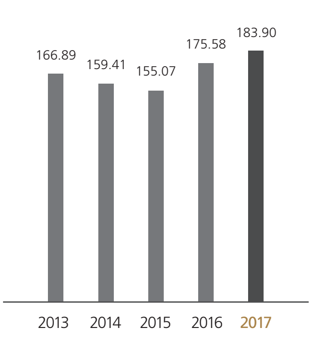
Profit attributable to equity holders of the Company

HK$ million



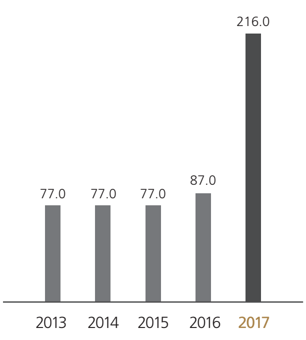
Earnings per share

HK$ cents



Dividend per share

HK$ cents



Corporate Governance Report

The Board of Directors (the "**Board**") is pleased to present this Corporate Governance Report in the Company's Annual Report for the year ended 31 December 2017.

The Board is committed to upholding a high standard of corporate governance practices and business ethics with the firm belief that they are essential for maintaining and promoting investors' confidence and maximising shareholders' returns. The Board reviews its corporate governance practices from time to time in order to meet the rising expectations of stakeholders and comply with increasingly stringent regulatory requirements, and to fulfill its commitment to excellence in corporate governance.

Corporate Governance

In the opinion of the Directors, the Company has complied with the requirements under the Companies Ordinance, the Securities and Futures Ordinance for, among other things, the disclosure of information, and the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") which sets out the corporate governance principles and code provisions with which listed issuers are expected to follow and comply throughout the year ended 31 December 2017, except the following:-

Code Provision E.1.2

Mr. Li Xiaopeng, the then Chairman of the Board, did not attend the annual general meeting of the Company held on 2 June 2017 due to business trip. Mr. Hu Jianhua, the Vice Chairman took the chair of the annual general meeting according to the Company's Articles of Association.

In order to ensure effective communication with the shareholders, chairmen of the Audit, Remuneration and Nomination Committees and the external auditor were present at the annual general meeting of the Company held on 2 June 2017 to answer shareholders' questions.

Board of Directors

The Board of the Company comprises:

Executive Directors	Gender	Ethnicity	Age	Length of service (years)
Li Xiaopeng *(Chairman)* (resigned on 11 January 2018)	Male	Chinese	58	3.3
Fu Gangfeng *(Chairman)* (appointed as Chairman on 20 March 2018)	Male	Chinese	51	N/A
Hu Jianhua *(Vice Chairman)*	Male	Chinese	55	10.6
Wang Hong	Male	Chinese	55	12.6
Hua Li (resigned on 12 October 2017)	Male	Chinese	46	0.8
Su Jian (appointed on 12 October 2017)	Male	Chinese	45	0.2
Bai Jingtao *(Managing Director)*	Male	Chinese	52	2.6
Wang Zhixian	Male	Chinese	52	1.8
Zheng Shaoping	Male	Chinese	54	5.9
Shi Wei	Female	Chinese	54	1.1

Independent Non-executive Directors	Gender	Ethnicity	Age	Length of service (years)
Kut Ying Hay	Male	Chinese	62	25.6
Lee Yip Wah Peter	Male	Chinese	75	16.5
Li Kwok Heem John	Male	Chinese	62	13.3
Li Ka Fai David	Male	Chinese	62	10.6
Bong Shu Ying Francis	Male	Chinese	75	7.5

The five Independent Non-executive Directors are persons of high calibre, with academic and professional qualifications in the fields of accounting, law, engineering and business management. With their experience gained from senior positions held in other companies, they provide strong support towards the effective discharge of the duties and responsibilities of the Board. Each Independent Non-executive Director has given an annual confirmation of his independence to the Company, and the Company considers these Directors to be independent under Rule 3.13 of the Listing Rules.

During the year, ten full board meetings were held and the attendance of each Director is set out as follows:

Name of Director	Number of board meetings attended during the Director's term of office in 2017	Attendance rate
Li Xiaopeng	9/10	90%
Fu Gangfeng***	N/A	N/A
Hu Jianhua	10/10	100%
Wang Hong	9/10	90%
Hua Li**	N/A	N/A
Su Jian*	N/A	N/A
Bai Jingtao	10/10	100%
Wang Zhixian	5/10	50%
Zheng Shaoping	9/10	90%
Shi Wei	4/10	40%
Kut Ying Hay	10/10	100%
Lee Yip Wah Peter	10/10	100%
Li Kwok Heem John	10/10	100%
Li Ka Fai David	10/10	100%
Bong Shu Ying Francis	10/10	100%

* Mr. Su Jian was appointed as Executive Director of the Company on 12 October 2017 and there were no board meetings held during the year since his appointment.

** Due to health reason, Mr. Hua Li did not attend the captioned board meetings held in 2017.

*** Since Mr. Fu Gangfeng was appointed as Executive Director and Chairman of the Company on 20 March 2018, he did not attend the captioned board meetings held in 2017.

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

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

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

Training and support for Directors

Every Board member is entitled to access to board papers and related materials and has unrestricted access to the advice and services of the Company Secretary or his assistant, and has the liberty to seek external professional advice if so required. The Company Secretary or his assistant continuously updates all Directors on the latest development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practice. Furthermore, all Directors participated in continuous professional development to develop and refresh their knowledge and skills and to ensure that their contribution to the Board remains informed and relevant.

During the year, the Directors also participated in the following trainings:

Name of Director	Type of training
Li Xiaopeng	A,B,C**
Fu Gangfeng	***
Hu Jianhua	A,B,C
Wang Hong	A,B,C
Hua Li	*
Su Jian	A,B,C
Bai Jingtao	A,B,C
Wang Zhixian	A,B,C
Zheng Shaoping	A,B,C
Shi Wei	A,B,C
Kut Ying Hay	A,C
Lee Yip Wah Peter	A,C
Li Kwok Heem John	A,C
Li Ka Fai David	A,C
Bong Shu Ying Francis	A,C

A: attended seminars and/or conferences and/or forums
B: gave talks at seminars and/or conferences and/or forums
C: read journals and updates relating to the economy, general business or director's duties and responsibilities etc.
* Mr. Hua Li resigned as Executive Director of the Company on 12 October 2017
** Mr. Li Xiaopeng resigned as Executive Director and Chairman of the Company on 11 January 2018
*** Mr. Fu Gangfeng was appointed as Executive Director and Chairman of the Company on 20 March 2018

Directors' securities transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, each Director confirmed that he/she has complied with the required standard set out in the Model Code during the year.

Chairman and Managing Director

The Chairman of the Board is responsible for the leadership and effective running of the Board and the Managing Director is delegated with the authorities to manage the business of the Group in all aspects effectively. The Chairman of the Board is Mr. Fu Gangfeng (appointed on 20 March 2018) and the Managing Director of the Company is Mr. Bai Jingtao. Besides, the then Chairman of the Board was Mr. Li Xiaopeng who resigned on 11 January 2018.

Appointment and re-election of Directors

According to Article 89 of the Company's articles of association (the "**Articles of Association**"), at each annual general meeting one-third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.

The Company has fixed the term of appointment for Independent Non-executive Directors to a specific term of 3 years. They are also subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with Article 89 of the Articles of Association.

According to Article 95 of the Articles of Association, the Board has the power to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. In considering the appointment of a Director, the Board will take into account the professional qualifications, experience in relevant industries, management expertise and the potential contribution of such Director to advance the overseas expansion plan of the Company.

At a Board meeting held on 12 October 2017, the Board resolved to appoint Mr. Su Jian as an Executive Director of the Company.

At a Board meeting held on 20 March 2018, the Board resolved to appoint Mr. Fu Gangfeng as an Executive Director and Chairman of the Company.

In respect of the appointment of Mr. Su Jian and Mr. Fu Gangfeng, the Board has taken into consideration, inter alia, their qualifications, management expertise and experience in relevant industries.

Nomination Committee

The Nomination Committee was established in March 2012. It comprises one Executive Director and five Independent Non-executive Directors. One meeting was held in 2017. The attendance of each member is set out as follows:

Name of member	Number of meetings attended in 2017	Attendance rate
Kut Ying Hay (Chairman of the Nomination Committee)	1/1	100%
Bai Jingtao	1/1	100%
Lee Yip Wah Peter	1/1	100%
Li Kwok Heem John	1/1	100%
Li Ka Fai David	1/1	100%
Bong Shu Ying Francis	1/1	100%

During the year, the Nomination Committee has reviewed the structure, size and composition of the Board, assessed the independence of the Independent Non-executive Directors according to the independence requirements set out in Rule 3.13 of the Listing Rules and made recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors after considering their qualifications, management expertise and experience in relevant industries. The Nomination Committee has made recommendation to the Board on 12 October 2017 on the appointment of Mr. Su Jian as Executive Director.

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

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

Pursuant to the Articles of Association, Mr. Bai Jingtao, Mr. Kut Ying Hay, Mr. Lee Yip Wah Peter, Mr. Li Kwok Heem John and Mr. Li Ka Fai David shall retire from office by rotation at the upcoming annual general meeting and shall be eligible and offer themselves for re-election. Mr. Fu Gangfeng and Mr. Su Jian shall hold office until the next following general meeting of the Company and shall be eligible and offer themselves for re-election. The Nomination Committee, in considering the re-election of these Directors, has considered and taken into account the objectives set out in the Board Diversity Policy.

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

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

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

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

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

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

Remuneration Committee

The Remuneration Committee was established in January 2005. It comprises one Executive Director and five Independent Non-executive Directors. One meeting was held in 2017. The attendance of each member is set out as follows:

Name of member	Number of meetings attended in 2017	Attendance rate
Li Ka Fai David (Chairman of the Remuneration Committee)	1/1	100%
Bai Jingtao	0/1	0%
Kut Ying Hay	1/1	100%
Lee Yip Wah Peter	1/1	100%
Li Kwok Heem John	1/1	100%
Bong Shu Ying Francis	1/1	100%

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

The Company has adopted a new share option scheme on 9 December 2011 in place of the previous share option scheme which was terminated on the same day, which serves as an incentive to attract, retain and motivate talented eligible staff, including the Directors. Details of the share option scheme are set out on pages 83 to 85 of the Report of the Directors. The emolument payable to Directors will depend on their respective contractual terms under employment contracts, if any, and as recommended by the Remuneration Committee. Details of the Directors' remuneration are set out in note 10 to the consolidated financial statements.

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

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

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

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

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

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

6. to make recommendations to the Board on the remuneration of Non-executive Directors;

7. to ensure that no Director or any of his associates is involved in deciding his own remuneration;

8. to consult the Chairman and/or the Managing Director about their remuneration proposals for other Executive Directors. The Remuneration Committee should have access to independent professional advice if necessary; and

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

Accountability and audit

The Directors are responsible for overseeing the preparation of accounts of each financial period, which should give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the financial statements for the year ended 31 December 2017, the Directors have selected suitable accounting policies and have applied them consistently, adopted appropriate Hong Kong Financial Reporting Standards ("**HKFRSs**") and Hong Kong Accounting Standards ("**HKASs**") which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable, and have prepared the financial statements on the going concern basis.

The statement of the auditor of the Company about the reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 97 to 103.

Audit Committee

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

The Audit Committee meets at least twice a year. Two meetings were held in 2017. The minutes of the Audit Committee meetings were tabled at Board meetings for Directors to take note and for action by the Board where appropriate. The attendance of each member is set out as follows:

Name of member	Number of meetings attended in 2017	Attendance rate
Lee Yip Wah Peter (Chairman of the Audit Committee)	2/2	100%
Kut Ying Hay	2/2	100%
Li Kwok Heem John	2/2	100%
Li Ka Fai David	2/2	100%
Bong Shu Ying Francis	2/2	100%

During the meetings held in 2017, the Audit Committee had performed the following work:

(i) reviewed the financial reports for the year ended 31 December 2016 and for the six months ended 30 June 2017;

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

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

(iv) reviewed the management letter from the external auditor in relation to the audit of the Group for the year ended 31 December 2016;

(v) reviewed and recommended for approval by the Board the 2017 audit scope and fees; and

(vi) reviewed the connected transactions entered into by the Group during 2016.

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

1. to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;

2. to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences and ensure co-ordination where more than one audit firm is involved;

3. to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

4. to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In reviewing these reports before submission to the Board, the Audit Committee should focus particularly on:

    (i) any changes in accounting policies and practices;

    (ii) major judgmental areas;

    (iii) significant adjustments resulting from audit;

    (iv) the going concern assumptions and any qualifications;

    (v) compliance with accounting standards; and

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

5. Regarding to item (4) above:

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

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

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

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

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

9. to discuss problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss (in the absence of management where necessary);

10. to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of controls and management's response;

11. to review the Company's statement on risk management and internal control systems (where one is included in the annual report) prior to endorsement by the Board;

12. where an internal audit function exists, to review the internal audit programme, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;

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

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

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

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

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

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

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

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

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

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

23. to consider other topics, as defined by the Board.

Auditor's remuneration

During the year under review, the remuneration to the Company's auditor, Messrs. Deloitte Touche Tohmatsu, is set out as follows:

Services rendered	Fees paid/payable HK$'million
Audit services	13.3
Non-audit services	
(Tax, compliance and advisory services)	3.8
Total	17.1

Risk management and Internal control

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

The internal control system of the Group comprises a well-established organisational structure and comprehensive policies and standards. Areas of responsibilities of each business and operational unit are clearly defined to ensure effective checks and balances.

The key procedures that the Board established to provide effective internal controls are as follows:

- A distinct organisation structure exists with defined lines of authority and control responsibilities;

- A unified and comprehensive auditing and management accounting system for the Group is in place to prepare financial and operational performance indicators to the management and the relevant financial information for reporting and disclosure purpose; for maintaining proper accounting records; and for ensuring the reliability of financial information used within the business or for publication;

- A centralised management system in respect of external investment, equity transfer and assets disposal is in place. Investment Assessment Committee together with Strategy and Operations Department, Business Development Department and International Division are responsible for the Group's investment exposure analysis at home and abroad, and for monitoring the level of investment exposures faced by the Group. A set of processing procedures for examination and approval is implemented by our headquarter on the acquisitions and disposals of assets by the operating units under the Group;

- Systems and procedures are also in place to identify, measure, manage and control risks including reputation, legal, strategic, financing, guarantee, taxation, market, operational and project construction risks. Exposure to risks of implementation and development of strategies, changes in policies and legal proceedings is monitored by the Group's officer in charge of strategic research together with Strategy and Operations Department and Board of Directors and Legal Department. Exposure to risks of the Group's financing, guarantee, taxation and use of funds is monitored by the Group's officer in charge of financial management together with the Finance Department and other risks management units. Exposure to risks of market, operation and change of operation environment relating to the Group's business is monitored by the Group's officer in charge of business and operation management together with Strategy and Operations Department, Group Marketing and Commercial Department, Engineering and Information Technology Department, Safety Production Management Committee Office and the operating units. Exposure to risks of the Group's project construction, equipment and bulk materials procurement is monitored by the Group's officer in charge of project management together with Engineering and Information Technology Department. In addition, procedures are designed to ensure compliance with applicable laws, rules and regulations;

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

- Policies and procedures are designed for safeguarding assets against unauthorised use or disposition. The procedures provide reasonable but not absolute assurance against material errors, losses or fraud;

- A Policy on Handling and Dissemination of Inside Information is established, setting out the guiding principles, procedures and internal controls for the handling and dissemination of inside information in a timely manner in such a way that it does not place any person in a privileged dealing position and allows time for the market to price the shares of the Company to reflect the latest available information; and

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

The Board and the Audit Committee assess the effectiveness of the Group's risk management and internal control systems which covers all material controls, including financial, investing, marketing, operation, project construction and regulations compliance and risk management functions and consider the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget on an annual basis. The Internal Control and Audit Department conducts independent reviews of risks associated with and controls over various operations and activities. Significant findings on internal controls, assessment on risk management and self-assessment on internal control system are reported regularly to the Audit Committee each year.

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

Company Secretary

The Company Secretary, Mr. Leung Chong Shun, is a practicing solicitor in Hong Kong. Although he is not a full-time employee of the Company, he reports to the Board and is responsible for advising the Board on governance matters. The primary contact person of the Company with the Company Secretary is Ms. Yvonne Luk Man Kuen, Deputy Chief Legal Counsel and General Manager of Board of Directors and Legal Department of the Company. The Company Secretary has confirmed that he has taken no less than 15 hours of relevant professional training during the year.

Communications with shareholders and investors

The Board recognises the importance of good communications with all shareholders. The Company's annual general meeting is a valuable forum for the Board to communicate directly with the shareholders. The Chairman of the Board as well as Chairmen of the Audit and Remuneration Committees (or their duly appointed delegates) together with the external auditor are present to answer shareholders' questions. Circulars which set out relevant information of the proposed resolutions are distributed to all shareholders at least 10 business days before the extraordinary general meeting and at least 20 business days before the annual general meeting.

At the 2017 annual general meeting and the extraordinary general meeting held on 2 June 2017, the Chairman of the meeting demanded that all resolutions proposed at the meeting to be voted by poll. The procedures for conducting a poll were explained at the meeting. The results of the poll were published on the websites of the Company and the Stock Exchange. The attendance of each Director at the general meetings held in 2017 is set out as follows:

Name of Director	Number of general meeting attended in 2017
Li Xiaopeng	0/2
Fu Gangfeng*3	N/A
Hu Jianhua	2/2
Wang Hong	0/2
Hua Li*1	N/A
Su Jian*2	N/A
Bai Jingtao	2/2
Wang Zhixian	0/2
Zheng Shaoping	2/2
Shi Wei	2/2
Kut Ying Hay	0/2
Lee Yip Wah Peter	2/2
Li Kwok Heem John	2/2
Li Ka Fai David	2/2
Bong Shu Ying Francis	2/2

*1 Due to health reason, Mr. Hua Li did not attend the captioned meetings held in 2017.

*2 Mr. Su Jian was appointed as Executive Director of the Company on 12 October 2017. There were no general meetings held during the year since his appointment.

*3 Since Mr. Fu Gangfeng was appointed as Executive Director and Chairman of the Company on 20 March 2018, he did not attend the captioned general meetings held in 2017.

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

A key element of effective communication with shareholders and investors is the prompt and timely dissemination of information in relation to the Group. The Company has announced its annual and interim results in a timely manner.

The management personnel responsible for investor relations held regular meetings with equity research analysts, fund managers and institutional shareholders and investors.

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

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

The 2018 annual general meeting of the Company will be held at 9:30 a.m. on Friday, 1 June 2018 at Island Ballroom, Level 5, Island Shangri-La, Hong Kong, Two Pacific Place, Supreme Court Road, Central, Hong Kong.

Environmental, Social and Governance Report

ABOUT US

Corporate Profile

Renowned for its remarkable history as well as strategic vision and foresight, the Group has established an unrivalled position in the ports industry in both the PRC and worldwide. We are the flagship company of China Merchants Group Limited and its subsidiaries ("**CMG Group**"), the longest standing and the most renowned shipping company in the PRC. The ports and logistics operation of CMG Group had expanded across the PRC as far back as in the 19th century. The Group is now the largest and a global leading port developer, investor and operator in the PRC, with a comprehensive ports network at the hub locations along coastal China. The terminals the Group invested in or those the Group invested in and owned its management right are located in container hub locations across Hong Kong, Shenzhen, Ningbo, Shanghai, Qingdao, Tianjin, Dalian, Xiamen, Zhanjiang and Shantou, as well as at ports in South Asia, Africa, Europe and Mediterranen and others. At the end of 2017, the Group has invested 32 ports and over 190 container berths with container throughput handled exceeded 100 million TEUs for the first time and the container throughput handled during the year amounted to 103 million TEUs. The Group has earned itself reputation across the industry, leveraging the professional management experience accumulated for years, its self-developed global leading ports operating system and integrated logistics platform for import and export, its extensive maritime logistics support system, the modern and all-rounded integrated logistics solutions it offers, its quality engineering management, and the outstanding and reliable services it provides. The Group's vision is "to be a world's leading comprehensive port service

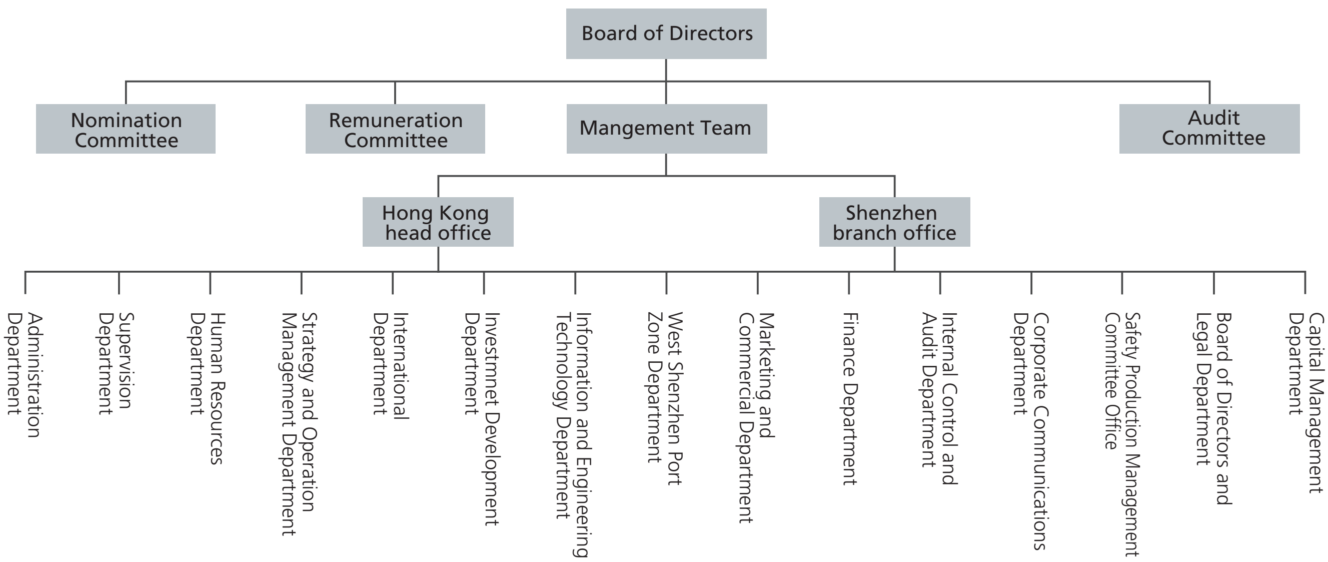
provider". Through implementation of domestic, international and innovation strategies, the Company strives to achieve "world-class" level on various fronts, including container throughput of global ports, market share, income from integrated port services, operational management capabilities, resource utilisation, labor productivity, social contribution and brand name.

The Group has prepared this report covering the financial year ended 31 December 2017 according to and in compliance with the provisions of the ESG Reporting Guide in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

CORPORATE GOVERNANCE

Governance Structure

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



Members of the Board

Executive Directors

Fu Gangfeng
(Chairman)

Hu Jianhua
(Vice Chairman)

Wang Hong

Su Jian

Bai Jingtao

Wang Zhixian

Zheng Shaoping

Shi Wei

Independent Non-executive Directors

Kut Ying Hay

Lee Yip Wah Peter

Li Kwok Heem John

Li Ka Fai David

Bong Shu Ying
Francis

Responsibility Management

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

Culture of responsibility

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

Promotion of responsibility

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

Corporate Goal

WE CONNECT THE WORLD
(天涯若比鄰)

Corporate Vision

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

Core Value

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

Codes of Conduct

Three principles

Service-oriented with a focus on integrity and stability
(唯誠唯穩服務至上)

Efficient execution through collaborative efforts
(齊心協力高效執行)

Integration of theory and practice with strong commitment
(知行合一説到做到)

Eight reminders

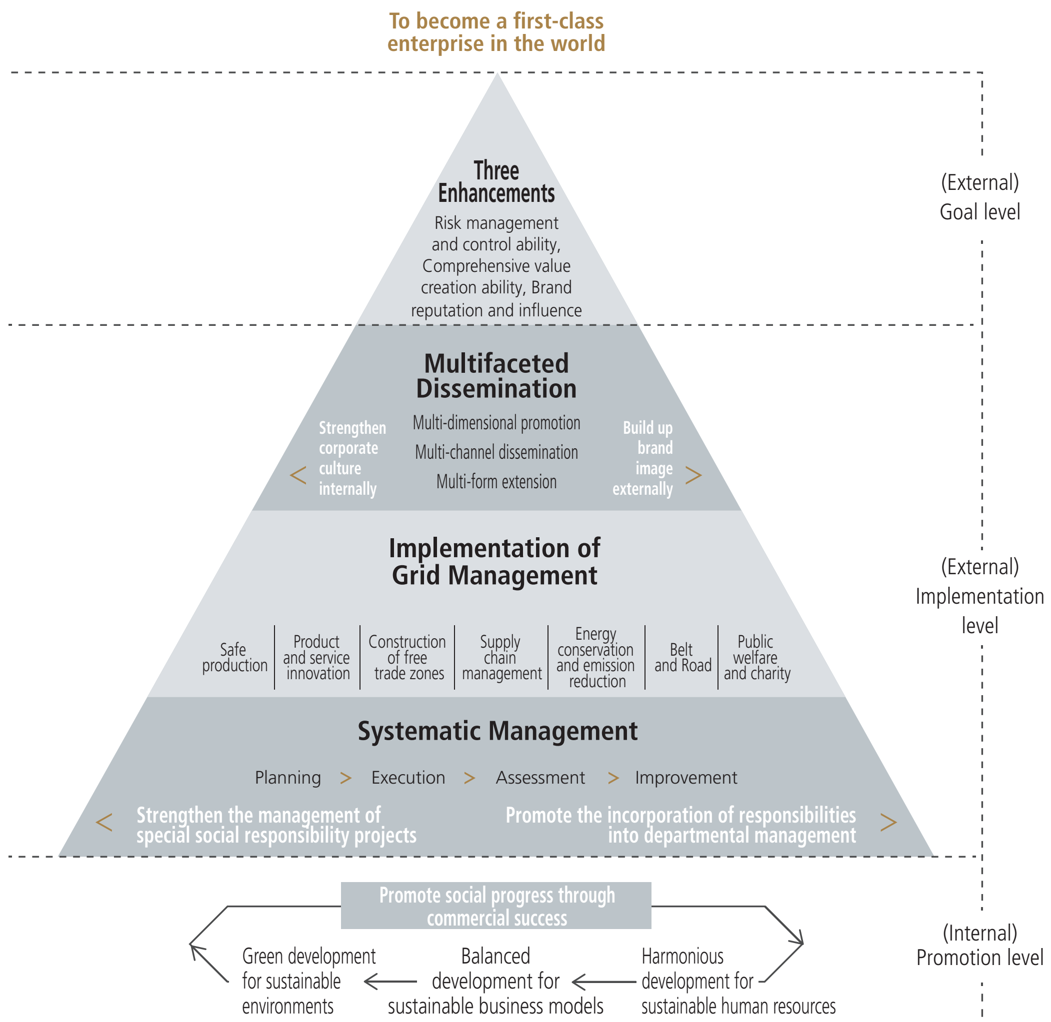
Being attentive at work (在崗在位在狀態)
Being responsible (盡職盡責有擔當)
Being eager to learn (善學善做善進取)
Being innovative (求新求變勇超越)
Being obedient and value effectiveness (遵規遵矩重實效)
Being self-respectful and self-disciplined (自重自律風節高)
Being collaborative in seeking development (群策群力謀發展)
Being united in seeking self-improvement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

Social Responsibility Management System

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

Social Responsibility Promotion Model

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



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

Communications between Stakeholders

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

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

Balanced development to create shareholders' value

Profit attributable to equity holders of the Company
6,028
HK$ million

Return on Equity
8.7%

Total assets
131,951
HK$ million

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

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

Enhancing Risk Management and Control Capacity

The Group insisted on pursuing progress while maintaining stability and continued to optimise its comprehensive risk management system. The Group solidly promoted the establishment of a "standardised, compliant and incorrupt" enterprise by voluntarily subjecting itself to supervision of respective stakeholders. It also enhanced the risk control system to basically cover all key processes in operation by expanding the scope of assessment and exerting greater efforts in daily management and control for both internal and external risks in terms of identification, assessment, tracking, report, solution and prevention, with a view to achieving daily and comprehensive internal control and risk management. In 2017, the Group has no material risk incidents or material loss on assets.

Risk Management and Response System

Organisation Structure

Vertical Risk Management and Control				
	Decision-making Level for Risk-related Matters	Board		
		Audit Committee		
	Risk Management and Control Level (including subordinated companies)	Business Functional Department	Functional Management Departments and Risk Control Organisational Institutions	Audit and Monitoring Functional Department
		First Line of Defence Implementation and Maintenance of system	**Second Line of Defence** Formulation, Coordination and Management	**Third Line of Defence** Independent Monitoring, Evaluation and Audit
		Horizontal Risk Management and Control		

Operational Mechanism

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

Management Tools

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

Security and Support

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

Legal audit rate of material operational decisions

100%

Legal audit rate of business contracts

100%

Legal audit rate of regulatory system

100%

Anti-corruption and Advocating Integrity

In 2017, the Group conscientiously studied and put the spirit initiated by the 19th National Congress of the Communist Party of China ("CPC") into practice, fully implementing the spirits of the Sixth Plenary Session of the 18th Central Committee of the CPC, the National Conference on Party Building Work of State-owned Enterprises (全國國有企業黨的建設工作會議), the 7th Plenary Session of the Central Commission for Discipline Inspection as well as the work arrangements of CMG Group, with a view to striving forward based on the Company's development and performing the supervisory responsibility. In addition, insisting on the approach of "Tackling both problems and causes through comprehensive management while applying punishment and prevention in parallel with a focus on prevention", the Group stepped up the innovation of anti-corruption system and the protection thereof as the focus and strictly defining the disciplines of the CPC and enhancing the development of working disciplines as the guarantee, with an aim to promoting the development of the Company's working style of a clean and honest management and the measures in relation to anti-corruption and advocating integrity, all of which have achieved satisfactory results.

First, insisting on turning "Two Studies, One Act (兩學一做)" into a systematic and normal practice

On 20 November to 24 November 2017, the Group organised and commenced the learning week themed "Embracing the new times and doing new acts". After the learning week, the discipline inspection and supervision officers contacted each of the participants and asked them to do reflection and write a report of 2,000 words on their gains and experience. The supervisory department of the Group gathered such gains and experience and published a brochure thereof, with a view to sharing and exchanging such information with everyone, thus enabling Party member cadres to think after learning, be enlightened after thinking and put into practice with enlightenment.

Second, capitalising on the overall synergy-sharing mechanism of the development and supervision on anti-corruption measures in full

Every department of the Group capitalised on their professional advantages according to their functions, thus forming synergy to optimise the monitoring in joint efforts.

Third, identifying the business risks regarding anti-corruption

The Group took the lead in identifying and assessing the risk exposure in job duty performance and execution of power as well as the potential risks regarding incorruptible business practices, while taking targeted preventive and control measures for monitoring key processes and positions as well as key posts in relation to execution of power based on the characteristic of industry, with a view to enhancing its ability in prevention and control of risks regarding integrity.

Fourth, entering into contracts of integrity and individual undertaking of integrity and sell-discipline

The Group has implemented the execution of business contracts for engineering construction, equipment procurement, production outsourcing and other businesses since 2016, while entering into contracts of integrity and individual undertaking of integrity and sell-discipline at the same time. In December 2017, the Letter of Undertaking for Compliant and Incorruptible Transactions (in both Chinese and English versions) and the Compliance Agreement were developed to further regulate and promote the regulated examples of business contracts.

Fifth, striving for further development on a solid foundation

By conducting various education activities in relation to integrity, culture more efforts were made in the establishment of discipline inspection and supervision team as well as the enhancement of supervision on discipline enforcement and accountability. Such activities, including various business trainings, mass learning and study, compiling of learning manuals and Building of Concepts, etc., aimed at improving the education on integrity culture. On 28 August 2017, the Group organised the oath ceremony on working style for discipline inspection and supervision officers.

Sixth, incorporating integrity into the KPI assessment

The Company established the KPI in relation to integrity with its subsidiaries and formulated a total of 22 guidelines thereof. On-site survey and assessment were carried out on these subsidiaries based on the KPI at the end of the year.

The working conference on anti-corruption and advocating integrity was convened on 28 August 2017

Enhancing quality and efficiency

With a growing scale, it was an intrinsic requirement for the Group to build up its ability of organic growth in order to be a world's leading comprehensive port service provider. We grasped the balance between "quality" and "efficiency" with a view to comprehensively enhancing the management and control efficiency of the Group through exploration of potential efficiency enhancement and improvement in informatisation of management on an ongoing basis, thereby consolidating our core competitiveness in the market.

Deepening the management and control over "3S"

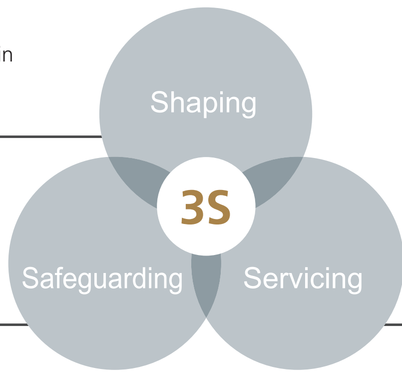
The Group re-examined its management and control model with a focus on building the "headquarter of authority", "headquarter of values" and "headquarter of innovation". Capitalising on the management and control functions of the headquarter in terms of shaping, servicing and safeguarding, the Group proposed 16 specific measures on optimizing the "3S" management, and formulated and implemented 22 projects in relation to the optimisation of management and control, with a view to further reinforcing differentiated management of various business segments and innovation ability of the mechanism as well as the quality of the Group's development.

Enhancing cost management and control

Taking its actual conditions into account, the Group promoted enhancement in cost management and control for different business segments by commencing dynamic monitoring and alerting for costs and differentiated management and control over business segments based on their actual business features.

Provide guidance and leadership for subsidiaries in terms of their goals, directions and paths of development under the Group's strategies

Put an emphasis on establishing the alert and preventive mechanism to ensure effective and sound implementation of the Group's strategies



Provide the subsidiaries with a mechanism comprising comprehensive services, complete system for resource allocation and talents which is in line with the strategic development goals to ensure proper strategy implementation and industrial development

Management System Certification

Environmental Management System ISO14000

Security Management System for Supply Chain ISO28000

Strengthening the informatisation of management

Adhering to the Group's strategic directives on the back of informatisation, the Group has established a sound informatisation management system, with a view to constantly shorten the distance of control and enhance the Group's working efficiency and quality of service by proactively promoting the progress of informatisation projects, such as the establishment of a standardised data management system and master data platform, completing the upgrade of cloud platform, operating and analysing system for virtual network projects and EAS financial management system, and the mobile office system 2.0.

Enhancing Core Competitiveness of the Industry

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

Quality Products

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

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

GREEN MANAGEMENT, GREEN OPERATION, GREEN ECOSYSTEM

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

Green Management

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

Low-carbon growth to create a green future for all

Carbon dioxide emission
107,000
tonnes

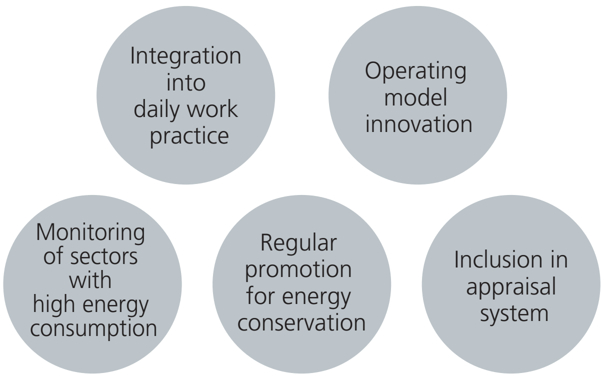
Comprehensive energy consumption per RMB10,000 operating income (based on comparable prices)
0.0864
tonnes of standard coal/RMB10,000

Technological upgrade for energy conservation and emission reduction costs over
137.02
RMB million

Promoting Energy Conservation and Emission Reduction

The effective use of energy is not only conducive to easing pressure on national energy shortage, but is also helpful to reduce corporate operating cost. The Group have actively provided energy conservation management and technological upgrade for energy conservation, with a view to promoting the application of efficient and low-carbon energy, enhancing energy utilisation efficiency and reducing carbon emission.

The Group encourage its subordinate companies to take initiatives to provide energy conservation management and reduce the use of energy and greenhouse gas (such as carbon dioxide) emission through specialised management, innovative operating model and integration into daily work practice.



Strengthening Environmental Management System

The Group play an active role to enhance environmental management technologies and organisational capabilities, develop an information system for energy conservation and emission reduction which is applicable to the whole Group, and keep improving an organisational system for energy conservation and emission reduction, thereby establishing a multi-level organisational system for the headquarter and enterprises at all levels to form a top-to-bottom and respective management control model and enhance the Group's environmental management level.

The Group's environmental management and organisational system

Led by the headquarter	responsible for the coordination with subsidiaries, supervision and management over their energy conservation and emission reduction.
Organised by subordinate units	responsible for the daily management and supervision, and report to the headquarter of the Group on the initiatives for and effectiveness of energy conservation and emission reduction during the year.
Implemented by business entities	responsible for the establishment of a working system for energy conservation and emission reduction, which have been managed and controlled as regular routine works.

Energy Conservation, Emission Reduction and Environmental Management System

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

Green Supply Chain Management

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

Green Operation

The Group integrates the green development philosophy and practice into the entire production and operation process. Through replicating and promoting the green development model and continuous innovation of green technology, the Group further enhances its competitiveness and influence in the low-carbon field, which plays a pivotal role to explore potential business opportunities and leverage the new growth points for building up its strengths to achieve low-carbon and efficient development.

Development and Application of Energy Conservation Technology

The Group proactively uses efficient energy, conducts research and development on and uses new energy conservation technologies and products, eliminates high-consuming and outdated products and technologies, and reduces energy consumption loss due to backward technologies and products. Successful projects such as "substation of fuel-powered equipment with electricity-powered equipment (油改電)" and "shore-powered supply for vessels (船舶岸基供電)" have been promoted and expanded into our ports to continuously enhance the application of new energy conservation technologies and products, strive for the harmonious development of the environment, society and corporation, and demonstrate its corporate social responsibilities to develop green shipping.

Promoting Optimisation of Energy Structure

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

Green and Low-carbon Projects

RTG remote control project (Phase 3)

The Group upgraded the RTGs (rubber-tyred container gantry cranes) and the respective communication network by adopting a remote control system for RTG cabs in port zones, and installing a large monitor screen and remote control panel in the central control room, thereby realising coverage of leaky cable communication network. Through the remote control system, the Group is able to fully capitalise on its human resources (i.e. drivers) and reduce its labour cost by allocating one driver to several cranes instead of using the one-to-one allocation. Meanwhile, with the implementation of "substation of fuel-powered equipment with electricity-powered equipment" for RTGs, the fuel consumption for relocation of RTG accounted for approximately 50% of total fuel consumption. The Group is also able to reduce the relocation frequency of RTGs and their fuel consumption by using multi-functional RTGs under the RTG remote control system.

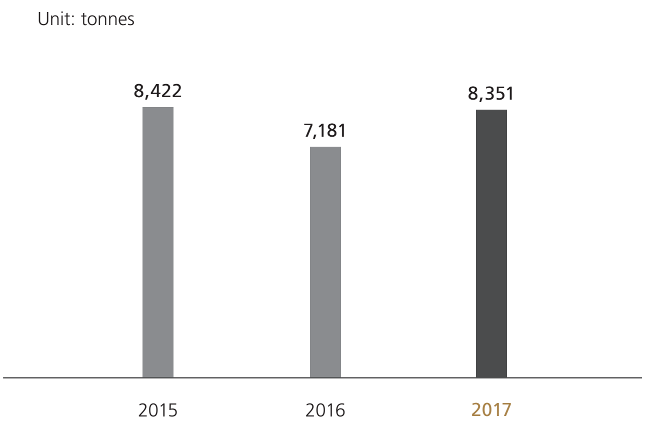
Shift from high-power to low-power generating units for RTGs

After implementation of "substation of fuel-powered equipment with electricity-powered equipment" for RTGs, the inherent diesel-fired power generating units with high power in RTGs were mainly used to generate power for relocation of RTGs. With low effective utilisation rate (approximately 25%), those diesel fuel power generating units had greater redundancy, high reactive power consumption and fuel consumption fee, which worsened air pollution and increased unit maintenance cost. In order to further reduce repairs cost of engineering equipment and fuel consumption, engineering and technical personnel carried out technological upgrade of replacing old diesel-fired power generating units with high power by low-power ones (high-power to low-power shift) after preliminary research and study. The Group replaced the existing old diesel-fired generating units with high power for RTGs by the new low-power ones, under the condition that the relocation ability of RTGs, as well as rated loading and low-speed emergency lifting capacity were fulfilled.

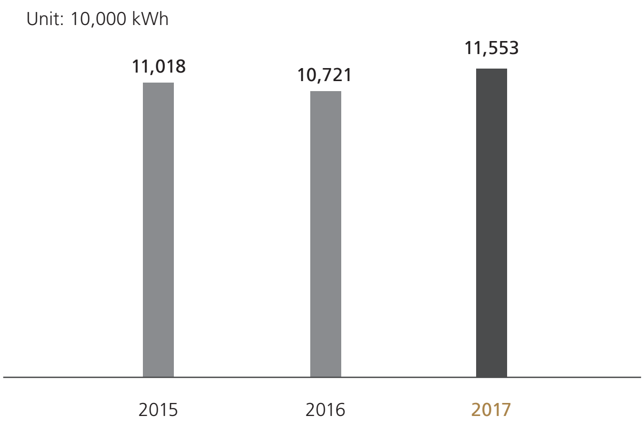
Shore-powered supply for vessels

Shore-powered supply for vessels means that terrestrial power supply is used rather than using generating units in vessels during the docking period. We intend to set up shore power supply facilities at the existing docks to provide shore power supply during the docking period, and cease to use generating units in vessels. Shore power at terminals is generated by using backup shore power boxes in vessels and connecting power cables with electrical equipment in vessels. Shore power capacity provided at terminals is rated power

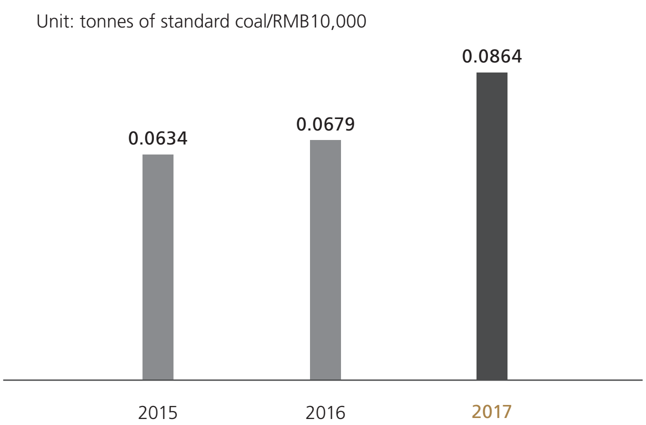
Diasel consumption (excluding outsource)



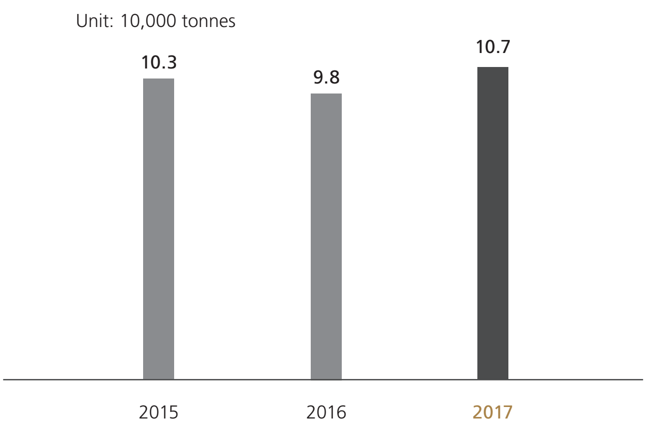
Electricity consumption



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



Carbon dioxide emissions



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

capacity of a single generating unit in vessels docking at ports, which ensures the fulfillment of electricity needs for electrical equipment in vessels.

Automatic identification project of OCR shore container numbers

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

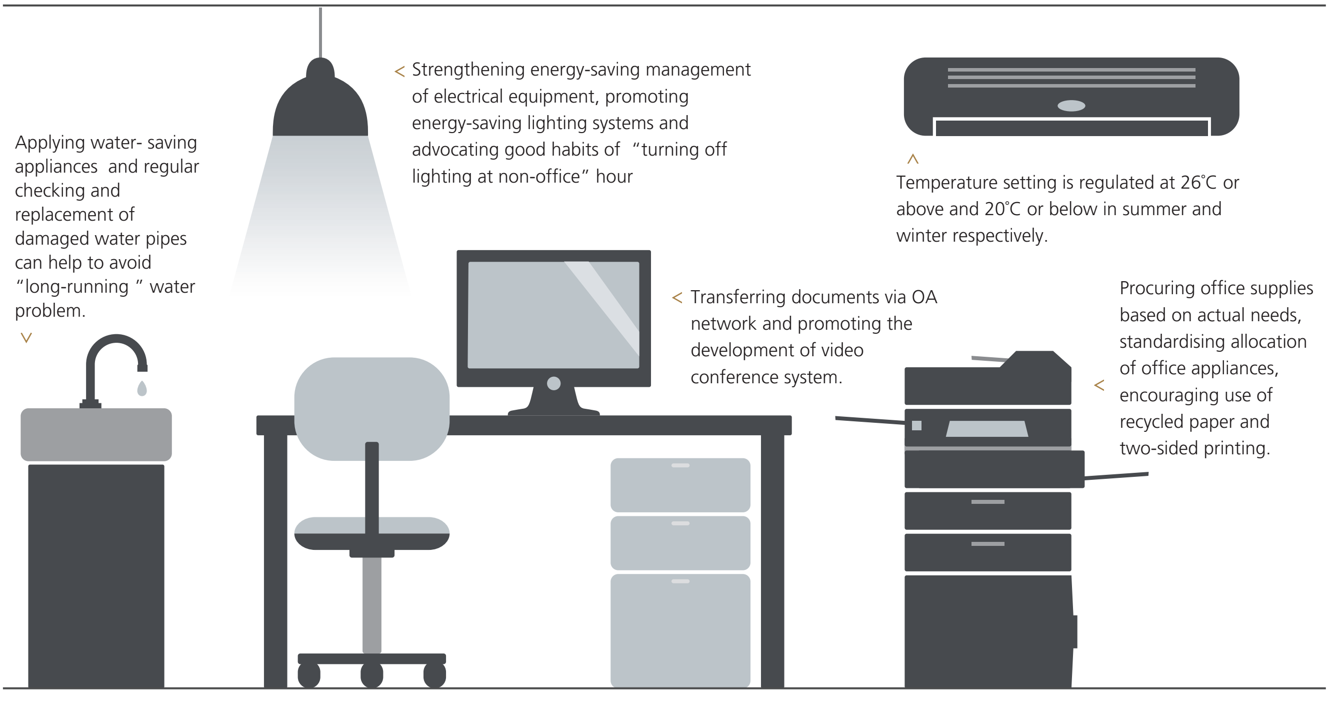
Upgrade of Automated Track Crane

Automation of track crane includes operations such as automated container loading and unloading as well as translocation in depots and level transit equipment thereof. Artificial remote assistance mode is adopted during the unloading operations of trucks. Under the completely automatic operation mode, it is guaranteed that operating personnel are able to obtain control over equipment at any time when they discover containers and cranes are in abnormal condition and there are any other abnormalities in the surrounding areas.

Container intelligent positioning system

A vessel operation assistance system was set up to reduce occasions of container restowage during shipment and avoid any occurrence of hanging containers, which in turn enhances the operation efficiency and alleviates burdens on staff during operations.

Graph of Green Office



Reducing Pollutant Emission

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

"Zero" Discharge of Oil-polluted Water

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

Minimise Waste Pollution

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

Green Office

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

Compliance with relevant laws and regulations which have a significant impact on the Group

The Group has complied with various national environmental laws and regulations to ensure a proper treatment and disposal of waste. For the year ended 31 December 2017, there was no incident of non-compliance with relevant environmental laws and regulations which have a significant impact on the Group.

SCT Launched Series of Charitable Photography Classes and Environmental Advocacy Volunteering Activities in the Community

In order to promote the new concept of "Protect the Environment, Cherish our Home (愛護環境、愛我家園)" to the community and encourage more residents of the community to experience, understand and engage in environmental protection in close distance with a view to establishing a green community with our concerted efforts, and to celebrate the 145th anniversary of China Merchants, we have launched series of photography classes and environmental advocacy volunteering activities under the theme of "Cherish our Home, Understand Environmental Protection (愛我家園、認識環保)" during the period from 6 November to 24 November 2017. The activities were sponsored by China Merchants Charitable Foundation and organised by Shekou Container Terminals Limited ("**SCT**"). The volunteering team of SCT and committee members of SCT joined hands with Wuwan community to participate throughout the event.

The community residents actively participated in the first phase of family photography class and showed a very positive sentiment with a total of over 60 participants. The volunteers were fully committed and demonstrated the selfless service spirit of China Merchants volunteers, which has safeguarded the implementation and provided sufficient and effective supporting services for this activity and ensured that it proceeds in an orderly manner. In addition, the community residents participated in Wechat QRcode Environmental Knowledge Contest (微信掃碼環保知識競賽) during break time of classes, through which their knowledge about environmental protection was enhanced by answering questions, striving to make every one participates in and keen to protecting the environment. The activity was welcomed by residents of the community and they are looking forward to more environmental protection activities of the same kind in the future as a platform to demonstrate their sense of "Cherish our Home" and enhance their "Understanding of Environmental Protection".

Ningbo Daxie Launched Thematic Activities named "Remove Weeds and Beautify our Home (剷除雜草、美化家園)"

The month of May is a busy season for farming. Ningbo Daxie China Merchants International Terminals Co Ltd ("**Ningbo Daxie**") carried forward the beautiful virtue of "produce ample food and clothing with our own hands (自己動手、豐衣足食)" and organised a thematic activity named "Remove Weeds and Beautify our Home (剷除雜草、美化家園)" during that month. Our employees actively participated in the event with a total of over 100 participants.

SCT was awarded 2017 Port Terminal Innovation Award (2017 港口碼頭創新大獎)

On 11 January 2018, the "First Forum for Shipping Logistic Development in Greater Bay Regions (首屆大灣區港航物流發展論壇)" and the awards presentation ceremony of the 14th China Shipping Industry Award – Innovation Award was held in Guangzhou. SCT was awarded "2017 Port Terminal Innovation Award (2017港口碼頭創新大獎)" in recognition of its outstanding performance in terms of business development and innovation ability, the significant influence in terms of technological research and development and formulation of industry standards, its innovative and sustainable business model and servicing capability, its strong brand awareness and the strong emphasis on corporate brand building and promotion.

People-oriented policy to promote staff development

Investment in safety production
71.18
RMB million

Coverage of trainings for staff at headquarter
100%

Percentage of female senior management
19%

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

The Group has a "people-oriented" culture and believes that the development of the Group is dependent on and for the interests of its employees, hence, the Group seeks to grow with its employees and share the results of its operation with them. The Group has established comprehensive systems and mechanisms to protect the rights and interests of its employees so as to safeguard their rights, health and safety at workplace. The Company also provided necessary and sufficient basic protection and resources for health and safety, and improved and enhanced the same on a continuous basis.

Employee Rights and Interests

The Group continued to adhere to the people-oriented principle and has established a standardised labour management system, under which it respects and protects the legal rights and interests of its employees. It has strictly observed the relevant national and regional laws and regulations, including ordinances that prohibit the employment of child labour and forced labour, and made proactive efforts in building up a harmonious and stable labour relationship.

Equal Employment and Diversification

The Group remains committed to the principle of equal employment that ensures fairness and openness of recruitment. While striving to recruit worldwide talents to join the Company, it also made strenuous efforts in promoting localisation overseas. It stands against discrimination due to any differences in gender, age, nationality, ethnicity, religion and skin color of the staff and encourages its staff to understand and respect each other with a view to creating an inclusive and open working environment that enable co-existence of diversified culture.

Remuneration and Benefits

The remuneration and benefit system of the Group follows the principle of prioritising efficiency while giving consideration to fairness and sustainable development. It takes into consideration factors such as internal fairness, relevance of performance and market competitiveness. Staff salary is linked to both corporate and individual performance by establishing a broad-banded salary system, which helps to explore diversified salary incentive mechanism. The Group also takes reference of market data to verify the reasonableness of its salary level. Through these measures, the Group strives to establish multifaceted remuneration policy and comprehensive benefits and protection for its staff in a bid to enhance their sense of mission, achievement and belonging.

Number of staff in service of the Group

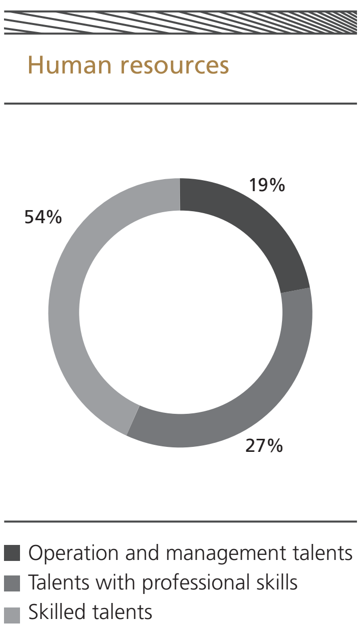
258

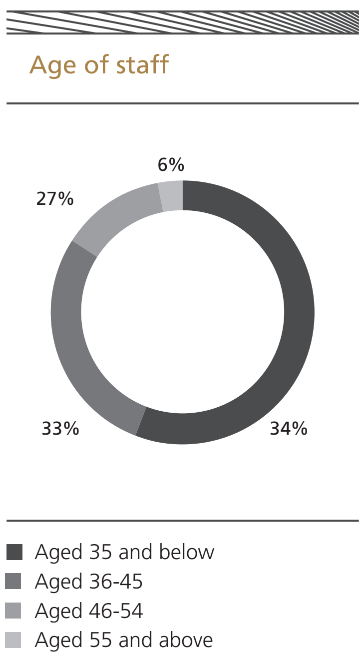
Labour contract signing rate

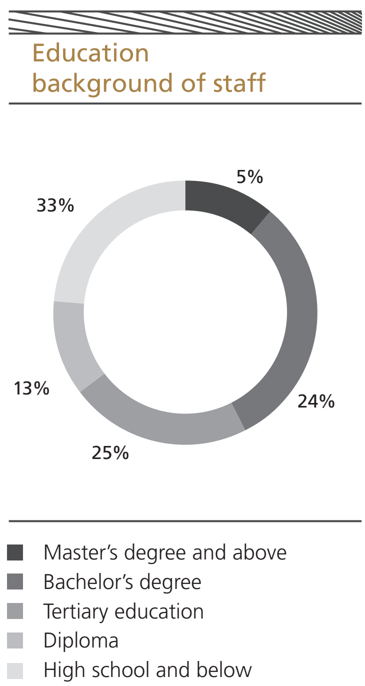
100%

Coverage of social insurance

100%







Comprehensive Benefits System

The Group put great efforts in establishing a comprehensive benefit protection system to provide its staff with attentive love and care and build up a positive brand image as an employer. The system includes: statutory social benefits protections, accidental injury insurance for staff, paid annual leave system, compliant allowance and subsidy, regular body check, complementary medical insurance and enterprise annuity scheme, etc.

Democratic Management

The Group continued to adhere to its "people-oriented" management principle to fully motivate its staff. On the basis of continuous improvement of staff representative meeting, labour union and other mass organisation, the Group strives to maintain smooth communication channels between its staff and management in a view to fully protecting the staff's right to be informed, participate and supervise and hence enabling them to exert greater influence on the operation and management of the Company.

Staff Development

The Group highly values the growth and development of its staff and believes that the development of staff and the enterprise will be based on and facilitated by each other. The Group provides a broad platform for the growth and development of its staff, which aims to maximise its staff's initiative and passion for work through effective training, counselling, evaluation, incentives, etc. Meanwhile, the Group also offered multiple career promotion paths so that all kind of talents will have great rooms for development on this platform.

Staff Training

The Group always encourages its staff to participate in the internal training and learning programmes organised by the Company. By fully leveraging the port network and multiple platform and resources of the Group, together with external professional training institutions, renowned higher education institutions, as well as experts and scholars in the industry, the Group provided its staff with excellent training and coaches through which the staff can replenish and refresh their knowledge on a continuous basis, at the same time mastering new skillsets and techniques and enhance their overall strengths, so as to get prepared and enhance their ability to cope with different challenges faced at work.

Care for Staff

Staff is the most important resources of a company, and care for staff is a part of fulfilling social responsibility. The Group cares about not only the career development of its staff, but also their lives and families. The Group made consistent efforts to improve the working environment, safety and protection, benefits as well as work-life balance of its staff in a view to increasing their sense of happiness. In 2017, the Group organised the third "Summer Camp for Caring of Left-behind Children of China Merchant Ports (招商局港口留守兒童親子夏令營)", and the management of the Company has organised visits to show gratitude to the retired employees who are facing financial difficulties.

Love in the Staff Centers

In 2017, among the ten Staff Centers under construction, apart from the delayed construction due to non-delivery of office building of Shuntak Project and the delayed completion and acceptance of the Staff Center of Qinhaiwan Property to 2018, the construction of all other eight Staff Centers have been completed and have passed the inspection and review organised by the Group. So far, the Group has completed the construction of 29 Staff Centers in total, which are all well-received by the grassroots workers and have a positive impact on the promotion of our corporate culture and better corporate cohesion.

Another highlight of 2017 was the reading activity of Staff Centers that celebrates the 25th anniversary of the listing of the Group. Subordinate units of the Group organised different forms of reading exchange activities at the Staff Centers based on local needs, which has attracted high participation and recognition from our staff.

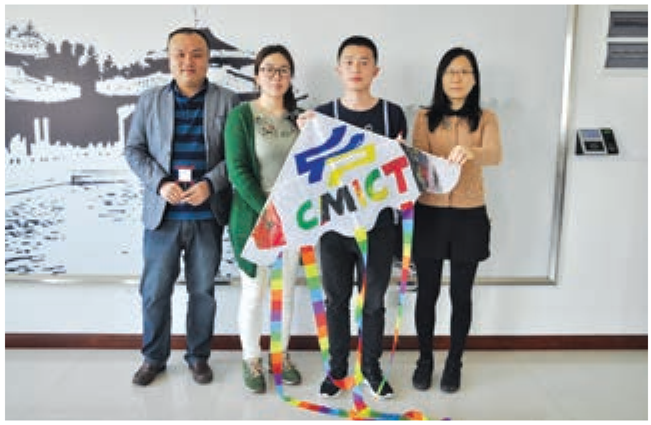
Work-life Balance

The Group highly values the work-life balance of its staff. We organised diversified cultural and sports activities to help our staff to release work pressure and enrich their after-work personal life. This not only can satisfy our staff's spiritual and cultural needs, but also provide a stage for our staff to demonstrate their talents and personality, thereby creating a united, friendly and positive working sentiment to achieve happy work and healthy life. Subordinate units of the Group nationwide also launched their own special corporate events. The diversified events fully demwonstrated and enhanced the aggressive and can-do spirit of China Merchants staff, the warmth of the China Merchants family was also crystallised and communicated, effectively inheriting and carrying forward the fine culture and tradition of China Merchants.

Diversified Cultural and Sports Activities

In order to enrich the after-work cultural life of our staff, and to celebrate the 145th anniversary of the establishment of China Merchants and the 25th anniversary of the listing of the Group, the Group and its subordinated companies organised a series of diversified cultural and sports activities in 2017, such as Vertical Marathon (垂直馬拉松), Walking Activity (健步走活動) and various cultural and sports competition and fun games. These activities helped to enhance the sense of collective honour and team cohesion of our staff and further promote our corporate culture.

The worldwide 145km walking relay vertical marathon that celebrates the 145th anniversary of the establishment of China Merchants



"Make Your Dream Fly (放飛青春、放飛夢想)" spring kite-flying activity

Walking activity that celebrates the 25th anniversary of the listing of the Group

Fun sports games

Organising table tennis competition

Champion of badminton competition

Care for Staff Facing Financial Difficulties

The Group devoted great resources to help its staff facing financial difficulties to solve problems in real life. The subordinated companies of the Group sent their love and care to these staff through various donation and visiting activities to help them overcome their difficulties. During Mid-autumn festival in 2017, Mr. Bai Jingtao, the Managing Director of the Company, paid a visit to Ms. Lian Chaoying (練超英), a retired employee of the Company's administrative department who suffered from serious illness.

Care for Grassroots Staff

Staff are the most valuable assets of a company. The Group always care about its staff, especially the frontline workers at the grassroots level. During the hot summer, each of the subordinated units of the Group distributed herbal tea to the frontline staff, sending frontline staff their warm regards on the summer day.

Safety and Health

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

Safety Management

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

Organisational Structure for Safety Production

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

Safety Production Management System

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

Number of staff who have received safety trainings

175,094

Number of staff whose non-compliance behavior have been rectified Over

1,227

Safety Production Management Organisation and System of the Group

Safety Committee of the Group	**Safety Office**	**Safety Committee of Subordinated Units**
Guided by the management of the Company and comprised of the persons in charge of the relevant functional departments at headquarter of the Company and the persons in charge of its subordinate units. Persons in charge of safety management department of subordinated companies were also newly added.	Responsible for the daily work within the specified scope of responsibilities of the Group's Safety Committee. A designated deputy director was newly added.	Responsible for the safety production management work of its own and its subordinate units.
	Safety Supervision and Management Office	
	An office under the strategic development department of the Group which is responsible for providing professional guidance and services for and conducting inspection and supervision over the Group's safety production.	

Safety Operation

With a focus on laws, regulations and standards and taking the implementation of safety management measures for frontline staff as the entry point, the Group has pushed forward the in-depth development of safety production in all aspects and ensured that the safety production can be maintained steadily. No fatal accident that involves responsibilities of safety production of the Group has occurred in 2017.

Arranging Safety Production Trainings and Special Inspection

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

Enhancing the supervision of occupational health

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

Strengthening its safety management over contractors

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

No complaint about occupational diseases was received in 2017.

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

Three subordinated companies of the Group, namely SCT, Ningbo Daxie and Dongguan Chiwan Wharf Company Limited, participated in the pilot work of risk management for safety production and credit management for safety production organised by the Ministry of Transport of the People's Republic of China, respectively. The three subsidiaries are now drawing comprehensive conclusion on the pilot works and providing feedback on the progress, hardship and difficulties of the work, which have brought into full play their guiding and demonstrative role as pilot projects and served as a good reference for the next step of project implementation of the Ministry of Transport.

On 10 October 2017, Mr. Bai Jingtao and his team conducted an inspection on SCT

Emergency safety drill for electric shock accidents conducted by Ningbo Daxie

Annual meeting for safety work

Annual meeting for safety work

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

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

Promote Regional Development

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

In 2017, the Group adhered to the theme of "Shaping Blue Dreams Together (共鑄藍色夢想)" for its charitable activities, striving to fulfil its corporate social responsibilities through engagement in social charitable activities, at the same time building the charity brand of its own.

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

Organised by the Group and held by the South China Container Terminal in collaboration with China Merchant Port Services (Shenzhen) Co., Ltd., Shenzhen Haixing Harbour Development Co., Ltd., China Merchants Bonded Logistics Co., Ltd. and Shenzhen Chiwan Wharf Holdings Limited, the 3rd "Shaping Blue Dreams Together - Summer Camp for Caring of Left-behind Children" charitable event invited the left-behind children of the port's frontline staff to reunite with their parents in Shenzhen and participate in a summer camp. A total of 50 families of the constructors stationed in Shenzhen had joined the event. The 50 families attended the summer camp opening ceremony along with the management of the Company, leaders of the Charitable Foundation, charity ambassadors and leaders of various units in Shenzhen and volunteers. China Merchants Charitable Foundation donated RMB448,000 to this event. During the two-day event, the children had visited the China Merchants Museum of History (招商局歷史博物館), China Merchants Port Plaza and its ports in West Shenzhen, and participated in a warm, joy-filled family movie-watching activity and birthday party. The diversified activities allow the children, whom cannot get much time to stay with their parents, to feel the warmth of being with the family, as well as the passion of Shenzhen and the affection of the China Merchants staff. The event was widely covered by the media and was featured on Shekou Television Station, Shekou News, Shenzhen Special Zone Daily and Shenzhen Economic Daily, while other major online media had also republished the news on their platforms. The event not only obtained positive feedback from the society, but also created a sound corporate image of the Company to contribute to the society on a continuous basis.

Responsibility inheritance to create a harmonious community

Shaping Blue Dreams Together - 21st Century C Blue Training Programme (共鑄藍色夢想—21 世紀海上絲綢之路優才計劃)

Sponsored by China Merchants Charitable Foundation, hosted by the Group and organised by Shenzhen Polytechnic, 2017 C Blue Training Programme started on 16 October in Shenzhen and lasted for 4 weeks. 28 C Blue Training Programme trainees from 13 countries along the "Belt and Road" initiative completed all training courses and successfully graduated. It is a corporate social responsibility project of the Group to practice the mission of "promoting social progress through commercial success" extensively in countries along the "21st Century Maritime Silk Road" by adhering to the concept of promoting value sharing worldwide under the theme of "Shaping Blue Dreams Together (C Blue)". The purpose of this project is to train more leading talents in port and shipping industry for countries along the Silk Road. 2017 C Blue Training Programme is the second time for the Group to offer high-end port and shipping industry-related training courses to various countries. The success of this programme further enhanced China Merchants' influence to countries along the "Belt and Road" initiative and better explicated the Group's corporate goal of "We Connect the World (天涯若比鄰)", at the same time continuing to deepen the school-enterprise cooperation with Shenzhen Polytechnic. Through systematic study of theories and diversified visits and practices, trainees will be able to utilize the extensive knowledge and experience gained to promote the development of port and shipping industry and strengthen the "Belt and Road" initiative and thus promote the economic development of their respective countries.

Public Welfare and Charity

In 2017, the Company organised the fourth activity under "C Blue Restore Sight Project" (招商局一帶一路光明行) in Hambantota, Sri Lanka, a poorly developed region in terms of medical conditions and economic level. The organisation of "Restore Sight Project" brought hopes to patients who are suffering from eye disease in Hambantota and the surrounding areas. The organisation of this event on a continuous basis not only enabled China Merchants to receive wide recognition from the local people, but also contributed to the growth of friendship between China and Sri Lanka, which is beneficial to the promotion of a positive corporate image for the Group's projects in Sri Lanka.

In 2017, adhering to the concept of "Poverty Alleviation, Accompanied by Warmth (幫困扶貧,溫暖同行)", the Group donated over RMB40 million to Kashgar Prefecture, Xinjiang through "Shenzhen Command Office for Frontline Support in Xinjiang" (深圳市對口支援新疆工作前方指揮部), which was used towards facilitating the establishment of a comprehensive bonded area in Kashgar Prefecture and hence pushing ahead with poverty alleviation work in Xinjiang.

The Group carried out extensive charitable and volunteering projects in 2017. Adhering to the objective of promoting environmental protection, serving the community and contributing to the society, the Group's volunteers illustrated the significance of public welfare and environmental protection through practical actions. Several public welfare activities were launched successively, such as "Exploring Ports: Shenzhen Port Green Open Day (走進港口深圳港綠色環保開放日)" activity in the Group's West Shenzhen Port Zone, the Exploring the Community: Charitable Photograhy Classes and Photo Exhibition and Environmental Advocacy Volunteering Activity of SCT (SCT走進社區公益攝影培訓展覽及環保宣傳志願者活動), the "Inheritance and Development (傳承與開拓)" charitable activity of Daxie China Merchants which aims at exploring the community and serving the residents, all of which have received overwhelming responses from the public.

Relief Aid for Natural Disaster Victims

In the event of natural disasters, the Group will work closely with China Merchants Charitable Foundation and the frontline teams of the Company to promptly offer funding and resources to help victims in the affected areas get through the hard times. In 2017, the Company donated RMB350,000 and arrange the shippment of emergency aid of batches of food to flooded areas in Sri Lanka. The Company also donated US$25,000 to disaster-stricken areas in Hambantota, Sri Lanka to support the post-disaster reconstruction of homes and recovery of fishery industry of the local community.

Directors and Senior Management

Directors

Mr. Fu Gangfeng

aged 51, is the Chairman of the Company and the Director and Group President of China Merchants Group Limited. He graduated from Xi'an Highway Scientific Academy with a Bachelor Degree of Finance in September 1987 and a Master Degree of Engineering Management in May 1990, respectively, and became a Certified Senior Accountant. Prior to joining of 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 the Chief Financial Officer of China Merchants Shekou Holdings Co., Ltd. and China Merchants Shekou Industrial Zone Co., Ltd., and has been General Manger of 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 Stock Exchange of Hong Kong Limited. Mr. Fu was appointed to the Board of Directors as Executive Director on 1 June 2015 and then has retired as Executive Director on 29 November 2016. He was also appointed as Executive Director and Chairman of the Board of the Company on 20 March 2018.

Mr. Hu Jianhua

aged 55, is the Vice Chairman of the Company and the Executive Vice President of China Merchants Group Limited. He graduated from the Dalian University of Technology in the PRC with a Bachelor Degree in Port and Waterway Engineering. He then obtained his Master Degree in Construction Management at the University of Birmingham of the United Kingdom and his Doctor Degree in Business Administration at the University of South Australia. He is the Professorial Senior Engineer conferred by Ministry of Transport of China, a fellow member of the Hong Kong Institution of Engineers (FHKIE) and also a fellow member of Institution of Civil Engineering Surveyors of the United Kingdom (FInstCES) respectively. Prior to joining the Company, he was the Managing Director of Hong Kong Zhen Hua Engineering Co., Ltd., Deputy Chief Economist cum General Manager of Overseas Division of China Harbor Engineering Company Group and Managing Director of China Harbor Engineering Company Limited. Having rich working experience in overseas, he has extended the business to over 50 countries and regions in the investment, development, construction and operation management of large infrastructure projects such as ports, portside industrial park, free trade zones and international shipping centres. With experiences as corporate executive, he was the Chairman of China Merchants Logistics Group, Chairman of China Nanshan Develoment (Group) Incorporation, the Vice Chairman of COFCO & 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 Executive Director on 25 May 2007. He was appointed and had retired as the Managing Director of the Company on 26 March 2010 and 16 April 2015 respectively. Mr. Hu was appointed as the Vice Chairman of the Company on 18 February 2016.

Mr. Wang Hong

aged 55, is the Executive Vice President of China Merchants Group Limited. He is also a Chairman of China International Marine Containers (Group) Co., Ltd., shares of which are listed on both the Shenzhen Stock Exchange and The Stock Exchange of Hong Kong Limited. He graduated from Dalian Maritime University in the PRC in Marine Engineering in 1982, and is a holder of Master in Business Administration from Graduate School of Beijing University of Science and Technology and a holder of PhD in Management from Graduate School of China Academy of Social Science. Mr. Wang successively served as General Manager of Shipping Department, General Manager of Finance and Accounting Department, and Vice President of China Communications Import & Export Corp., Managing Director of Hoi Tung Marine Machinery Suppliers Ltd., General Manager of Performance Evaluation Department, Human Resources Department, Strategic and Research Department and Strategic Planning Department and Chief Economist of China Merchants Group Limited, and the Chairman of the Supervisory Committee of China Merchants Energy Shipping Company Limited, shares of which are listed on the Shanghai Stock Exchange. He was the Deputy Managing Director and Chief Operational Officer of the Company, the Vice Chairman of Shanghai International Port (Group) Co., Ltd., shares of which are listed on the Shanghai Stock Exchange, the Chairman of China Merchants Holdings (Pacific) Limited, shares of which are listed on Singapore Exchange Limited, and a Director of China Merchants Property Development Company Limited, shares of which are listed on the Shenzhen Stock Exchange. Mr. Wang has extensive experience in shipping industry, international trading, financing and accounting and human resources management. He was appointed to the Board of Directors as Executive Director on 11 May 2005.

Mr. Su Jian

aged 45, 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 Finance Department of China Merchants Shekou Industrial Zone Company Limited, Senior Manager, Assistant to the Head of Finance Department and Deputy Head of Finance Department of China Merchants Group Limited, Deputy Head of the Organization Department of 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 Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange. He was appointed to the Board of Directors as Executive Director on 12 October 2017.

Mr. Bai Jingtao

aged 52, is a professor level senior engineer and Managing Director of the Company. He graduated from Tianjin University in Department of Hydraulics with a Bachelor Degree of Port and Channel Engineering in 1986, then studied at Graduate School of Wuhan University of Technology and Graduate School of Shanghai Maritime University and obtained a Master Degree of Management Sciences and Engineering and a Doctorate in Transport and Communications Planning and Management, respectively. Prior to his appointment as General Manager of the Company in April 2015, Mr. Bai successively served as an Assistant Engineer in Planning and Design Institute of the Ministry of Communications of the PRC, an Officer in Department of Engineering Management and Department of Infrastructure Management of the Ministry of Communications, Deputy Director and Director in Department of Infrastructure Management and Department of Water Transport of the Ministry of Communications, Deputy General Manager of China Merchants Zhangzhou Development Zone, Deputy Director of Xiamen Port Authority, 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 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 Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange. He was appointed as the Managing Director of the Board of Directors on 1 June 2015.

Mr. Wang Zhixian

aged 52, joined the Company in July 1992 and is the Executive Director of the Company. He is also as Chairman of China Nanshan Development (Group) Incorporation. He graduated from Tianjin University, Shanghai Jiaotong University with a Master degree of Science. He obtained a master degree of Business Administration from Guanghua School of Management of Peking University. Mr. Wang has extensive management experience in port and shipping industry. Prior to joining the Company, he worked in Hempel-Hai Hong Paint Company as sales manager. After joining the Company, he was the Deputy General Manager of Industrial Management Department, General Manager of Business Planning Department, and he was the Deputy General Manager of Shenzhen Mawan Port Services Co., and 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., Deputy General Manager of the Company 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 Stock Exchange of Hong Kong Limited. He was appointed to the Board of Directors as Executive Director on 18 February 2016.

Mr. Zheng Shaoping

aged 54, is the Executive Director and Deputy General Manager of the Company. He graduated from Dalian Maritime University with Postgraduate Diploma in International Maritime Law, and obtained a Master Degree of Business Administration at University of Wales. Mr. Zheng has over 20 years' experience in the field of port management and successively served as the Vice Chairman of China Merchants Bonded Logistics Co., Ltd., the Chairman of Shekou Container Terminals Ltd., the General Manager and Chairman of Chiwan Container Terminal Co., Ltd., the General Manager and the Chairman of Shenzhen Chiwan Harbour Container Co., Ltd. and the Managing Director and the Chairman of Shenzhen Chiwan Wharf Holdings Limited, shares of which are listed on the Shenzhen Stock Exchange. He is also currently a Non-executive Director of Dalian Port (PDA) Company Limited, shares of which are listed on both The Stock Exchange of Hong Kong Limited 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 as Executive Director on 10 February 2012.

Ms. Shi Wei

aged 54, is the Executive Director of the Company and Deputy General Manager of China Merchants Capital Investment Co., Ltd.. She graduated from Anhui University with a Master Degree of International Economics Law, and obtained a Master Degree of Executive Master of Business Management of Cheung Kong Graduate School of Business. Ms. Shi has over 20 years' experience in the field of maritime and port and transportation management and she successively held the post of Head of Legal Section of Transport Management Bureau of Shenzhen Municipality, Vice Commissioner of Shenzhen Highway Management Bureau, the Commissioner of Western Transportation of Transport Commission of Shenzhen Municipality, Deputy Inspector of Transport Commission of Shenzhen Municipality, Deputy General Manager of the Company, the Chairman of Shenzhen Chiwan Wharf Holdings Limited, shares of which are listed on the Shenzhen Stock Exchange, the Chairman of Shenzhen Haixing Harbor Development Company Ltd. and the Chairman of China Merchants Port Service (Shenzhen) Co., Ltd.. She was appointed to the Board of Director as Executive Director on 29 November 2016.

Mr. Kut Ying Hay

aged 62, is a solicitor and a notary public in Hong Kong and had been in practice in the name of Kut & Co. for more than 25 years. He was also a solicitor of the Supreme Court of England and Wales, the Supreme Court of Victoria, Australia, and the Supreme Court of Singapore, and was an associate member of the Institute of Chartered Arbitrators and the Institute of Arbitrators, Australia. He was appointed by the Hong Kong Government as a member of the Board of Review for the period from 1995 to 1998. He has also been appointed by the Ministry of Justice of the PRC as a China Appointed Attesting Officer. Mr. Kut was formerly an Independent Non-executive Director of publicly-listed China Merchants China Direct Investments Limited from June 1993 to October 2011. He was appointed to the Board of Directors as Independent Non-executive Director on 6 June 1992.

Mr. Lee Yip Wah Peter

aged 75, is a retired solicitor. He is also an Independent Non-executive Director of SHK Hong Kong Industries Limited and an Independent Non-executive Director of Sinotrans Shipping Limited, shares of the above two companies are listed on The Stock Exchange of Hong Kong Limited. He was appointed to the Board of Directors as Independent Non-executive Director on 20 June 2001.

Mr. Li Kwok Heem John

aged 62, was a partner at PricewaterhouseCoopers, Certified Public Accountants. He graduated from the Imperial College of the University of London with a Bachelor of Science degree and also obtained a Master of Business Administration degree from the Wharton School of Business of the University of Pennsylvania. He is a Fellow of The Institute of Chartered Accountants in England and Wales. Mr. Li is the immediate past Chairman of the United Christian Medical Service and the United Christian Hospital, a member of the Board of the Hospital Governing Committee of Pamela Youde Nethersole Eastern Hospital and Alice Ho Mui Ling Nethersole Hospital, and a member of the Board of Trustees of Chung Chi College, The Chinese University of Hong Kong. He was appointed to the Board of Directors as Independent Non-executive Director on 8 October 2004.

Mr. Li Ka Fai David

aged 62, is currently the deputy managing partner of Li, Tang, Chen & Co. CPA (Practising). He is also a fellow of the Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants, UK, The Institute of Chartered Secretaries and Administrators, UK as well as The Institute of Chartered Accountants in England and Wales. He is an Independent Non-executive Director and Chairman of audit committee, member of remuneration committee and member of nomination committee of China-Hongkong Photo Products Holdings Limited, an Independent Non-executive Director, Chairman of audit committee, member of remuneration committee and member of nomination committee of Cosmopolitan International Holdings Limited, an Independent Non-executive Director, Chairman of audit committee, member of remuneration committee and member of nomination committee of Goldlion Holdings Limited, an Independent Non-executive Director and Chairman of audit committee of Shanghai Industrial Urban Development Group Limited, an Independent Non-executive Director, member of audit committee and member of remuneration committee of AVIC International Holding (HK) Limited, and an Independent Non-executive Director and Chairman of audit committee of Wai Yuen Tong Medicine Holdings Limited, shares of the above six companies are listed on The Stock Exchange of Hong Kong Limited. He was appointed to the Board of Directors as Independent Non-executive Director on 1 June 2007.

Mr. Bong Shu Ying Francis

aged 75, OBE, JP, is currently a Non-executive Director of Cosmopolitan International Holdings Limited, shares of which are listed on The Stock Exchange of Hong Kong Limited. Mr. Bong holds a Bachelor's degree of Sciences in Engineering from the University of Hong Kong and was the Chairman of the Hong Kong University Engineering Advisory Committee. He is a former President of the Hong Kong Institution of Engineers, a former President of Hong Kong Academy of Engineering Sciences, a Fellow of the Institution of Civil Engineers (UK) and a Fellow of the Institution of Structural Engineers (UK). Mr. Bong is an Honorary Fellow of the University of Hong Kong and he was appointed a Justice of Peace in 1992 by the Government of Hong Kong and he received an OBE award in 1997 for his outstanding contribution to the development of the engineering profession in Hong Kong. Mr. Bong was a former Director of AECOM Technology Corporation, a company listed on the New York Stock Exchange. He was appointed to the Board of Directors as Independent Non-executive Director on 14 July 2010.

Senior Management

Mr. Hang Tian

aged 53, joined the Company in February 2011 and is the Deputy General Manager of the Company. He was honored a Master of Business Administration Degree jointly given by Shanghai Maritime University and Management School of Maastricht of Holland, and also obtained a Master Degree of Supply Chain and Logistics Management at The Chinese University of Hong Kong. Before joining the Company, he was a Regional Manager of Sea-Land Service (China) Co. Ltd., the Deputy General Manager of Shenzhen Shekou China Merchants Port Services Co. Ltd., the General Manager of China Ever Bright Financial Assets Management (HK) Co. Ltd., the Deputy General Manager of ST-Anda Logistics Co. Ltd. and the Deputy General Manager of China Merchants Logistics Holding Co. Ltd..

Mr. Lu Shengzhou

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

Mr. Yim Kong

aged 45, joined the Company in 2006 and currently serves as deputy general manager of the Company. Having obtained an undergraduate degree in International Trade at Xiamen University, he went on to complete a Master of Business Administration co-created by the Maastricht School of Management (Maastricht, the Netherlands) and Shanghai Maritime University. Mr. Yim has rich managerial experience in the port and logistics industries. Prior to joining the Company, he had worked for senior logictics management positions in Neptune Orient Lines (NOL) of Singapore and Swire Group of Hong Kong; and was Deputy General Manager, Deputy Executive Manager, and General Manager of Shekou Container Terminals Limited, one of the Company's subsidiaries; and Chief Business Officer of the Company from May to November of 2016.

Mr. Lu Yongxin

aged 47, joined the Company in 2007 and currently serves as deputy general manager of the Company. He obtained a master's degree in Project Management at the Curtin University of Technology (Perth, Western Australia). Mr. Lu has gathered rich managerial experience in the international portfolio expansion activities of port companies. Prior to joining the Company, he had served as Assistant General Manager of Zhen Hua Engineering Co., Ltd. and Deputy General Manager in charge of the General Manager's Office at China Harbor Engineering Co. Ltd. (Beijing). He was Deputy General Manager of the Research & Development Division, General Manager of the International Division, and Assisant General Manager of the Company. Between May, 2014 and January, 2016, Mr. Lu was accredited to France as Chief Financial Officer and Senior Vice President of Terminal Link.

Mr. Li Yubin

aged 45, joined the Company in 2007 and currently serves as deputy general manager of the Company and 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, he 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 port and logistics industries. Prior to joining the Company, he had served as Accredited Deputy General Manager of the Road & Bridge Project at China Harbor Engineering Co.'s Bangladeshi Office and Project Director at the International Division of China Harbor Engineering Co. Ltd. After joining the Company, he was Assistant General Manager of the Group Marketing and Commercial Department, General Manager of the Strategy and Operations Department, Deputy Chief Economist and General Manager of the Strategy and Operations Department, Deputy Chief Economist and General Manager of China Merchants Bonded Logistics Co. Ltd.

Mr. Zhang Yi

aged 46, is a senior economist and the Deputy General Manager of the Company. 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 Planning and Development Bureau of Zhanjiang Port Authority, Deputy Director of Planning and Development Bureau of Zhanjiang Port Authority, Assistant Director of Zhanjiang Port Authority, Director of Zhanjiang Port (Group) Co. Ltd., President of Zhanjiang Port (Group) Co. Ltd., and the Chairman of Zhanjiang Port (Group) Co. Ltd..

Report of the Directors

The Board is pleased to present the Company's annual report together with the audited financial statements for the year ended 31 December 2017. All references in this section "Report of the Directors" to other sections in this Annual Report form part of this section.

Principal activities and geographical analysis of operations

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

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

Results and appropriations

The results of the Group for the year are set out in the consolidated statement of profit or loss on page 104.

The Board had declared aggregate interim dividends of HK$1.57 per Share of the Company (the "Interim and Special Dividends"), comprising an interim dividend for the six months ended 30 June 2017 of HK$0.22 per Share and a special interim dividend of HK$1.35 per Share celebrating the 25th listing anniversary of the Company, totaling HK$4,980 million, which was paid on 16 November 2017.

The Directors have resolved to recommend the payment of a final scrip dividend of 59 HK cents per share, totaling HK$1,934 million for the year ended 31 December 2017 by way of an issue of new shares with an alternative to the shareholders of the Company (the "**Shareholders**") to elect to receive the final dividend (or part thereof) in cash in lieu of such allotment (2016: scrip dividend of 65 HK cents per share by way of issue of new shares equivalent with cash alternative), payable on or around 17 July 2018 to the shareholders whose names appear on the register of members of the Company (the "**Register of Members**") on 8 June 2018 (the "**Scrip Dividend Scheme**").

Subject to the approval by the Shareholders at the annual general meeting of the Company to be held on 1 June 2018, a circular containing details of the Scrip Dividend Scheme together with the relevant election form will be sent to shareholders on or around 13 June 2018. The Scrip Dividend Scheme is conditional upon the granting by the Listing Committee of the Stock Exchange of the listing of and permission to deal in the new shares to be issued pursuant thereto. It is expected that the final dividend warrants and certificates for the new shares will be despatched to Shareholders on or around 17 July 2018.

Business review

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

Principal subsidiaries

The particulars of the principal subsidiaries of the Company are set out from pages 213 to 216 of this Annual Report.

Charitable donations

HK$42.70 million donation was made by the Group during the year (2016: HK$6.80 million).

Reserves

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

Property, plant and equipment

Details of the movements in property, plant and equipment of the Group and the Company are set out in note 17 to the consolidated financial statements.

Shares issued

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

Distributable reserves

Distributable reserves of the Company as at 31 December 2017 amounted to HK$4,088 million (2016: HK$3,257 million).

Five-year financial summary

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out from page 26 to 27 of this Annual Report.

Purchase, sale or redemption of shares

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

Directors

The Directors during the year ended 31 December 2017 and up to the date of this report were:

Executive Directors:

Mr. Li Xiaopeng *(Chairman)*
(resigned on 11 January 2018)
Mr. Fu Gangfeng *(Chairman)*
(appointed on 20 March 2018)
Mr. Hu Jianhua *(Vice Chairman)*
Mr. Wang Hong
Mr. Hua Li (resigned on 12 October 2017)
Mr. Su Jian (appointed on 12 October 2017)
Mr. Bai Jingtao *(Managing Director)*
Mr. Wang Zhixian
Mr. Zheng Shaoping
Ms. Shi Wei

Independent Non-executive Directors:

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

Biographical details of each Director and member of senior management of the Company are set out in the Directors and Senior Management on pages 73 to 79 of this Annual Report.

Mr. Hua Li, resigned as Executive Director of the Company with effect from 12 October 2017 due to health reason. Besides, Mr. Li Xiaopeng resigned as Executive Director and Chairman of the Board of the Company with effect from 11 January 2018 due to change of job assignment.

In accordance with Article 89 of the Articles of Association, Mr. Bai Jingtao, Mr. Kut Ying Hay, Mr. Lee Yip Wah Peter, Mr. Li Kwok Heem John and Mr. Li Ka Fai David will retire from the Board at the forthcoming annual general meeting but, being eligible, will offer themselves for re-election. Pursuant to Article 95 of the Articles of Association, Mr. Fu Gangfeng and Mr. Su Jian shall retire from office at the forthcoming annual general meeting and shall be eligible and offer themselves for re-election.

Each of the Directors has entered into an appointment letter with the Company for a term of three years. The appointment date of each of Directors are as follows:

One Executive Director's appointment commenced on 18 February 2016;

One Executive Director's appointment commenced on 29 November 2016;

One Executive Director's appointment commenced on 12 October 2017;

One Executive Director's appointment commenced on 20 March 2018;

Three Executive Directors' appointment commenced on 29 March 2018;

One Executive Director's appointment commenced on 1 June 2018;

One Non-Independent executive Director's appointment commenced on 1 June 2016;

One Non-Independent executive Director's appointment commenced on 14 July 2016; and

Three Non-Independent executive Directors' appointment commenced on 22 March 2017.

The appointment of each of the Directors is subject to retirement by rotation in accordance with the Articles of Association.

The Company has received annual confirmations from each of the Independent Non-executive Directors in relation to their independence to the Company and considers that each of the Independent Non-executive Directors is independent of the Company.

Directors of Subsidiaries

The name of persons who have served on the board of the subsidiaries of the Company during the year ended 31 December 2017 and up to the date of this report are Mr. Hu Jianhua, Mr. Bai Jingtao, Mr. Wang Zhixian, Mr. Zheng Shaoping and Ms. Shi Wei.

Directors' service contracts

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' interests in transactions, arrangements or contracts

No transactions, arrangements or contracts of significance in relation to the Group's business to which the Company, its holding companies, its fellow subsidiaries or its subsidiaries was a party and in which a Director of the Company or his connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' interests in securities

As at 31 December 2017, the interests of the Directors of the Company in the securities of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "**SFO**"), as recorded in the register maintained by the Company under Section 352 of the SFO were as follows:

Shares and Share Options in the Company

Name of Director	Capacity	Nature of interest	Number of shares held in the Company	Number of shares in the Company subject to share options granted	Percentage of aggregate long position in shares held to the issued shares as at 31 December 2017
Mr. Wang Hong	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%

Save as disclosed above and based on the register maintained by the Company under section 352 of the SFO, as at 31 December 2017, none of the Directors or chief executive of the Company or any of their associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required, pursuant to section 352 of the SFO, to be entered in the register or which are required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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

Pension scheme

Details of the pension scheme, maintained by the Group, contributions made and forfeiture utilised during the year are set out on page 140 to 141 of this Annual Report.

Share option scheme

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

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

Details of the Share Option Scheme are as follows:

(i) Purpose

The purpose of the Share Option Scheme is to provide the Company with a flexible means of incentivising, rewarding, remunerating, compensating and/or providing benefits to Eligible Persons.

(ii) Qualifying participants

Any Eligible Persons.

(iii) Maximum number of shares

(1) 10% limit

Subject to (iii)(2) and (iii)(3) below, the total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any options granted under the share option scheme of the Company adopted on 26 June 1992 and terminated on 20 December 2001 and the share option scheme of the Company adopted on 20 December 2001 and terminated on 9 December 2011 (the "**Terminated Schemes**") must not in aggregate exceed 10% of the shares in issue as at the Adoption Date. Options lapsed in accordance with the terms of the Share Option Scheme and the Terminated Schemes will not be counted for the purpose of calculating the 10% limit.

(2) Refreshing the 10% limit

Subject to (iii)(5) below if applicable, the Board may, with the approval of the shareholders in general meeting "refresh" the 10% limit under (iii)(1) above (and may further "refresh" such limit once refreshed in accordance with the provisions of this rule), provided that the total number of shares which may be issued upon the exercise of all options to be granted under the Share Option Scheme and options granted under the Terminated Schemes under the limit as refreshed shall not exceed 10% of the shares in issue at the date on which the shareholders approve the "refreshed" limit. Options previously granted under the Share Option Scheme and the Terminated Schemes (including those outstanding, cancelled, lapsed or exercised in accordance with the terms of the relevant schemes) will not be counted for the purpose of calculating the limit as "refreshed".

(3) Exceeding the 10% limit

The Board may grant option to any Eligible Person or Eligible Persons specifically identified by them which would cause the limit under (iii)(1) above (including, for the avoidance of doubt, any such limit as "refreshed" under (iii) (2) above) to be exceeded, but only with the approval of the shareholders of the Company in general meeting, and subject always to (iii)(5) below.

(4) Individual limit

(a) Subject to (iii)(4)(b) below (and subject always to (iii)(5) below), the Board shall not grant any option (the "**Relevant Options**") to any Eligible Person which, if exercised, would result in such Eligible Person becoming entitled to subscribe for such number of shares as, when aggregated with the total number of shares already issued or to be issued to him/her under all options granted to him/her in the 12-month period up to and including the date of grant of the Relevant Options, exceed 1% of the shares in issue at such date.

(b) Notwithstanding (iii)(4)(a) above, the Board may grant options to any Eligible Person or Eligible Persons causing the limit under (iii)(4)(a) above in relation to such Eligible Person to be exceeded, but only with the approval of the shareholders of the Company in general meeting (with such Eligible Person and his associates abstaining from voting), and subject always to (iii)(5) below.

(5) 30% maximum limit

The number of shares which may be issued upon exercise of all outstanding options granted and not yet exercised under the Share Option Scheme and the Terminated Schemes to Eligible Persons must not exceed 30% of the shares in issue from time to time.

(iv) Option period

Subject to certain provisions, an option under the Share Option Scheme which is vested and has not lapsed may be exercised at any time up to the expiry of 10 years (or less, as the case may be) from the date of grant of the option. The exercise of the options may be subject to any conditions imposed by the Board at the time of offer. The rules of the Share Option Scheme do not contain specific provisions for the minimum period which an option must be held before exercise or performance targets applicable to the options.

(v) Payment for option

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

(vi) Subscription price

The subscription price for the shares in respect of which options are granted shall not be less than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 trading days immediately preceding the date of grant; and (iii) the nominal value of the shares.

(vii) The remaining life of the Share Option Scheme

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

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

As at 29 March 2018, no shares may be issued pursuant to the exercise of options granted under the Terminated Schemes.

As at 29 March 2018, the total number of shares available for issue under the Terminated Schemes and the Share Option Scheme was 247,441,123 shares, which represent approximately 7.55% of the total issued shares of the Company as at the same date.

Substantial shareholders

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

Long Positions

Name of Substantial shareholder	Capacity	Shares/underlying shares held	Percentage to total issued shares
China Merchants Group Limited	Interest of Controlled Corporation	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 Company Limited ("**Orienture**") is in turn wholly-owned by Top Chief. CMSIZ is deemed to be interested in the 3,000,000 shares which are deemed to be interested by Top Chief. Such shares represent the 3,000,000 shares beneficially held by Orienture.

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

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

Short Positions

Nil

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

Directors' rights to acquire shares or debentures

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

Permitted Indemnity Provision

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

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

Equity-Linked Agreements

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

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

Connected transactions

During the year ended 31 December 2017, the Group entered into the following transactions, which constituted connected transactions under the Listing Rules, and are required to be disclosed in accordance with Chapter 14A of the Listing Rules:

(a) On 16 January 2017, the Company entered into (i) a shareholders agreement with, inter alia, China Merchants Investment Development Company Limited (招商局投資發展有限公司) ("**CMID**") and Cheer Signal Investment Limited (喜銓投資有限公司) ("**Cheer Signal**") in relation to Lac Assal Investment Holding Company Limited (阿薩勒湖投資控股有限公司) (the "**Asset Joint Venture**") (the "**Asset Company Shareholders Agreement**"); and (ii) a shareholders agreement with, inter alia, CMID, Cheer Signal, Port of Dalian Group Co., Ltd. (大連港集團有限公司) ("**PDA**") and IZP (China) Network Technologies Co., Ltd. (億贊普(中國)網絡技術有限公司) ("**IZP**") in relation to East Aden Holding Company Limited (東方亞丁控股有限公司) (the "**O&M Joint Venture**") (the "**O&M Shareholders Agreement**"), in each case, in connection with the proposed investment in the Djibouti International Free Trade Zone. Each of the Company, CMID and Cheer Signal shall have a 40%, 40% and 20% interest in the Asset Joint Venture, respectively and each of the Company, CMID, Cheer Signal, PDA and IZP shall have a 26.7%, 26.7%, 13.3%, 25% and 8.3% interest in the O&M Joint Venture, respectively. The respective amounts to be paid by each of the Company, CMID and Cheer Signal for the subscription of the shares of the Asset Joint Venture are HK$4,000, HK$4,000 and HK$2,000, respectively. The respective amounts that have been paid by each of the Company, CMID, Cheer Signal, PDA and IZP for the subscription of the shares in the O&M Joint Venture are USD320,400 (equivalent to approximately HK$2,499,120), USD320,400 (equivalent to approximately HK$2,499,120), USD159,600 (equivalent to approximately HK$1,244,880), USD300,000 (equivalent to approximately HK$2,340,000) and USD99,600 (equivalent to approximately HK$776,880), respectively. Each of CMID and Cheer Signal is an associate of CMG, the ultimate holding company of the Company, and therefore connected persons of the Company. Accordingly, the Asset Company Shareholders Agreement and the O&M Shareholders Agreement constitute connected transactions of the Company.

(b) On 31 March 2017, Malai Storage (Shenzhen) Company Limited (碼來倉儲 (深圳) 有限公司) ("**Malai Shenzhen**"), a subsidiary of the Company, China Merchants Haixing Holdings Private Company Limited (招商局海星控股私人有限公司) ("**China Merchants Haixing**"), a subsidiary of the Company, and Sinotrans Guangdong Limited (中國外運廣東有限公司) ("**Sinotrans Guangdong**") entered into a supplemental agreement in relation to the capital increase of Shenzhen Haixing Harbour Development Company Ltd. (深圳海星港口發展有限公司) ("**Haixing Harbour**"), a subsidiary of the Company (the "**Supplemental Agreement**"). Pursuant to the Supplemental Agreement, the parties agreed to contribute additional capital of an aggregate amount of RMB438,000,000 (equivalent to approximately HK$494,000,000) into Haixing Harbour. The amount of additional capital to be contributed by Malai Shenzhen and China Merchants Haixing will be RMB293,460,000 (equivalent to approximately HK$331,000,000) in aggregate and the amount of additional capital to be contributed by Sinotrans Guangdong will be RMB144,540,000 (equivalent to approximately HK$163,000,000). Following completion of the additional capital contribution, Haixing Harbour will remain as to 67% held by the Company (through Malai Shenzhen and China Merchants Haixing) and as to 33% held by Sinotrans Guangdong. Sinotrans Guangdong is a subsidiary of Sinotrans & CSC Holdings Co., Ltd. (中國外運長航集團有限公司)("**Sinotrans & CSC**"), a wholly-owned subsidiary of CMG, and is therefore a connected person of the Company. Consequently, Haixing Harbour (in which Sinotrans Guangdong holds a 33% interest) is a connected subsidiary of the Company and is therefore also a connected person of the Company. Accordingly, the transaction contemplated under the Supplemental Agreement constitutes a connected transaction of the Company.

(c) On 7 April 2017, the Company entered into a share purchase agreement (the "**Share Purchase Agreement**") with China Merchants Industry Holdings Company Limited (招商局工業集團有限公司) ("**CMIHCL**"), pursuant to which the Company agreed to sell the one ordinary share of Soares Limited ("**Soares**"), a wholly-owned subsidiary of the Company, representing the entire issued share capital of Soares (the "**Sale Share**"), and to assign all the shareholder loan advanced by the Company to Soares and outstanding as at the closing of the Share Purchase Agreement (the "**Shareholder Loan**") to CMIHCL. The principal asset of Soares is its indirect interest in the 730,557,217 H shares of China International Marine Containers (Group) Co., Ltd. (中國國際海運集裝箱 (集團) 股份有限公司) ("**CIMC**"), representing approximately 24.53% of the total issued share capital of CIMC as at 31 December 2016 and the entire indirect interest of the Company in CIMC. The total consideration for the sale and purchase of the Sale Share and the assignment of the Shareholder Loan under the Share Purchase Agreement is HK$8,542,964,799. As CMIHCL is an indirect wholly-owned subsidiary of CMG, it is therefore a connected person of the Company and the transaction constitute a connected transaction of the Company.

(d) On 17 August 2017, the Company and Khor Ambado Free Zone Company FZCO (the "**Djibouti Asset Company**") entered into a loan agreement, pursuant to which the Company agreed to grant a loan facility of up to US$150 million (equivalent to approximately HK$1,170 million) to the Djibouti Asset Company (the "**CMP Loan Agreement**"). The Djibouti Asset Company shall apply all amounts borrowed by it under the CMP Loan Agreement for the purpose of granting a loan facility of up to US$150 million (equivalent to approximately HK$1,170 million) to Port De Djibouti S.A. The CMP Loan Agreement has an initial term of one year and is extendable for a period of one year each if agreed by the Company and the Djibouti Asset Company provided that the aggregate term shall not exceed 10 years. The Djibouti Asset Company is a free trade zone limited liability company incorporated in Djibouti established for the purpose of investing in and financing the development rights to develop commercial and infrastructure projects within the Djibouti International Free Trade Zone. The Djibouti Asset Company is owned as to 30% by the Asset Joint Venture (in which the Company has a 40% interest with the remaining 60% held by associates of CMG) and as to 60% and 10% by Great Horn Investment Holdings SAS and PDA, respectively. The Djibouti Asset Company is an associate of CMG, and therefore a connected person of the Company. Accordingly, the transaction contemplated under the CMP Loan Agreement constitutes a connected transaction of the Company.

(e) On 4 October 2017, China Merchants Holdings (International) Information Technology Co., Ltd (招商局國際信息技術有限公司) ("**CMHIT**"), a subsidiary of the Company, entered into an agreement with the Djibouti Asset Company, pursuant to which, CMHIT has agreed to develop certain IT software and systems for the Djibouti Asset Company including network systems, CCTV systems, IT data centers and other business management software (the "**IT Development Agreement**"). The total contract price under the IT Development Agreement is US$6,875,763.60 (equivalent to approximately HK$53,716,215.55) and will be paid in stages. The contract price was determined through a competitive tender process arranged by the Djibouti Asset Company. The Djibouti Asset Company is an associate of CMG and therefore a connected person of the Company. Accordingly, the transaction contemplated under the IT Development Agreement constitutes a connected transaction of the Company.

(f) Details of the continuing connected transactions of the Group for the year ended 31 December 2017 that are subject to the reporting and annual review requirements under the Listing Rules are set out below:

Name of party	Nature of transaction	Note	Annual Caps HK$' million
Euroasia Dockyard Enterprise and Development Limited ("**Euroasia**")	Rental of a piece of land at Tsing Yi Terminal charged to the Group	(i)	(15.0)
CMSIZ	Rental of 16 parcels of land in Shekou charged to the Group	(ii)	(25.1)* (for the year ended 31 December 2017 but the agreement expired on 30 June 2017)
CMSIZ	Rental of 14 parcels of land in Shekou charged to the Group	(ii)	(12.5)* (for the 6 months ended 31 December 2017)
CMSIZ	Rental of certain property assets charged to the Group	(iii)	(22.5)*
Yiu Lian Dockyards Limited ("**Yiu Lian**")	Provisions of ship berthing services for bringing ships into and from the Tsing Yi Terminal charged to the Group	(iv)	(14.5)
Sinotrans & CSC	Provision of port-related services charged by the Group	(v)	92.6*
Sinotrans & CSC	Provision of agency services charged to the Group	(v)	(15.3)*
China Merchants Bank Co., Ltd. ("**CMB**")	Placing of deposits	(vi)	2,500
China Merchants Loscam (China) Investment Holding Co., Ltd. (招商路凱 (中國) 投資控股有限公司) ("**Loscam China**"), Zhangzhou China Merchants Port Co., Ltd. (漳州招商局碼頭有限公司) ("**ZCMP**"), Shenzhen Xunlong Shipping Co., Ltd. (深圳訊隆船務有限公司) ("**Xunlong**") and China Ocean Shipping Agency Shenzhen (中國深圳外輪代理有限公司) ("**Penavico SZ**") and other associates of CMG	Provision of technology services charged by the Group	(vii)	12.7*

Name of party	Nature of transaction	Note	Annual Caps HK$' million
China Merchants Property Management Company Limited (招商局物業管理有限公司) ("**CMPM**")	Provision of property services charged to the Group	(viii)	(15.1)*
China Merchants Group Finance Co., Ltd. (招商局集團財務有限公司) (formerly known as Sinotrans & CSC Finance Company Limited (中國外運長航財務有限公司)) ("**China Merchants Finance**")	Placing of deposits	(ix)	3,500
Sinotrans Air Transportation GmbH ("**Sinotrans Air**")	Provision of proxy services	(x)	N/A

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

Notes:

(i) China Merchants Container Services Limited ("**CMCS**"), an indirect wholly-owned subsidiary of the Company and Euroasia entered into a cooperation agreement on 18 December 2015 to renew the lease of the piece of land in Tsing Yi. The cooperation agreement has a term of two years commencing on 1 January 2016 and ended on 31 December 2017. The annual rental payable by CMCS to Euroasia under the cooperation agreement is HK$14,922,732 for the year ended 31 December 2017. In additional to rental, CMCS is also responsible for any additional government rates and land premium payable to the Government of Hong Kong in respect of the leased land. On 23 December 2016, the Directors resolved that the annual cap in respect of the rental to be paid by CMCS to Euroasia under cooperation agreement shall be HK$15,000,000 for the year ended 31 December 2017. The annual rental paid by CMCS to Euroasia under the cooperation agreement for the year ended 31 December 2017 was HK$14,922,732. In view of the expiry of the cooperation agreement, on 28 December 2017, CMCS entered into a new cooperation agreement with Euroasia to renew the cooperation agreement for a term of two years commencing on 1 January 2018 and ending on 31 December 2019. The annual rental payable by CMCS to Euroasia under the new cooperation agreement is HK$15,473,212 for the year ending 31 December 2018 and 2019. In additional to rental, CMCS is also responsible for any additional government rates and land premium payable to the Government of Hong Kong in respect of the leased land. The Directors are of the view that the transaction contemplated under the cooperation agreement is in line with the Group's strategy to expand in port and port-related business. As Euroasia is an indirect wholly-owned subsidiary of CMG, it is a connected person of the Company.

(ii) China Merchants Port Services (Shenzhen) Company Limited ("**SCMPS**") and CMSIZ entered into a lease agreement on 18 December 2015 to renew the lease of 16 parcels of land in Shekou Industrial Park for a term of 18 months commencing on 1 January 2016 and ended on 30 June 2017. On 23 December 2016, the Directors resolved to set the annual caps in respect of the rental to be paid by SCMPS to CMSIZ for year ended 31 December 2017 at RMB22,304,000 (equivalent to approximately HK$25,100,000). The total rental paid by SCMPS to CMSIZ under the lease agreement for the 6 months ended 30 June 2017 was approximately RMB11,000,000 (equivalent to approximately HK$12,600,000). In view of the expiry of the lease agreement on 30 June 2017, on 13 June 2017, SCMPS and CMSIZ entered in a new lease agreement to renew the lease for 14 out of the 16 parcels of land in Shekou Industrial Park of the PRC for a term of 30 months commencing on 1 July 2017 and ending on 31 December 2019. The aggregate amount of rental payable by SCMPS to CMSIZ under the new lease agreement is RMB10,860,109.41 (equivalent to approximately HK$12,500,000) for the six months ended 31 December 2017. The total rental paid by SCMPS to CMSIZ under the lease agreement for the 6 months ended 31 December 2017 was approximately RMB10,800,000 (equivalent to approximately HK$12,500,000). The Directors are of the view that the transactions contemplated under the lease agreement are in line with the Group's strategy to expand in port and port-related business. CMSIZ is an indirect subsidiary of CMG and accordingly, CMSIZ is a connected person of the Company.

(iii) SCMPS and CMSIZ entered into a lease agreement on 18 December 2015 to continue to lease certain property assets from CMSIZ for a term of two years commencing on 1 January 2016 and ended on 31 December 2017. The maximum annual total rental payable by SCMPS to CMSIZ under the lease agreement shall not exceed RMB20,000,000 (equivalent to approximately HK$22,500,000) for the year ended 31 December 2017. The total rental paid by SCMPS to CMSIZ under the lease agreement for the year ended 31 December 2017 was approximately RMB6,900,000 (equivalent to approximately HK$8,000,000). In view of the expiry of the lease agreement on 31 December 2017, on 28 December 2017, SCMPS entered into a new lease agreement with CMSIZ to renew the lease. The new lease agreement has a term of two years commencing on 1 January 2018 and ending on 31 December 2019. The maximum annual total rental payable by SCMPS to CMSIZ under the new lease agreement is approximately RMB6,800,000 (equivalent to approximately HK$8,000,000) for each of the years ending 31 December 2018 and 2019. CMSIZ is an indirect subsidiary of CMG and accordingly, CMSIZ is a connected person of the Company.

(iv) On 23 December 2016, CMCS and Yiu Lian entered into a ship berthing services agreement, pursuant to which Yiu Lian agreed to provide barges for bringing ships into and from the Tsing Yi Terminal for a term of one year commencing on 1 January 2017 and ended on 31 December 2017 at a rate of HK$3,050 per barge and CMCS shall be responsible for the payment of fuel oil surcharge of HK$300 per barge for each time the barge has brought ships into and from the Tsing Yi Terminal. On the same day, the Directors resolved that the annual cap in respect of the aggregate ship berthing fees payable under the ship berthing services agreement for the year ended 31 December 2017 at HK$14,500,000 and the aggregate ship berthing fees paid by CMCS to Yiu Lian under the ship berthing services agreement for the year ended 31 December 2017 was HK$10,100,000. On 28 December 2017, in view of the expiry of the ship berthing services agreement, CMCS and Yiu Lian entered into a new ship berthing services agreement for the year ending 31 December 2018, pursuant to which Yiu Lian agreed to continue to provide barges at a rate of HK$3,050 per barge, and CMCS shall be responsible for the payment of fuel oil surcharge of HK$300 per barge for each time the barge has brought ships into and from the Tsing Yi Terminal. The Directors resolved to set the annual cap in respect of the aggregate ship berthing fees payable by CMCS under the ship berthing services agreement for the year ending 31 December 2018 at HK$14,500,000. The Directors are of the view that the provision of ship berthing services by Yiu Lian will enhance the efficiency of the business operation of the company and the ship berthing rate is at a relatively lower fee as compared to market fee, which is beneficial to the Group as it will result in cost savings. Yiu Lian is an indirect wholly-owned subsidiary of CMG and accordingly, a connected person of the Company.

(v) On 15 June 2016, the Company and Sinotrans & CSC entered into a comprehensive services framework agreement which sets out a framework for (a) the provision of port-related services by members of the Group to members of the Sinotrans & CSC group, and (b) the provision of agency services by members of the Sinotrans & CSC group to members of the Group. The agreement is valid until 31 December 2018 and provides that the provision of port-related services by members of the Group to members of the Sinotrans & CSC group, and the provision of agency services by members of the Sinotrans & CSC group to members of the Group shall be at prices that are fair and reasonable and shall be at terms not less favourable than those provided to independent third parties. Further specific agreements will be entered into between the relevant members of the Group and relevant members of the Sinotrans & CSC group in respect of each transaction within the scope of the framework agreement and the Company and Sinotrans & CSC shall procure their respective subsidiaries to ensure that the terms of the specific agreements are entered into in accordance with the principles set out in the framework agreement. The specific price for each transaction shall be negotiated at arm's length by the relevant member of the Group and the relevant member of the Sinotrans & CSC group at the time when the transaction is entered into. With respect to the provision of port-related services, the price to be charged will be based on the then prevailing standard fee schedule applicable to the relevant port and calculated with reference to the type of vessel and the weight of cargo to be handled. With respect to the receipt of agency services, the relevant member of the Group will, prior to the entering into of the specific agreement, solicit at least two other offers from independent third parties to ensure that the price quoted by the relevant member of the Sinotrans & CSC group complies with the relevant provisions under the framework agreement. On the same day, the Directors resolved that the annual caps in respect of the provision of the port-related services and agency services for the year ended 31 December 2017 shall be RMB78,000,000 (equivalent to approximately HK$92,600,000) and RMB6,500,000 (equivalent to approximately HK$7,700,000), respectively. In light of the growing business volume between the Group and Sinotrans & CSC group, on 3 November 2017, the Directors resolved that the annual caps in respect of the provision of agency services for the year ended 31 December 2017 shall be revised to RMB13,000,000 (equivalent to approximately HK$15,300,000). The aggregate service fee received by the Group for port-related services and the service fee paid by the Group for agency services for the year ended 31 December 2017 was RMB24,700,000 (equivalent to approximately HK$28,500,000) and RMB12,200,000 (equivalent to approximately HK$14,100,000), respectively. The core business of the Group includes port and port-related business. Sinotrans & CSC group is one of the biggest comprehensive logistics service supplier in China with world-wide businesses in integrated logistics, shipping and shipbuilding industry. The provision of port-related services to, and the receipt of agency services from, Sinotrans & CSC group will further strengthen the business relationship between the two groups and the Directors are of the view that this is beneficial to the Group. Sinotrans & CSC is a wholly-owned subsidiary of CMG and is therefore a connected person of the Company.

(vi) The Group has from time to time placed money deposits with, and CMB has accepted such deposits in the ordinary and usual course of its business from the Group and in accordance with its applicable standard client terms. The interest rates provided by CMB on these deposits are determined with reference to rates published by the People's Bank of China and no less than the interest rate offered by CMB to other independent third parties for the same type of deposits. This was conducted on a regular and continuing basis and in the ordinary and usual course of business of the Group. On 15 June 2016, the Directors resolved to set the annual cap in respect of the monthly closing balance of deposits placed by the Group with CMB at HK$2,500 million for each of the years ending 31 December 2017 and 2018. The closing balance of deposits placed by the Group with CMB as at year ended 31 December 2017 was HK$1,111 million. The Group maintains an appropriate treasury management policy to ensure that its surplus funds are invested under a range of suitable options, including by deposit with various financial institutions. CMB is a company incorporated in the PRC and its principal activities are provision of corporate and personal banking services, conducting treasury business, provision of asset management and trustee services and other financial services. It is also one of the most established banks in Greater China Region, which offers a competitive deposit rate. The Directors considered that the deposit rate offered by CMB to the Group was on normal commercial terms and reflected the then prevailing deposit rate offered by CMB to third parties. The Directors believe that maintaining deposits with CMB will enable the Group to meet its anticipated day-to-day working capital requirements, while also enjoying a competitive deposit rate, which is in the interests of the Group. CMB is an associate of CMG and is therefore a connected person of the Company.

(vii) CMHIT, a wholly-owned subsidiary of the Company, had entered into various service agreements with various associates of CMG (namely Loscam China, ZCMP, Xunlong and Penavico SZ) and other associates of CMG in relation to the provision of certain technology services (including system and software development, upgrade, maintenance, technical support, data processing and related training). The term of these service agreements ranges from six months to three years. On 28 July 2016, the Directors resolved to set an aggregate annual cap of RMB11,000,000 (equivalent to approximately HK$12,700,000) in respect of the annual aggregate service fees payable by associates of CMG to the Group for technology services for each of the years ending 31 December 2017 and 2018. The aggregate service fees paid by the associates of CMG was RMB10,400,000 (equivalent to approximately HK$12,000,000) for the year ended 31 December 2017. CMHIT is an information technology solution provider specialising in port, terminal and logistics industry as well as improvement of logistics customs clearance. The provision of technology services by CMHIT to certain associates of CMG will enhance the business operation efficiency and generate more revenue for the Group. Each of Loscam China, ZCMP, Xunlong and Penavico SZ is an associate of CMG, and therefore a connected person of the Company.

(viii) On 11 October 2016, Shenzhen Jinyu Rongtai Investment Development Company Limited (深圳金域融泰投資發展有限公司) ("**Shenzhen Jinyu**"), a wholly-owned subsidiary of the Company, and CMPM entered into a supplemental property services agreement to amend certain payment terms under a previous property services agreement, which is in relation to the provision of certain property services (such as cleaning, repair and maintenance, security and other daily management services) by CMPM for a property. The term of the property services agreement (as amended by the supplemental property services agreement) is three years from the date of completion of construction of the property, which is 11 March 2016. On 28 October 2016, the Directors resolved to set the annual cap in respect of the fees payable to CMPM under the agreement at RMB13,000,000 (equivalent to approximately HK$15,100,000), RMB13,000,000 (equivalent to approximately HK$15,100,000) and RMB2,550,000 (equivalent to approximately HK$2,960,000) for the year ended 31 December 2017, for the year ending 31 December 2018 and for the two months and eleven days ending 11 March 2019, respectively. The aggregate amount of fees paid by Shenzhen Jinyu for the year ended 31 December 2017 was RMB11,800,000 (equivalent to approximately HK$13,700,000). CMPM is an indirect subsidiary of CMG and accordingly, a connected person of the Company.

(ix) On 23 December 2016, the Company and China Merchants Finance entered into a financial services agreement for a term of three years commencing from the date of completion of the proposed merger between CMG and Sinotrans & CSC to set out the framework for future transactions in relation to, inter alia, the depositing of money by the Group with China Merchants Finance at rates no less than those offered by major domestic commercial banks. On the same day, the Directors resolved to set the cap in respect of the daily closing balance of the aggregate amount of deposit that may be placed by the Group with China Merchants Finance at any point of time during the term of the financial services agreement at HK$50,000,000. On 31 March 2017, the Directors resolved to further revise the cap in respect of the daily closing balance of the aggregate amount of deposit that may be placed by the Group with China Merchants Finance at any point of time during the term of the financial services agreement at HK$500,000,000 and on 4 October 2017, the Directors further revised the cap in respect of the daily closing balance of the aggregate amount of deposit that may be placed by the Group with China Merchants Finance at any point of time during the term of the financial services agreement at HK$3,500,000,000. The maximum amount of deposit placed by the Group at any point of time during the year ended 31 December 2017 was HK$724,252,624.03. The Directors are of the view that since the terms of the financial services agreement provide that the various fees and charges to be paid to China Merchants Finance will be no higher than those offered by similar financial institutions and the other terms and rates offered shall also be no less favourable than those offered by other similar financial institutions, therefore the agreement will offer alternatives for financial services and will improve the overall efficiency of the Group's use of funds and lower the Group's financing costs. China Merchants Finance is a subsidiary of Sinotrans & CSC (a wholly-owned subsidiary of CMG) and accordingly, a connected person of the Company.

(x) On 28 December 2017, China Merchants (Luxembourg) S.a.r.l., a wholly-owned subsidiary of the Company ("**CM Luxembourg**"), and Sinotrans Air entered into a proxy services agreement for a term of one year commencing on 1 January 2018 and ending on 31 December 2018 (the "**Proxy Services Agreement**"). No proxy service fee was paid by CM Luxembourg to Sinotrans Air for the year ended 31 December 2017. Pursuant to the Proxy Services Agreement, Sinotrans Air will manage and operate CM Luxembourg's air freight business for an annual management fee of EUR2,000,000 (equivalent to approximately HK$18,540,000). Under the Proxy Services Agreement, Sinotrans Air will provide proxy services to CM Luxembourg such as capacity procurement and delivery, truck services, warehouse services, operational services, e-commerce and train and shipping operations. Vice versa, CM Luxembourg will provide agency services on behalf of Sinotrans Air in Europe. The management fees under the Proxy Services Agreement are negotiated on an arm's length basis with reference to the market management fees of similar services and the volume of services required by CM Luxembourg. It is estimated that the management fees payable by CM Luxembourg to Sinotrans Air in relation to each of (i) capacity procurement and delivery, truck services, warehouse services, operational services and (ii) e-commerce and train and shipping operations are approximately EUR1,000,000 (equivalent to approximately HK$9,270,000). Sinotrans Air is an indirect subsidiary of CMG and accordingly, Sinotrans Air is a connected person of the Company and the transactions contemplated under the Proxy Services Agreement constitute a continuing connected transaction of the Company.

(g) The Independent Non-executive Directors have reviewed the continuing connected transactions set out in paragraph (f) of this section above. In their opinion, these transactions were:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms; and

(iii) in accordance with the relevant agreements governing such transactions and on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Independent Non-executive Directors further opined that:

(i) in respect of the lease by Euroasia to CMCS of a piece of land at Tsing Yi Terminal, details of which are set out in note (i) to paragraph (f) of this section, the aggregate rental has not exceeded HK$15,000,000, the annual cap for the year ended 31 December 2017;

(ii) in respect of the lease by CMSIZ to SCMPS of 16 parcels of land in Shekou, details of which are set out in note (ii) to paragraph (f) of this section, the aggregate rental has not exceeded RMB22,304,000, the annual cap for the year ended 31 December 2017;

(iii) in respect of the lease by CMSIZ to SCMPS of 14 parcels of land in Shekou, details of which are set out in note (ii) to paragraph (f) of this section, the aggregate rental has not exceeded RMB10,860,109.41, the annual cap for the six months ended 31 December 2017;

(iv) in respect of the lease by CMSIZ to SCMPS of certain property assets, details of which are set out in note (iii) to paragraph (f) of this section, the aggregate rental has not exceeded RMB20,000,000, the annual cap for the year ended 31 December 2017;

(v) the lease agreements set out in notes (i) to (iii) to paragraph (f) of this section are of a similar nature or otherwise connected, and thus will need to be aggregated as if they were one transaction. In addition, members of the Group and other associates of the CMG Group have also entered into other lease agreements and management agreements of which rental and management service fees are payable by members of the Group to the CMG Group and its associates which individually, are de minimis continuing connected transaction pursuant to Rule 14A.76(1) of the Listing Rules. However, given these are also of a similar nature or otherwise connected among themselves or with the lease agreement set out in notes (i) to (iii) to paragraph (f) of this section, these will also need to be aggregated as if they were one transaction. The aggregate rental and management service fees paid by the Group under these lease agreements and management agreements has not exceeded RMB130,000,000, the aggregate annual cap for the year ended 31 December 2017;

(vi) members of the Group and other associates of the CMG Group have entered into various lease agreements of which rental income is receivable by members of the Group from the CMG Group and its associates which individually are de minimis continuing connected transaction pursuant to Rule 14A.76(1) of the Listing Rules. However, given these lease agreements are of a similar nature or otherwise connected, these lease agreements will need to be aggregated as if they were one transaction. The aggregate rental received by the Group under these lease agreements for the year ended 31 December 2017 has not exceeded RMB42,000,000, the aggregate annual cap for the year ended 31 December 2017;

(vii) in respect of the provision of ship berthing services by Yiu Lian to CMCS, details of which are set out in note (iv) to paragraph (f) of this section, the aggregate ship berthing service fees paid has not exceed HK$14,500,000, the annual cap for the year ended 31 December 2017;

(viii) in respect of the provision of port-related services to, and receipt of agency services from, members of the Sinotrans & CSC group, details of which are set out in note (v) to paragraph (f) of this section, the aggregate service fees received have not exceeded RMB78,000,000, the aggregate annual cap for the services fees for the year ended 31 December 2017 and the aggregate agency fees paid have not exceeded RMB6,500,000 and RMB13,000,000 (as applicable during the relevant time during the year ended 31 December 2017), being the aggregate annual cap for the agency fees for the year ended 31 December 2017;

(ix) in respect of the placing of deposits with CMB, details of which are set out in note (vi) to paragraph (f) of this section, the maximum monthly closing balance of the aggregate amount of deposits placed with CMG has not exceeded HK$2,500 million, the cap in respect of the monthly closing balance of deposits for the year ended 31 December 2017;

(x) in respect of the provision of technology services to Loscam China, ZCMP, Xunlong and Penavico SZ and other associates of CMG, details of which are set out in note (vii) to paragraph (f) of this section, the aggregate service fees received has not exceeded RMB11,000,000, the annual cap for the year ended 31 December 2017;

(xi) in respect of the provision of property services by CMPM, details of which are set out in note (viii) to paragraph (f) of this section, the property service fees paid has not exceeded RMB13,000,000, the annual cap for the year ended 31 December 2017; and

(xii) in respect of the placing of deposits with China Merchants Finance, details of which are set out in note (ix) to paragraph (f) of this section, the aggregate amount of deposit that was made by the Group with China Merchants Finance at any relevant point of time during the year ended 31 December 2017 did not exceed HK$50,000,000, HK$500,000,000 and HK$3,500,000,000 (as applicable), the relevant caps as revised for the year ended 31 December 2017.

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

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed by the Group in pages 87 to 95 of the Annual Report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Management contracts

No contract concerning the management and administration of the whole or any substantial part of the business of the Company had been entered into or existed during the year.

Major customers and suppliers

The aggregate amount of sales and purchases attributable to the Group's five largest customers and suppliers represented less than 30% of the Group's total sales and purchases in 2017, respectively. The Group has strived to maintain a good relationship with its major customers and suppliers.

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

Employees

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

Public float

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

Auditor

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

On behalf of the Board
Fu Gangfeng
Chairman
Hong Kong, 29 March 2018

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**	2016
		HK$'million	HK$'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

	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 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 **HK$'million**	2016 HK$'million	**2017** **HK$'million**	2016 HK$'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	Yangtze River Delta	Bohai Rim	Others						
	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
For the 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 HK$'million	Yangtze River Delta HK$'million	Bohai Rim HK$'million	Others HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
Operating profit/(loss)	1,860	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

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

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$'million	HK$'million	HK$'million	HK$'million
	(Note (b))	(Note (c))	(Note (d))	
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	2016
	HK$'million	HK$'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	2016
	HK$'million	HK$'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	2016	**2017**	2016	**2017**	2016	**2017**	2016
	HK$'million	HK$'million	**HK$'million**	HK$'million	**HK$'million**	HK$'million	**HK$'million**	HK$'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	2016	**2017**	2016	**2017**	2016
	HK$'million	HK$'million	**HK$'million**	HK$'million	**HK$'million**	HK$'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 Directly 2017 %	Directly 2016 %	Indirectly 2017 %	Indirectly 2016 %	Principal activities
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.

Corporate Information

BOARD OF DIRECTORS

Mr. Li Xiaopeng *(Chairman)*
(resigned on 11 January 2018)
Mr. Fu Gangfeng *(Chairman)*
(appointed on 20 March 2018)
Mr. Hu Jianhua *(Vice Chairman)*
Mr. Wang Hong
Mr. Hua Li (resigned on 12 October 2017)
Mr. Su Jian (appointed on 12 October 2017)
Mr. Bai Jingtao *(Managing Director)*
Mr. Wang Zhixian
Mr. Zheng Shaoping
Ms. Shi Wei
Mr. Kut Ying Hay*
Mr. Lee Yip Wah Peter*
Mr. Li Kwok Heem John*
Mr. Li Ka Fai David*
Mr. Bong Shu Ying Francis*

* independent non-executive director

REGISTERED OFFICE

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

COMPANY SECRETARY

Mr. Leung Chong Shun, Practising Solicitor

PRINCIPAL BANKERS

China Development Bank
Industrial and Commercial Bank of China
Bank of China
China Construction Bank
Bank of Communications
The Bank of Tokyo-Mitsubishi UFJ, Ltd.

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISER

Linklaters

STOCK CODE

00144

REGISTRARS

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East, Wan Chai
Hong Kong

WEBSITE

http://www.cmport.com.hk

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of China Merchants Port Holdings Company Limited (the "**Company**") will be held at Island Ballroom, Level 5, Island Shangri-La, Hong Kong, Two Pacific Place, Supreme Court Road, Central, Hong Kong on Friday, 1 June 2018 at 9:30 a.m. for the following purposes:

1 To receive and consider the Audited Consolidated Financial Statements for the year ended 31 December 2017 together with the Report of the Directors and the Independent Auditor's Report.

2 To declare a final dividend of 59 HK cents per share for the year ended 31 December 2017 in scrip form with cash option.

3 A. Each as a separate resolution, to re-elect the following retiring directors of the Company (the "**Directors**"):

(a) To re-elect Mr. Fu Gangfeng as a Director;

(b) To re-elect Mr. Su Jian as a Director;

(c) To re-elect Mr. Bai Jingtao as a Director;

(d) To re-elect Mr. Kut Ying Hay as a Director;

(e) To re-elect Mr. Lee Yip Wah Peter as a Director;

(f) To re-elect Mr. Li Kwok Heem John as a Director; and

(g) To re-elect Mr. Li Ka Fai David as a Director;

B. To authorise the board of Directors (the "**Board**") to fix the remuneration of the Directors.

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

5 To consider and, if thought fit, to pass with or without modifications the following resolutions as ordinary resolutions:

Ordinary Resolutions

A. "**THAT:**

(a) subject to the Companies Ordinance (Chapter 622 of the laws of Hong Kong) (the "**Companies Ordinance**"), The Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and the terms and conditions of the share option scheme adopted by the shareholders of the Company on 9 December 2011 (the "**Share Option Scheme**"), a mandate be and is hereby unconditionally given to the Directors to exercise during the Relevant Period (as defined in paragraph (c) below) all the powers of the Company to grant options to subscribe for shares of the Company and/or to make or grant offers of options under the Share Option Scheme that would or might require shares of the Company to be alloted and/or options to be granted under the Share Option Scheme;

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

(c) for the purpose of this Resolution:

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

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

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Company’s articles of association (the “**Articles of Association**”) or any applicable laws to be held; and

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

B. “**THAT:**

(a) subject to paragraph (c) of this Resolution and pursuant to Sections 140 and 141 of the Companies Ordinance, the exercise by the Directors during the Relevant Period (as defined in paragraph (d) below) of all the powers of the Company to allot, issue and deal with additional shares of the Company or securities convertible into such shares or options, warrants or similar rights to subscribe for any shares in the Company and to make or grant offers, agreements and options which might require the exercise of such power be and is hereby generally and unconditionally approved;

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

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

(d) for the purposes of this Resolution:

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

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

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

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

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

C. "**THAT:**

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

(b) the total number of shares of the Company which may be bought back by the Company pursuant to the approval in paragraph (a) of this Resolution during the Relevant Period shall not exceed 10 per cent. of the total number of the shares of the Company in issue on the date of the passing of this Resolution (such total number to be subject to adjustment in the case of any conversion of any or all of the shares of the Company into a larger or smaller number of shares of the Company after the passing of this Resolution) and the said approval shall be limited accordingly; and

(c) for the purposes of this Resolution:

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

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

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

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

D. "**THAT** conditional upon Resolutions numbered 5B and 5C set out in the notice convening this meeting being passed, the total number of shares of the Company which are bought back by the Company under the authority granted to the Directors as mentioned in Resolution numbered 5C set out in the notice convening this meeting shall be added to the total number of shares of the Company that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to Resolution numbered 5B set out in the notice convening this meeting, provided that the number of shares bought back by the Company shall not exceed 10 per cent. of the total number of shares of the Company in issue on the date of the passing of this Resolution (such total number to be subject to adjustment in the case of any conversion of any or all of the shares of the Company into a larger or smaller number of shares of the Company after the passing of this Resolution)."

By Order of the Board
China Merchants Port Holdings Company Limited
Chairman
Fu Gangfeng

Hong Kong, 27 April 2018

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

Notes:

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

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

3. To ascertain the shareholders' entitlement to attend and vote at the meeting, the register of members of the Company will be closed from 25 May 2018 to 1 June 2018, both days inclusive, during which period no transfer of shares will be effected. In order to qualify to attend and vote at the meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrars, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Thursday, 24 May 2018.

   Subject to the approval of the shareholders at the meeting, the proposed final dividend will be despatched to shareholders whose names appear on the register of members of the Company after the close of business at 4:30 p.m. on Friday, 8 June 2018. In order to qualify for the proposed final dividend, all transfers and the relevant share certificates must be lodged with the Company's Share Registrars, Computershare Hong Kong Investor Services Limited, at the above address not later than 4:30 p.m. on Friday, 8 June 2018.

4. Concerning resolutions numbered 5B and 5D above, the Board wishes to state that it has no immediate plans to issue any new shares in the Company. The ordinary resolution is being sought from members as a general mandate in compliance with sections 140 and 141 of the Companies Ordinance and the Listing Rules.

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

6. Pursuant to Rule 13.39(4) of the Listing Rules, all votes at the Annual General Meeting will be taken by poll except where the Chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. The Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules. The Chairman of the meeting will therefore demand a poll for every resolution put to the vote at the Annual General Meeting pursuant to Article 54 of the Articles of Association.

7. As at the date of this notice, the Board comprises Mr. Fu Gangfeng, Mr. Hu Jianhua, Mr. Wang Hong, Mr. Su Jian, Mr. Bai Jingtao, Mr. Wang Zhixian, Mr. Zheng Shaoping and Ms. Shi Wei as executive directors; and Mr. Kut Ying Hay, Mr. Lee Yip Wah Peter, Mr. Li Kwok Heem John, Mr. Li Ka Fai David and Mr. Bong Shu Ying Francis as independent non-executive directors.

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HOLDINGS COMPANY LIMITED

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