

2018
ANNUAL
REPORT

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

Stock Code : 00144

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Financial Highlights

	2018 HK\$'million	2017 HK\$'million	Year-on-year changes
Consolidated statement of profit or loss highlights			
Revenue	10,160	8,692	16.9%
Profit attributable to equity holders of the Company	7,245	6,028	20.2%
Non-recurrent gains, net of tax ¹	(2,951)	(536)	450.6%
Recurrent profit	4,294	5,492	(21.8%)
Earnings per share (HK cents)			
Basic and diluted	219.54	183.90	19.4%
Dividend per share (HK cents)			
Interim dividend	22.00	22.00	—
Special interim dividend	—	135.00	(100.0%)
Final dividend	73.00	59.00	23.7%
	95.00	216.00	(56.0%)
Consolidated statement of financial position highlights			
Total assets	139,937	131,951	6.1%
Capital and reserves attributable to equity holders of the Company	75,321	73,447	2.6%
Net interest-bearing debts ²	31,681	19,313	64.0%
Consolidated statement of cash flows highlights			
Net cash generated from operating activities	6,222	5,757	8.2%

	2018 HK\$'million	2017 HK\$'million	Year-on-year changes
Revenue			
Ports operation	9,544	8,185	16.6%
Bonded logistics operation	459	410	12.0%
Other operations	157	97	61.9%
Total	10,160	8,692	16.9%
EBITDA³			
Ports operation	3,638	3,428	6.1%
Bonded logistics operation	204	223	(8.5%)
Other operations	416	306	35.9%
EBITDA	4,258	3,957	7.6%
Share of profits less losses of associates and joint ventures	4,826	5,472	(11.8%)
Unallocated net income ⁴	3,726	741	402.8%
Finance costs, net	(1,590)	(1,168)	36.1%
Taxation	(1,295)	(744)	74.1%
Depreciation and amortisation	(1,970)	(1,557)	26.5%
Non-controlling interests	(710)	(673)	5.5%
Profit attributable to equity holders of the Company	7,245	6,028	20.2%

- For 2018, include gain on disposal of a subsidiary, net of tax of HK\$3,733 million, increase in fair value of investment properties, net of tax of HK\$270 million, and net loss on change in fair value of financial assets and liabilities at fair value through profit or loss, net of tax of HK\$1,052 million. 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.
- Interest-bearing debts less cash and bank balances.
- Earnings before financial costs, net, taxation, depreciation and amortisation, but excluding share of profits less losses of associates and joint ventures, unallocated income less expenses and profit attributable to non-controlling interests of the Company and its subsidiaries.
- For 2018, include expenses for corporate function and gain on disposal of a subsidiary. 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.



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 Sea



Casablanca, Morocco

Somaport

Tangier, 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

Thessaloniki, Greece

Thessaloniki Port Authority

Others



Busan, South Korea

Busan New Container Terminal

Miami, United States

South Florida Container Terminal

Houston, United States

Terminal Link Texas

Paranaguá, Brazil

Terminal de Contêineres de Paranaguá

Newcastle, Australia

Port of Newcastle



Mainland China, Hong Kong and Taiwan

 Ports

 Logistics

Pearl River Delta



Mega SCT
Chiwan Container Terminal
Shenzhen Mawan Project
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



Corporate Profile



China Merchants Port Holdings Company Limited (“**CMPort**”) is 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, Americas, Oceania, Europe and Mediterranean Sea, amongst others.

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

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 has earned itself a reputation across the industry 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, its quality engineering management, and the outstanding and reliable services it provides.

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, comprehensive port development, operation and management capabilities, asset utilisation, labour productivity and brand name, etc.

Major Milestones in 2018

February

CMPort completed the acquisition of the 90% equity interests in TCP Participações S.A. in Brazil.

March

The Board of Directors of CMPort announced that it has resolved to appoint Mr. Fu Gangfeng as an Executive Director and the Chairman of the Board of Directors of the Company.

June

CMPort completed the disposal of the entire 33.58% equity interests held in Shenzhen Chiwan Wharf Holdings Limited ("**Shenzhen Chiwan**") to China Merchants Group Limited ("**CMG**").

June

CMPort completed the acquisition of the entire 50% equity interests held in Port of Newcastle in Australia from the shareholder, China Merchants Union (BVI) Limited, upon which CMPort's global port layout has achieved full coverage on six continents.





August

CMPort completed the issuance of US\$1,500 million fixed-coupon guaranteed notes, which are listed on the Stock Exchange of Hong Kong Limited.

November

Shenzhen Chiwan completed issuing shares to China Merchants Investment Development Company Limited to acquire its entire 39.45% equity interests held in CMPort. It has also entered into an acting-in-concert agreement with China Merchants Holdings (Hong Kong) Company Limited, a shareholder of the Company, and has hence become the direct controlling shareholder of CMPort.



December

CMPort entered into a land restructuring agreement with Shenzhen Urban Planning, Land and Resources Commission, Shenzhen Qianhai Shenzhen-Hong Kong Modern Services Commission, CMG, Shenzhen Qianhai Pingfangyuanqu Development Company Limited, China Merchants Shekou Industrial Zone Holdings Company Limited ("CMSK"), Shenzhen China Merchants Shekou Asset Management Company Limited, a number of subsidiaries of CMSK and Shenzhen China Merchants Qianhai Chidi Asset Company Limited to further coordinate and manage the various interests in the land in Qianhai, Shenzhen, the PRC currently held by CMG.



A portrait of a middle-aged man with short dark hair and glasses, wearing a dark blue suit, white shirt, and patterned tie. He is standing against a teal background with white circular lines and dots.

Chairman's Statement

It is with great delight that I present China Merchants Port Holdings Company Limited (the “**Company**”) and its subsidiaries’ (the “**Group**”) 2018 annual report and its audited financial statements for the year ended 31 December 2018.

Since 2018, the global economy has in general maintained its growth momentum but on an unsolid ground and in an increasingly complicated economic and political environment. Trade frictions provoked by the United States against a number of countries and regions worldwide have affected the operating environment for corporates and confidence of financial market, threatening the development of global economy and trade. Amid the growing uncertainties over the development of global economy and trade and intensified downward pressure on the macro economy, the Group has adhered to its strategic directives, acted under the overall operation philosophy of “enhancing core capability, insisting on both quality and efficiency, capitalising on opportunities of this era and striving to become a world’s leading enterprise”, focused on the “five key objectives”, namely, homebase port development, domestic ports consolidation, expansion of overseas ports network, construction of a port ecosystem and integration of industry with elements of finance, and pursued various designated tasks in a comprehensive and pragmatic manner. The Group achieved the preliminary strategic goals formulated last year, and successfully accomplished various operational objectives.

In 2018, the overall operating performance of the Group was satisfactory with the steady growth of business. In terms of ports operation, the domestic and overseas port projects invested by the Group delivered a record-high container throughput of 109.06 million TEUs during the year, up 6.0% over 2017, among which, the container throughput handled by the Group’s overseas ports grew by 12.9% over 2017 to 20.66 million TEUs. The Group has achieved fruitful results in terms of expansion of overseas ports network and completed the acquisition projects of overseas ports, including TCP Participações S.A. (“**TCP**”) in Paranaguá, Brazil and Port of Newcastle in Australia. Djibouti International Free Trade Zone was opened as scheduled and received positive responses. The Group has achieved significant progress in the consolidation of

domestic ports. During the year, the Group has completed the internal restructuring and resolved the horizontal competition issue. It has been exploring the opportunities arising from domestic ports consolidation, and continued to study and further deepen the cooperation in different regions. There has been innovative development in the construction of homebase port, and the construction of “E-port” has been fully completed, on which the Group has launched various value-added service modules in collaboration with platforms in other industries. In terms of integration of industry with elements of finance, the Group prepared for the establishment of China Ports Venture Capital, and worked with well-known domestic port groups for the innovative integration of industry with elements of finance and explored new technologies, new models and new mechanisms for building up of a port ecosystem.

Operating Results

In 2018, the Group’s revenue was HK\$10,160 million, representing a year-on-year increase of 16.9%, and EBITDA^{Note1} was HK\$4,258 million, grow by 7.6% over 2017. Profit attributable to equity holders of the Company in 2018 amounted to HK\$7,245 million, representing an increase of 20.2% over 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 73 HK cents per ordinary share which, together with the interim dividend of 22 HK cents per share, represented a full year payout ratio of 43.6% with the total dividend for the year of 95 HK cents per ordinary share. Subject to the approval by shareholders at the forthcoming Annual General Meeting, the final dividend for ordinary shares will be payable on or around 18 July 2019 to shareholders whose names appear on the register of members of the Company on 11 June 2019.

Note1 Earnings before finance costs, net, taxation, depreciation and amortisation, but excluding share of profits less losses of associates and joint ventures, unallocated income less expenses and profit attributable to non-controlling interests of the Company and its subsidiaries.

Review for the Year

In 2018, the global economy generally maintained its recovery momentum, but the momentum moderated and there were divergences among different economies. The normalisation of monetary policy in major economies has led to tightened global liquidity and rising terminal interest rate. Certain developing economies experienced financial markets turbulence, currency depreciation and economic slowdown. The financial condition of developed economies in general has been comparatively easy. Emerging economies, despite improvement in the fundamentals in recent years, have still been affected by the monetary policies of developed economies and the appreciation of US dollar. In 2018, factors such as rising external finance cost, shortfall of US dollar liquidity, increasing geopolitical risks and intensified trade tension have resulted in a tightened financial condition for most emerging economies and increasing risks in financial markets. According to the "World Economic Outlook" update report published by the International Monetary Fund ("IMF") in January 2019, the global economy was expected to grow by 3.7% in 2018, down 0.1 percentage point as compared to 3.8% in 2017, among which, developed economies grew by 2.3%, while emerging markets and developing economies grew by 4.6%, both down 0.1 percentage point as compared to those of 2017 respectively. Total global trade volume (including goods and services) was expected to grow by 4.0%, representing a decrease of 1.3 percentage points as compared to that of 2017.

Affected by substantial changes in domestic and overseas environment, Chinese economy grew steadily with a moderated annual GDP growth of 6.6% in 2018, down 0.2 percentage point compared with that of the previous year. Chinese economy is in the crucial period of transformation and upgrading, shown by significant divergence, adjustment and integration in different industries and regions, of real economy with financial industry, and between traditional financial activities and financial technology. While the US-China trade frictions were escalating, China has adopted more stringent financial regulatory policies with efforts to deleverage and de-risk, imposing more pressure on economic growth. In 2018, China's total foreign trade value of import and export

amounted to US\$4.62 trillion, up 12.6% year-on-year. Container throughput handled by ports of significant scale in China totalled 250 million TEUs during 2018, representing a growth rate of 5.2%, 3.1 percentage points lower than that of 2017.

As affected by the deceleration of growth in global economic and trading activities and the US-China trade frictions, the growth of global ports operation broadly slowed down in 2018. The Group's ports operation recorded a total container throughput of 109.06 million TEUs, representing a 6.0% year-on-year growth, and bulk cargo volume of 502 million tonnes, representing a decrease of 1.0% year-on-year. Looking into the regional performance, container throughput handled by the Group's ports in Mainland China totalled 80.73 million TEUs, up 4.7% year-on-year. Ports in Hong Kong and Taiwan handled a combined container throughput of 7.67 million TEUs, up 2.5% year-on-year, while overseas operations delivered a container throughput of 20.66 million TEUs, up 12.9% year-on-year. Among the major ports in the Group's portfolio, Shanghai International Port (Group) Co., Ltd. handled a container throughput of 42.01 million TEUs, representing a year-on-year increase of 4.4%, making it the largest port in the world for the ninth consecutive year. Affected by the completion of disposal of the entire equity interest held in China Merchants Port Group Co., Ltd. (formerly known as Shenzhen Chiwan Wharf Holdings Limited) during the year, container throughput handled by the Group's terminals in West Shenzhen Port Zone was 10.69 million TEUs, down 4.4% year-on-year. Colombo International Container Terminals Limited ("CICT") in Sri Lanka delivered a year-on-year growth of 12.0% by handling a container throughput of 2.68 million TEUs. Lomé Container Terminal S.A. in Togo handled a container throughput of 1.05 million TEUs, representing a growth of 18.3% year-on-year. Kumport Liman Hizmetleri ve Lojistik Sanayi ve Ticaret Anonim Şirketi in Turkey handled a container throughput of 1.26 million TEUs, representing a growth of 18.3% year-on-year. Terminal Link SAS acquired Thessaloniki Port Authority SA in Greece at the beginning of the year and it handled a container throughput of 13.64 million TEUs in 2018, up 8.6% year-on-year. TCP in Brazil, the transaction of which was completed in February 2018, contributed a container throughput of 0.69 million TEUs from March to December.

In 2018, the Group adhered to its strategic directives by focusing on overseas operation and seeking to achieve breakthroughs in three aspects, namely overseas expansion, comprehensive development and business innovation. The Group has actively promoted the implementation of key tasks over the past year, thus maintaining the steady growth of the Group's core ports operation and its operating results.

Regarding overseas expansion, the Group has further refined and improved its overseas development strategy. Towards the goals of "constructing homebase port in Asia, increasing controlling stakes in Europe, further development in Africa and presence in Americas", the Group sought its presence in major hub locations, gateway ports and regions with huge market potential, fast economic growth and positive development prospects. In 2018, the Group actively made progress for a number of projects in South Asia, Africa and Central and South America. In February 2018, the Group completed the acquisition of 90% equity interest in TCP in Brazil. In June 2018, the Group completed the acquisition of the 50% equity interest in the Port of Newcastle in Australia. In 2018, the Group's overseas ports contributed 18.9% to its total container throughput, and have become an important driver for the Group's business growth.

With respect to comprehensive development, taking port business as the core, the Group continued to push forward the implementation of the comprehensive development model of "Port-Park-City", leveraging on the synergies between port and logistics park, as well as integrated development of industries and cities. In 2018, the Group achieved breakthroughs in the Djibouti project and the Hambantota port in Sri Lanka with the commencement of operation of the Djibouti International Free Trade Zone and the completion of the overall concept planning for the comprehensive development project in Hambantota, based on which the Group will further expand the value-added port services to the ports where it operates and the adjacent cities.

With regard to business innovation, the Group has innovated the integration and cooperation model of industry with elements of finance, prepared for the establishment of China Ports Venture Capital, and promoted collaboration of

industries and matching with financial resources. The Group has also upgraded its management innovation, as shown by the completion of "E-Port" Phase II and the commencement of integration and construction of various platforms and services, such as "EDI" platform system, call centre, big data platform and visualised platform to achieve full service coverage for shipping companies, barge companies, shipping agencies, customs brokers and truck drivers. The Group has also actively promoted projects such as "RTG Remote Control", digitalisation of ports operation and big data analytics for global containers, which further improved the technological edges of the ports operation.

Future prospects

Looking into 2019, global economic growth is expected to slow down. For developed economies, the potential mid-term output growth would be restrained by the drastic slowdown of growth in working-age population and the sluggish productivity growth. The decline of economic growth in developed economies, in particular the United States, may become a major drag for the global economy this year. The impact of trade protectionism implemented by the United States will further showcase on its own economy in 2019. For emerging and developing economies, many countries have experienced capital outflow, currency depreciation, and slowing investment as affected by trade frictions. According to the IMF, it is expected that the global economy will grow at a lower rate of 3.5% in 2019, down 0.2 percentage point as compared to that of 2018, among which, developed economies are expected to grow by 2.0%, down 0.3 percentage point as compared to that of 2018, emerging and developing economies will grow by 4.5%, down 0.1 percentage point as compared to that of 2018, and the total global trade volume (including goods and services) will grow by 4.0%, flat with 2018. China's economy will be exposed to a more complicated environment, and is projected to grow by 6.2% in 2019, down 0.4 percentage point over 2018. However, the adjustment and easing of China's macroeconomic policies, investment growth driven by a pick-up of infrastructure investment and intensified efforts in optimising business environment are expected to generate positive impact on economic and trade growth.

In 2019, global economy is facing an increasing risk of weakening momentum for the cyclical recovery. Affected by the adjustments of trade and investment policies brought by “deglobalisation”, including the US-China trade frictions, the global trade will encounter an in-depth adjustment in the future: the growth will slow down in general, but there will be much room for the growth in the trade and seaborne freight volume of emerging countries and regions in South East Asia, South Asia and East Africa, etc. Benefitted from its overseas ports network, it is expected that the Group's ports operation will sustain a stable growth in 2019, mainly driven by the rapid growth of new projects and overseas projects.

In 2019, upholding the strategic principle of “aiming at achieving the vision, while grasping instant opportunities, leveraging on technologies and embracing changes”, and by focusing on the “Project of Improving Quality and Efficiency” as a pivot, the Group will strengthen synergic cooperation externally and accelerate integration and development internally, make efforts to enhance various capabilities, improve risk management and control, establish quality development models and be committed to the vision of “to be a world's leading comprehensive port service provider” with key priorities set out as below:

In terms of the construction of homebase port, the Group will continue to strengthen its efforts in the construction of domestic and overseas homebase ports. The Group will strive to build the West Shenzhen homebase port into a world-class leading port, with efforts of accelerating the enhancement of the hardware and software environment, cooperating with internal and external resources of China Merchants Group to build a comprehensive service platform in the Pearl River Delta, and pushing the construction of an automated and smart port. In addition, the Group will further promote the integration of operations with a view to effectively improving quality and efficiency and enhancing cost management. In terms of overseas homebase port, the Group will leverage on the advantages of synergies between CICT and Hambantota port to create a leading regional port and an international shipping hub in South Asia.

Regarding overseas expansion, the Group will further improve its global ports network, focusing on gateway ports with priorities strictly identified by multi-dimensional assessment and principles for overseas ports projects. The Group will conduct studies on its overseas network along the “East-West routes, South-North routes, regions along the Belt and Road”. Furthermore, leveraging on the opportunities brought by the “China+” industries migration, the Group will continue to put great efforts in the study of global and regional markets and the “Port-Park-City” development model. The Group will also establish and improve the research database for developing the regional markets in East Africa, West Africa, South Asia, Europe, Latin America and Southeast Asia.

In respect of comprehensive port development, the Group will actively push forward the transformation from a terminal operator to a comprehensive port services provider, and step up efforts in promoting the “Port-Park-City” development model. The Group will continue to make proactive efforts in the construction and development of the Djibouti International Free Trade Zone, exploring the relevant comprehensive development and cooperation projects in Togo. Regarding the Hambantota Port project, the Group will facilitate the preliminary work in relation to the introduction of investment and capital, while refining the proposed planning for the port's logistics park. Capitalising on the opportunities arising from the development of the Guangdong-Hong Kong-Macao Greater Bay Area, the Group will proactively push forward the restructuring project of its land located in Qianhai-Shekou Free Trade Zone, and participate in the general development of the Qianhai-Shekou Free Trade Zone.

With regard to innovative development, the Group will further reinforce the unique role and fundamental position of technology-driven and innovation-oriented development, and create a leading port ecosystem for innovation. Capitalising on technological innovation, the Company will gradually achieve intelligent upgrading of its controlling terminals. The Group will learn from the experience of implementing “RTG Remote Control” project in an in-depth manner to formulate an implementation plan for “RTG Remote Control” with its own features of the Group, so as to support the transformation of Shenzhen Haixing Harbour Development Co., Ltd. and intelligent upgrading of various terminals in the future.

Regarding operation management, the Group will implement the “Project of Improving Quality and Efficiency”, and continuously optimise the internal procedures and mechanisms of the Company to promote management reform and process reengineering. The Group will focus its efforts on enhancing the level of refined operation and management of controlling terminals, strengthening benchmarking management on its terminals in terms of efficiency improvement with reduced unit cost, and exploration of new income stream and cost saving.

In 2019, despite the increasing uncertainties in global economic and trade development, intensified downward pressure for global economic growth, as well as the further showcase of the impact of US-China trade frictions, the emerging markets have huge development potential in the future, and digitisation and innovation will generate values for port operators. Facing the opportunities and challenges brought by the changing ports operation, the Group will have a deep understanding of the prevailing situation, endeavour to grow on a solid ground, adjust its operating strategies for various tasks under its strategic guidance. As always, the Group will endeavour to maximise shareholder’s value while enhancing profitability, thereby delivering better investment return for its shareholders.

Investor Relations

The Group, as always, strives to maintain sound investor relations through enhanced communication and exchanges with investment community with a view to raising their timely understanding of and confidence towards the Group. In 2018, the Group met with more than 670 investors and analysts through post-results analyst briefings and earnings calls, 11 roadshows, 9 investor conferences, on-site visits and meetings with our senior management. The Group will keep close

contact with its shareholders and investors through regular activities such as roadshows and investor conferences across international investment markets, as a means to enhance the Group’s transparency and governance standard, and to establish a positive corporate image as a listed company.

Credit Rating

The Group’s credit rating by Moody’s and Standard and Poor’s maintained at Baa1 and BBB respectively in 2018.

Appreciation

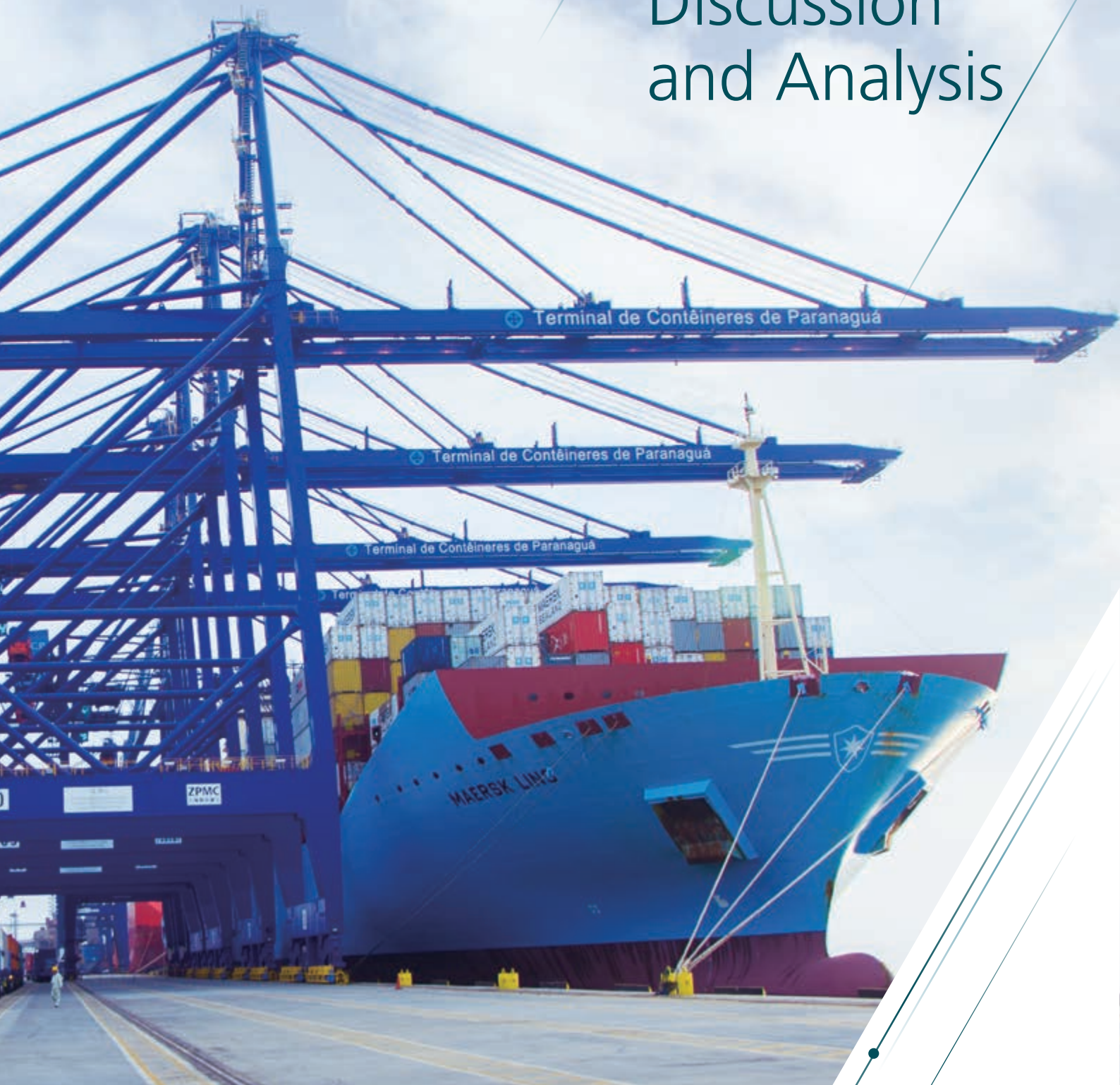
In 2018, the development of the macroeconomic and trade environment maintained at low pace with weakened growth in general, yet the development of emerging markets stood out. The Group embraced the challenges and seized the opportunities by leveraging on its advantages and a proactive mentality, thereby successfully achieved various objectives and recorded steadily growing operating results. All of these could not have been accomplished without the dedication from all of our staff and 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 2019

Management Discussion and Analysis



General overview

In 2018, the global economy continued to grow at a moderate pace, but there were obvious divergences among different economies. The growth rates of major economies almost reached the peak, while certain emerging markets and countries were facing financial instability. Despite the increasing downside risks faced by the global economy, including the entrance of the last stage of U.S. economic expansion and the slowdown of recovery in Europe, the overall development in the Asia-Pacific region remained stable with only certain countries showing increased financial vulnerability. The major economies in Latin America showed lacklustre performance with decelerating recovery momentum, while Africa achieved a positive yet weakening economic growth. Currently, with the setback in the multilateral trading system and painstaking efforts of the World Trade Organisation for reforms, the landscape of international trade is restructuring and regional trade agreements has developed rapidly. According to the statistics set out in the “World Economic Outlook” update report published by the International Monetary Fund (“IMF”) in January 2019, the global economic growth rate of 2018 was expected to be 3.7%, down by 0.1 percentage point as compared to 3.8% in 2017, among which, developed economies and emerging markets and developing economies grew at 2.3% and 4.6% respectively, both down by 0.1 percentage point as compared to those of 2017. Total global trade volume (including goods and services) was predicted to grow by 4.0%, representing a decrease of 1.3 percentage points as compared to that of 2017.

In 2018, China’s GDP growth was 6.6%, representing a decrease of 0.2 percentage point over last year. Due to the tightened social credit as a result of the deleveraging policies and the deteriorated expectation arising from the continuous escalation of US-China trade frictions, there was increasing pressure for the growth of Chinese economy to slow down. Despite the complicated international environment, China

insisted on the economic objective of pursuing progress while maintaining stability, and the overall economic development remained stable within a reasonable range. The Chinese economy has shifted from the phase of rapid growth to quality development with the driving force of innovation further increased and the upgrade and development of consumption and industry structures progressed at a faster pace. Amid the general growth of global trade, China’s total foreign trade of import and export value amounted to US\$4.62 trillion in 2018, representing a year-on-year increase of 12.6%, among which the export value was US\$2.48 trillion, representing an increase of 9.9% year-on-year; while import value was US\$2.14 trillion, representing an increase of 15.8% year-on-year.

Since the second quarter of 2018, affected by the escalating US-China trade frictions, the growth of global economy showed a declining trend from the peak and global trade weakened, resulting in a slowdown in the growth of seaborne freight volume of containers and global ports throughput in general. The growth of business volume of ports in China was also squeezed under the influence of the external environment and policies. According to the data published by National Bureau of Statistics of China, the container throughput handled by Chinese ports of significant scale totalled 250 million TEUs in 2018, representing an increase of 5.2% year-on-year and a decrease of 3.1 percentage points as compared to last year.

In 2018, the Group’s ports handled a total container throughput of 109.06 million TEUs, representing a growth of 6.0% as compared with last year, and bulk cargo volume of 502 million tonnes, representing a decrease of 1.0% as compared with last year. As of 31 December 2018, the Group’s revenue amounted to HK\$10,160 million, representing an increase of 16.9% over last year. Profit attributable to equity holders of the Company amounted to HK\$7,245 million, representing an increase of 20.2% over last year.

Business review

Ports operation

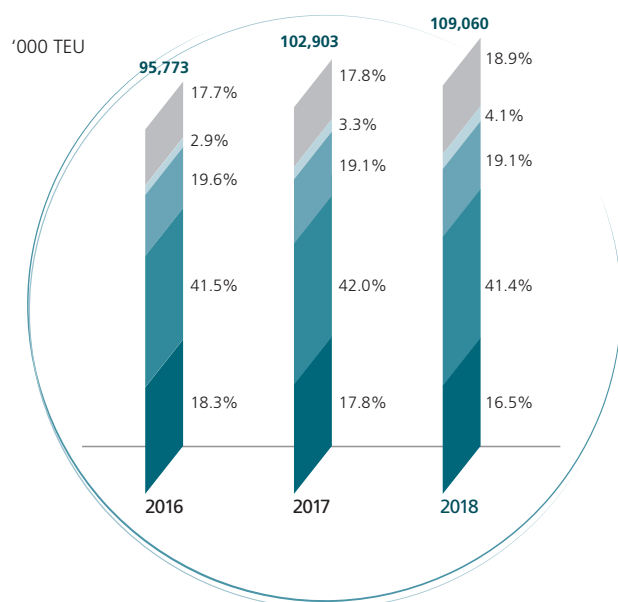
In 2018, the Group's ports handled a total container throughput of 109.06 million TEUs, up by 6.0% year-on-year, among which the Group's ports in Mainland China contributed container throughput of 80.73 million TEUs, indicating an increase of 4.7% year-on-year, which was mainly driven by the steady recovery of the economy and the growth of import and export in Mainland China. The Group's operations in Hong Kong and Taiwan contributed an aggregate container throughput of 7.67 million TEUs, representing a growth of 2.5% as compared with 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 12.9% year-on-year to 20.66 million TEUs. Bulk cargo volume handled by the Group's ports decreased by 1.0% year-on-year to 502 million tonnes,

within which the Group's ports in Mainland China handled a total bulk cargo volume of 497 million tonnes, representing a decrease of 1.0% year-on-year.

Pearl River Delta region

In the Pearl River Delta region, the Group's terminals in West Shenzhen Port Zone handled a container throughput of 10.69 million TEUs, down by 4.4% year-on-year, of which international container throughput totalled 10.06 million TEUs, down by 2.4% year-on-year, which was mainly due to the disposal of the Group's entire equity interest in China Merchants Port Group Co., Ltd (formerly known as Shenzhen Chiwan Wharf Holdings Limited) ("Shenzhen Chiwan") during the year. Chu Kong River Trade Terminal Co., Ltd. handled a total container throughput of 1.17 million TEUs, down by 13.3% year-on-year. Affected by the decrease in business volume as a result of the upgrade and transformation project of Shenzhen Haixing Harbour Development Co., Ltd. ("Haixing Port") and the disposal of equity interest in Shenzhen Chiwan, bulk cargo volume handled by the West Shenzhen Port Zone amounted to 13.62 million tonnes, down

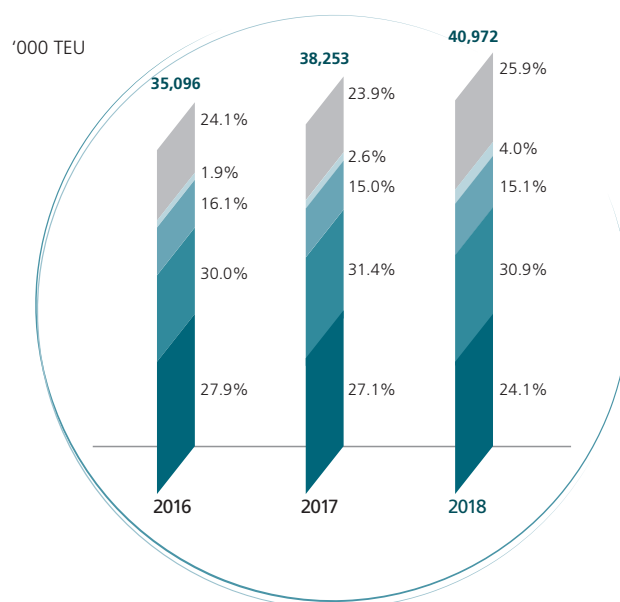
CMPort Gross Throughput



Mainland China, Hong Kong and Taiwan

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

CMPort Equity Throughput



by 37.5% year-on-year, while Dongguan Machong Terminal handled bulk cargo volume of 5.48 million tonnes during the year, representing a decrease of 57.2% year-on-year. The overall container throughput handled by ports in Hong Kong decreased by 5.7% year-on-year, of which the container throughput handled by the ports in Kwai Tsing area decreased by 4.7% year-on-year. Modern Terminals Limited and China Merchants Container Services Limited delivered an aggregate container throughput of 5.93 million TEUs, up by 2.5% year-on-year, which outperformed the overall market of Hong Kong.

Yangtze River Delta region

Shanghai International Port (Group) Co., Ltd. ("SIPG") handled a container throughput of 42.01 million TEUs, up by 4.4% year-on-year, which was mainly driven by the increase in the number of shipping routes due to the reorganisation of shipping alliances, and the release of handling capacity since the commencement of operation of Yangshan Phase IV, SIPG's fully automated terminal, in December 2017. Bulk cargo volume handled during the year decreased by 8.3% year-on-year to 150 million tonnes, mainly attributed to the decrease in the amount of coal handled upon the adjustments on the

structure of bulk cargo sources made by SIPG. Ningbo Daxie China Merchants International Terminals Co., Ltd. handled a container throughput of 3.16 million TEUs, representing an increase of 5.1% year-on-year, which was mainly benefitted from the adjustment of certain shipping routes.

Bohai Rim region

Dalian Port (PDA) Company Limited handled a total container throughput of 11.11 million TEUs and bulk cargo volume of 135 million tonnes, representing an increase of 3.3% and 4.3% year-on-year respectively. Qingdao Qianwan United Container Terminal Co., Ltd. handled a total container throughput of 6.93 million TEUs, representing an increase of 11.1% year-on-year. Qingdao Qianwan West Port United Terminal Co., Ltd. handled bulk cargo volume of 15.54 million tonnes, representing an increase of 18.4% year-on-year. Qingdao Port Dongjiakou Ore Terminal Co., Ltd. handled bulk cargo volume of 57.36 million tonnes, indicating an increase of 3.6% year-on-year. Tianjin Five Continents International Container Terminals Co., Ltd. handled a total container throughput of 2.72 million TEUs, representing an increase of 3.4% 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 0.46 million TEUs, increased by 13.9% year-on-year, which was mainly benefitted from the increase in domestic shipping routes. With the recovery of the production activities of wood processing and iron ore sand industries in the hinterland of ZCMP, bulk cargo volume handled by ZCMP amounted to 14.32 million tonnes, up by 37.4% year-on-year. Shantou China Merchants Port Group Co., Ltd., in which the capital injection was completed in August 2017, handled a container throughput of 1.29 million TEUs and bulk cargo volume of 9.23 million tonnes.

South-West region of Mainland China

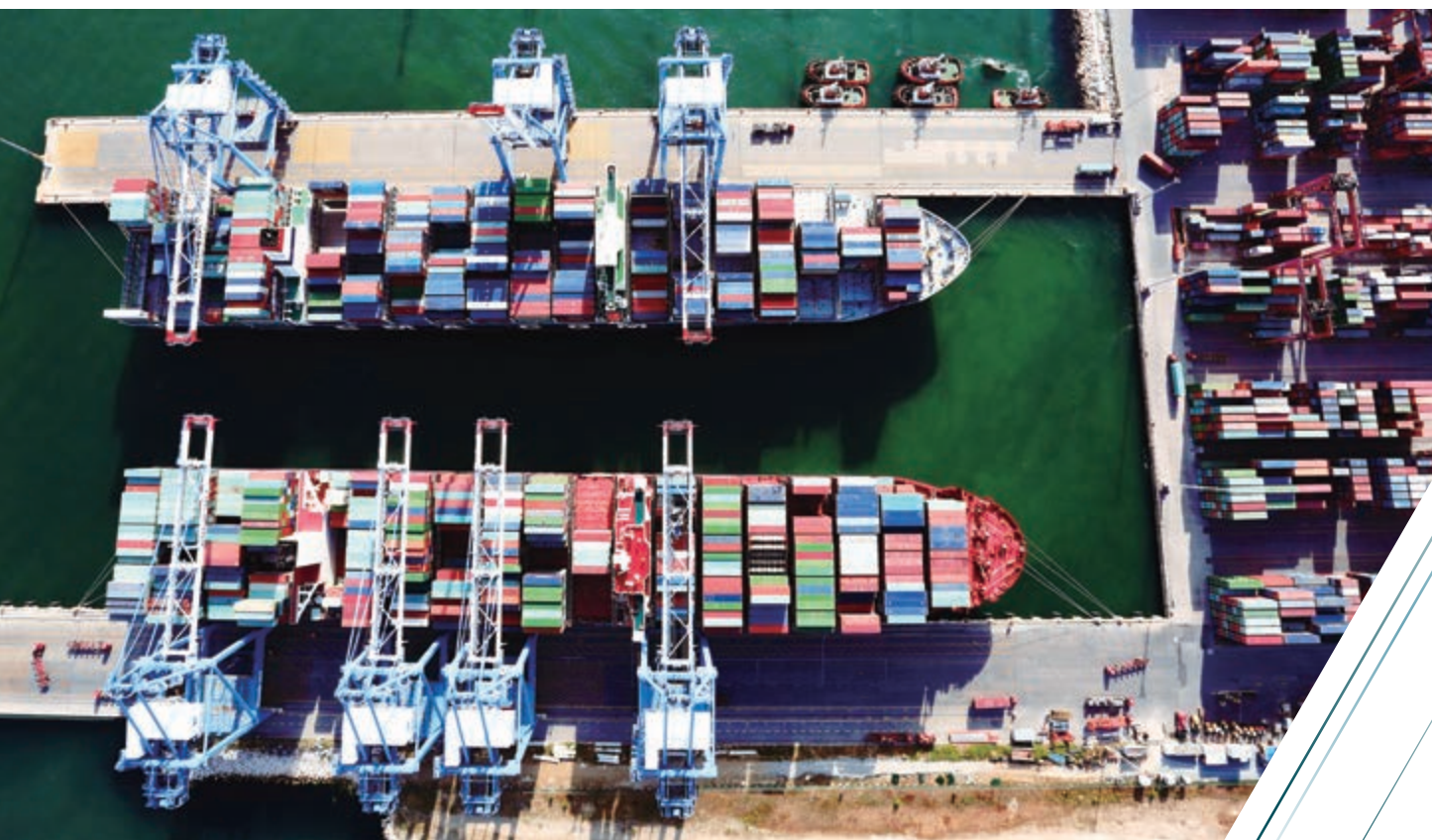
Zhanjiang Port (Group) Co., Ltd. handled a total container throughput of 0.98 million TEUs, up by 9.7% year-on-year; and a total bulk cargo volume of 91.87 million tonnes, up by 1.8% year-on-year.

Taiwan

Kao Ming Container Terminal Corporation in Kaohsiung handled a total container throughput of 1.75 million TEUs, representing an increase of 2.8% year-on-year.

Overseas operation

In 2018, a total container throughput handled by the Group's overseas operations increased by 12.9% year-on-year to 20.66 million TEUs, among which container throughput handled by CICT in Sri Lanka rose by 12.0% year-on-year to 2.68 million TEUs. Container throughput handled by LCT in Togo increased by 18.3% year-on-year to 1.05 million TEUs. Container throughput handled by Tin-Can Island Container Terminal Limited in Nigeria was 0.48 million TEUs, representing an increase of 2.4% year-on-year. Container throughput handled by Port de Djibouti S.A. in Djibouti amounted to 0.86 million TEUs, down by 7.5% year-on-year, mainly attributed to the decrease in transshipment volume to Ethiopia. Terminal Link SAS, which acquired Thessaloniki Port Authority SA in Greece



at the beginning of the year, handled container throughput of 13.64 million TEUs, representing an increase of 8.6% year-on-year. Container throughput handled by Kumport in Turkey increased by 18.3% year-on-year to 1.26 million TEUs. TCP Participações S.A. (“TCP”) in Brazil, the transaction of which was officially completed in February 2018, contributed a container throughput of 0.69 million TEUs from March to December.

Strategic deployments in the ports operation

In 2018, moving towards its core vision of “to be a world’s leading comprehensive port service provider”, the Group has adhered to the working philosophy of “enhancing core capability, insisting on both quality and efficiency, capitalising on opportunities of this era and striving to become a world’s leading enterprise”. Driven by its strategies, the Group achieved key breakthroughs in the development of homebase port, port consolidation, overseas expansion, comprehensive development and business innovation over the past year and at the same time actively implemented key tasks, maintaining steady growth in the core business and operating results of the Group’s ports.

Regarding the development of its homebase ports, the Group proactively promoted resources consolidation and made steady progress in various fundamental works. Tonggu Channel project in West Shenzhen Port Zone was completed and successfully served mega vessels of 200,000 deadweight tonnage. Moreover, the transformation project of Haixing Port progressed as scheduled, while the construction plan of smart port has been proved and already entered into the implementation stage. With the idea of “achieving strong synergies under a large logistics scope”, the Group has facilitated the cooperation between West Shenzhen Port Zone and river terminals in Pearl River Delta, which achieved preliminary results.

In terms of port consolidation, through the strategic restructuring, the Group has established a strategic layout with a focus on “developing in Guangdong-Hong Kong-Macao Greater Bay Area, connecting regions along the Belt and Road with a broad global network coverage”, which served as the

development and management platform for the overseas ports of China Merchants Group.

As for overseas expansion, by seizing the opportunities arising from the Belt and Road Initiative and international industries migration, the Group has successfully grasped the investment opportunities in ports, logistics and related infrastructure, and further improved its global port network. With respect to the expansion of overseas ports network, the Group completed the acquisitions of TCP in Brazil, South America and Port of Newcastle in Australia, Oceania in 2018, realising its full coverage on six continents and further optimising its global port network.

In terms of comprehensive development, the Group has also taken a major step forward in the implementation of the “Port-Park-City” model. Djibouti International Free Trade Zone was officially opened in July 2018 and received positive responses. While pursuing the development planning of the Hambantota port project in Sri Lanka, Hambantota port actively developed the wheeled and bulk cargo business, which achieved results exceeding expectation.

With regard to innovative development, the Group pushed forward the “digitalisation strategy” and explored the construction of port ecosystem in the direction of “bringing influence through technology innovation, facilitating expansion by business innovation, enhancing quality and efficiency by integration innovation, and seeking future development with mechanism innovation”. In 2018, the Group completed the construction of “E-port” project, “RTG Remote Control” project and “PRD NETWORK” project in West Shenzhen Port Zone with the utilisation of digital port technology, automated terminal technology, application of artificial intelligence and application of big data analytics. On the basis of promoting the successful implementation of a series of projects, the Group initiated the preparation work to establish China Ports Venture Capital, coordinated with the influential domestic port groups to innovate integrated cooperation model and explore new technologies, models and mechanisms for developing port ecosystem, and thereby achieving collaboration and resource matching between various port groups and the invested industries.

Bonded logistics operation

In 2018, the Group's bonded logistics business continued to pursue the development direction of diverse integrated services business. On one hand, the Group put more efforts in marketing and enhanced the utilisation rate of resources at the existing warehouses and yards so as to response to market changes. The utilisation rate of the warehouses of China Merchants Bonded Logistics Co., Ltd. ("CMBL") in Shenzhen reached 98%, resulting from the active exploration of new clients and operating models. China Merchants International Terminal (Qingdao) Co., Ltd. made full use of its resources to develop self-operated business and the warehouse utilisation rate was 99%. Tianjin Haitian Bonded Logistics Co., Ltd., which is an associate of the Group, recorded an utilisation rate of 75% of its warehouses. On the other hand, the Group also actively expanded its overseas projects, striving to maintain a balanced business layout. The bonded warehouse in Djibouti, which was invested and constructed by the Group, will commence operation in the near term.

In 2018, the total cargo volume handled at the three major air cargo terminals in Hong Kong amounted to 4.33 million tonnes, flat with last year. Asia Airfreight Terminal Company Limited, which is an associate of the Group, handled a total cargo volume of 0.86 million tonnes, representing an increase of 45.9% year-on-year and a market share of 19.8%, increased by 6.3 percentage points as compared with last year.

Financial review

As of 31 December 2018, the Group's revenue recorded HK\$10,160 million, representing an increase of 16.9% over last year as a result of the new acquisition projects and a rise in business volume. Profit attributable to equity holders of the Company amounted to HK\$7,245 million, up 20.2% over last year, which included a gain of HK\$3,733 million (net of tax) recognised from the disposal of the Group's equity interest in Shenzhen Chiwan during the year, but the fair value of financial assets at FVTPL, net of deferred tax, decreased approximately HK\$1,008 million under new accounting standards for financial instrument.

As at 31 December 2018, total assets of the Group increased by 6.1% from HK\$131,951 million as at 31 December 2017 to HK\$139,937 million, which was mainly attributed to the completion of acquisition of TCP during the year. The Group issued fixed-rate listed notes of US\$1,500 million during the year, resulted in an increase by 22.7% in the Group's total



liabilities of HK\$51,933 million as at 31 December 2018 from HK\$42,310 million as at 31 December 2017. Net assets attributable to equity holders of the Company was HK\$75,321 million as at 31 December 2018, representing a slight increase of 2.6% from that as at 31 December 2017.

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

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 2018 was HK\$6,222 million, an increase of 8.2% year-on-year. As of 31 December 2018, due to the fact that capital expenditure

on business acquisitions increased significantly as compared to last year, the Group has net cash outflow of HK\$15,354 million from investment activities, as compared to a net cash inflow of HK\$525 million last year. At the same time, the Group's net cash inflow from financing activities amounted to HK\$5,349 million for the year ended 31 December 2018, as compared to a net cash outflow of HK\$902 million last year.

Liquidity and treasury policies

As at 31 December 2018, the Group had approximately HK\$7,175 million in cash, 1.7% of which was denominated in Hong Kong dollars, 20.7% in United States dollars, 62.4% in Renminbi, 5.7% in Euro, 8.6% in Brazilian Real and 0.9% 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\$6,222 million in total.



During the year, the Group incurred capital expenditure amounted to HK\$2,584 million while the Group adopted to a prudent financial policy and to maintain a sound financial position. In addition, as a significant portion of the Group's bank loans were medium-term to long-term loans, the Group, supported by adequate undrawn bilateral bank facilities, does not anticipate any difficulty in refinancing its short-term loans while the pressure for repaying the short-term loans is limited.

Share capital and financial resources

As at 31 December 2018, the Company had 3,329,849,550 shares in issue. The Company issued 52,230,240 shares under the Company's scrip dividend scheme during the year.

As at 31 December 2018, the Group's net gearing ratio ^{Note 1} was approximately 36.0%.

During the year, the Company issued fixed-rate unlisted note maturing in 2021 for the amount of RMB500 million, and a wholly-owned subsidiary of the Company issued two tranches of fixed-rate listed notes, including a US\$900 million note maturing in 2023 and a US\$600 million note maturing in 2028, to finance the Group's working capital.

The Group had aggregate bank loans and listed notes payable of HK\$28,828 million as at 31 December 2018 that contained customary cross default provisions.

As at 31 December 2018, the Group's outstanding interest-bearing debts are analysed as below:

	2018 HK\$'million	2017 HK\$'million
Floating-rate bank loans which are repayable as follows (Note):		
Within 1 year	4,114	1,045
Between 1 and 2 years	2,347	1,811
Between 2 and 5 years	4,158	5,242
More than 5 years	1,216	2,033
	11,835	10,131
Fixed-rate bank loans which are repayable as follows:		
Within 1 year	364	586
Between 1 and 2 years	4	—
Between 2 and 5 years	48	—
More than 5 years	29	30
	445	616

Note: All bank loans are unsecured except for HK\$3,646 million (2017: HK\$4,284 million).

Note 1 Net interest-bearing debt divided by total equity.

	2018 HK\$'million	2017 HK\$'million
Floating-rate listed notes payable which are repayable:		
In 2022	817	—
Fixed-rate listed notes payable which are repayable:		
In 2018	—	1,562
In 2020	1,563	1,558
In 2022	3,890	3,877
In 2023	6,992	—
In 2025	3,897	3,888
In 2028	4,637	—
	20,979	10,885
Fixed-rate unlisted notes payable which are repayable:		
In 2018	—	418
In 2019	—	358
In 2021	571	—
In 2022	2,853	2,991
	3,424	3,767
Loans from an intermediate holding company which are repayable as follows:		
Within 1 year	—	120
Between 1 and 2 years	—	59
	—	179
Loans from a fellow subsidiary which are repayable as follows:		
Within 1 year	480	2,261
Between 2 and 5 years	63	—
More than 5 years	91	—
	634	2,261
Loan from an associate		
Repayable within 1 year	276	276
Loan from a non-controlling equity holder of a subsidiary		
Repayable more than 5 years	446	445

The interest-bearing debts are denominated in the following currencies:

	Bank loans	Listed notes payable	Unlisted notes payable	Loans from an intermediate holding company	Loans from a fellow subsidiary	Loan from an associate	Loan from a non- controlling equity holder of a subsidiary	Total
	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million
As at 31 December 2018								
HKD & USD	4,454	20,979	—	—	—	276	—	25,709
RMB	4,876	—	3,424	—	634	—	—	8,934
EURO	1,667	—	—	—	—	—	446	2,113
Brazilian Real	1,283	817	—	—	—	—	—	2,100
	12,280	21,796	3,424	—	634	276	446	38,856
As at 31 December 2017								
USD	2,200	10,885	—	—	—	276	—	13,361
RMB	6,583	—	3,767	179	2,261	—	—	12,790
EURO	1,964	—	—	—	—	—	445	2,409
	10,747	10,885	3,767	179	2,261	276	445	28,560

Assets charge

As at 31 December 2018, bank loans of HK\$217 million (2017: HK\$120 million) borrowed by subsidiaries of the Company were secured by property, plant and equipment with carrying value of HK\$413 million (2017: HK\$369 million) and land use rights with carrying value of HK\$184 million (2017: HK\$197 million). In addition, the entire shareholdings in two subsidiaries owned by the Company and its subsidiaries were pledged to various banks for bank loans of HK\$3,429 million (2017: HK\$4,164 million).

Employees and remuneration

As at 31 December 2018, the Group employed 9,149 full time staff, of which 232 worked in Hong Kong, 6,666 worked in Mainland China, and the remaining 2,251 worked overseas. The remuneration paid by the Group for the year amounted to HK\$1,932 million, representing 25.6% of the total operating expenses of the Group. The remuneration policy of the Group

is reviewed every year and appropriate adjustments are made to an individual's remuneration with reference to the Group's performance, individual's performance, conditions of the human resources market and general economy.

The Group also provides internal training to its staff to enable them to achieve self-improvement and 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 its community in a healthier and sustainable direction.

In 2018, 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 also promoted and extended the application of successful cases such as “Substitution of Fuel-Powered Equipment with Electricity-Powered Equipment (油改電)”, “RTG Remote Control” project 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 actively participating in various community and charitable activities. In 2018, the Group organised various charitable activities with the theme of “Shaping Blue Dreams Together (共鑄藍色夢想)”, which concerned the ocean and humanities. These activities included the donation of education and living materials that worthed US\$21,000 to the poor local areas in Hambantota, Sri Lanka. Moreover, CMBL and other five subsidiaries of the Group 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)”. The Group also continued to organise the advanced-level

port and shipping training programme called “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)”, which adopted an education model that combined theoretical courses with researches and investigations, providing training for overseas trainees to acquire professional knowledge and enhance operational capability, and thus at the same time promoting the economic development and social progress of countries along the Belt and Road Initiative on a continuous basis.

Future prospects

Looking into 2019, the global economy faces the risk of growth deceleration after a strong recovery in the past two years. As more developed countries begin to slowly tighten their monetary policies, the global financial cycle will enter into a downward phase. At the same time, trade protectionism will lead to increasing trade frictions, while geopolitical factors will continue to affect the recovery of the global economy. The combined effect of the weakening marginal utility of stimulation policies and the sustained increase in interest rate will result in growing pressure on the debts and financial strengths of the United States. The European economies will continue to experience a slow recovery with the existing uncertainties from political risks. The growth trend of emerging markets will further diverge amid the slowdown of global economy, trade protectionism and geopolitical factors. IMF expects that the growth of global economy will drop to 3.5% in 2019, down 0.2 percentage point as compared to that of 2018. In particular, the developed economies will grow at 2.0%, down 0.3 percentage point as compared to that of 2018; and the emerging markets and developing economies will grow at 4.5%, down 0.1 percentage point as compared to that of 2018. Global trade volume (including goods and services) will grow by 4.0%, which will remain the same as compared with that of 2018. The Organisation for Economic Co-operation and Development believes that the global economy will maintain a healthy growth momentum in 2019, but the growth momentum has already reached its peak and will weaken gradually. Risks including trade protectionism, the tightening of the financial environment, geopolitical risks and volatility of financial markets are worthy of attention.

Global trade frictions have suddenly intensified in 2018, and its negative effects will be further revealed in 2019. Developed economies are expected to resume to monetary policy normalisation in 2019, while the global financial environment and liquidity will be tightened accordingly, resulting in further downward movement in the financial cycle.

In 2019, the Chinese economy will face a more complicated situation. The Chinese economy has shifted from the phase of rapid growth to quality development, and the enhanced financial strength is expected to promote gradual stabilisation of infrastructure investment. Moreover, the reform of personal income tax will help stabilise consumption, while the continuous implementation of policies supporting private enterprises will restore confidence of corporates. Depreciation of RMB and the phased easing of US-China trade frictions will help buffer the decline in external demand to some extent, thereby posing a positive effect on economic and trade growth. According to the IMF's forecast, the Chinese economy is expected to grow at 6.2% in 2019, down 0.4 percentage point from 2018.

In 2019, the international container shipping market will still undergo recovery and adjustment, and the balance between supply and demand is expected to improve, but still faces great pressure of excess capacity. The freight rate of intra-region routes may be higher than that of the major routes. Moreover, the transpacific routes are affected by US-China trade frictions and hence the market has front-loaded large-scale transportation demand. Under the influence of the slowdown of European economies, the overall freight rate of the Asia-European routes are under pressure. As Southeast Asian economies have begun to undertake part of industries migration, the development of intra-Asia routes could become a brightspot in the future.

Based on the above analysis and judgment, in 2019, upholding the strategic principle of “leveraging on its long-term strategy, tapping the current edges, driving through technology and embracing changes”, the Group will firmly adhere to the main theme of maintaining a steady growth and at the same time achieving improvement. It will take the “Project of Improving Quality and Efficiency” as a means to promote enhancement of both quality and efficiency. Key emphasis will be placed

on system construction to strengthen risk prevention. The Group will also target to achieve high-quality development by accelerating technology-driven and innovation-oriented development, striving to “be a world's leading comprehensive port service provider”.

Regarding the development of homebase port, the Group will take world-class leading port as its benchmark. The Group will push forward the dredging and deepening project of the channel in West Shenzhen Port Zone and the completion and acceptance of the Tonggu Channel project as soon as possible so as to offer protection to the mega vessels to call at West Shenzhen Port Zone. Meanwhile, the Group will strengthen the construction of intelligent port, facilitate the construction of “PRD NETWORK” platform, expand the network and data matching within the Pearl River Delta, enhance the transformation of the smart safety monitoring and on-shore smart container identification system in West Shenzhen Port Zone, and apply various technologies, such as LBS system, Internet of Things, big data, etc., to contribute to the construction of an intelligent port. In addition, the Group will accelerate the promotion of innovative applications and implement the results of innovation projects, including “System of Safety Protection and Operation Support for Container Gantry Cranes” and “RTG Remote Control”, which will improve operational efficiency, reduce operating costs, strengthen trade facilitation and improve the overall competitiveness of the homebase port. The Group is committed to developing the CICT and Hambantota Port in Sri Lanka into regional leading ports, thereby promoting the development of the international shipping economy through its port operations. On one hand, CICT will continue to strengthen the development as the overseas strategic fulcrum of the Group, and leveraging on the construction of the international shipping centre in South Asia to establish a base of talents, knowledge and innovative initiatives in Sri Lanka. On the other hand, Hambantota Port will focus on regional strategic planning, strengthening resource utilisation and promoting implementation of port strategies, thereby maintaining a sustainable profitability.

As for overseas expansion, the Group aims at achieving world-class standard. By conducting in-depth study in overseas expansion, including clarifying the evaluation dimensions

and principles for overseas port projects, as well as project priorities, the Group will conduct research regarding overseas network along the “East-West routes, South-North routes, regions along the Belt and Road Initiative”. In addition, the Group strives to strengthen the research effort on various regional markets around the world, establish research databases, target fast-growing regions and focus on gateway ports so as to actively grasp the investment opportunities in overseas emerging markets. Moreover, based on the research of global port expansion strategy, the Group will continue to seek opportunities for gateway ports in mature market.

In respect of comprehensive development, the Group aims at establishing world-class standard by leveraging on the opportunities brought by the “China+” industries migration and stepping up efforts in promoting the “Port-Park-City” development model. Regarding the Djibouti comprehensive development project, the Group will continue to make efforts for the construction and development of the Djibouti International Free Trade Zone; while for the Togo comprehensive development project, the Group will actively push forward the relevant comprehensive development and cooperation projects. Regarding the Hambantota Port project, the Group will facilitate the preliminary work in relation to the induction of investment, while refining the proposed planning for the port’s logistics park. Capitalising on the opportunities arising from the development of the Guangdong-Hong Kong-Macao Greater Bay Area, the Group will proactively push forward the restructuring project of its land located in the Qianhai-Shekou Free Trade Zone, and participate in the general development of the Qianhai-Shekou Free Trade Zone.

Regarding innovative development, the Group will strive to maintain its world-class status by continuing to enhance information technology development, upgrade and promote its core IT products, the “TOS” series. Taking “E-Port” as a pivot, the Group will step up the efforts in the establishment of a leading port platform for providing excellent customer services. The Group will further reinforce the unique role and fundamental position of technology-driven and innovation-oriented development, and create a leading port ecosystem for innovation. Capitalising on technological innovation, the Company will gradually achieve intelligent upgrading of its controlling terminals. The Group will learn from the experience of implementing “RTG Remote Control” project in an in-

depth manner to formulate an implementation plan for “RTG Remote Control” with the Group’s own features, so as to support the transformation of Haixing Port and intelligent upgrading of various terminals in the future.

Regarding operation management, the Group will work aggressively towards world-class level by formulating systematic implementation plan for the “Project of Improving Quality and Efficiency” in 2019, aiming at optimising the internal procedures and mechanisms. The Group will also enhance the operation and management level of the controlling terminals, realise the full coverage of all subsidiaries, and be committed in supervision, coordination and facilitation. The Group will optimise the overall management system to facilitate the operational compatibility between the mechanism and operation of projects. The Group will also enhance investment management standard, streamline the investment management relationship, update the systems and optimise operation processes.

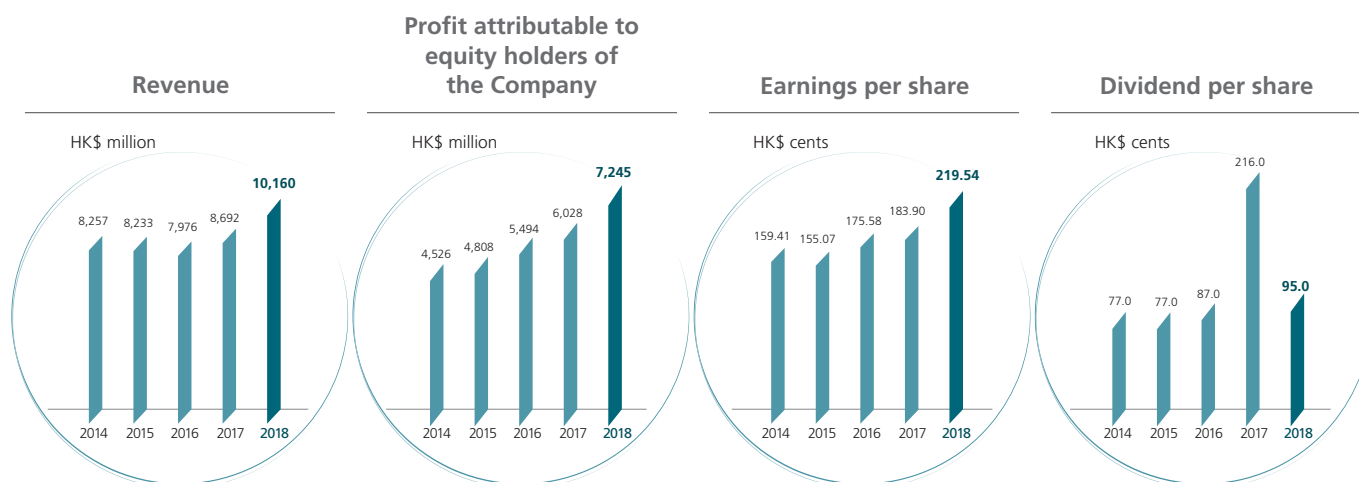
With regard to marketing and commerce, the Group will benchmark with world-class standards by adhering to the client-oriented approach to strengthen external marketing and internal coordination, so as to intensify its efforts in the promotion and marketing of global commerce. Also, the Group will conduct market research for the new era, aiming to provide more professional market analysis for decision-making. By benchmarking with international port operators, the Group will continuously improve the working standard of marketing and commerce. Moreover, the Group will also enhance the communication with the shipping companies and promote further exploration of strategic alliances between terminals and shipping companies.

In 2019, despite the increasing downward pressure on the global economic and trade development and relevant risk factors encountered, the booming emerging markets will provide opportunities for port expansion and development. Moreover, the transformation of technology and techniques will also enhance the operational efficiency of the port. The Group will capture the opportunities of this era, enhance its core competencies as well as maintain its strategic strength. As always, the Group will endeavour to maximise shareholder value while enhancing profitability, thereby delivering better returns for its shareholders.

• Five-year Financial Summary



	2018 HK\$'million	2017 HK\$'million	2016 HK\$'million	2015 HK\$'million	2014 HK\$'million
RESULTS					
Revenue	10,160	8,692	7,976	8,233	8,257
Profit before taxation	9,250	7,445	6,683	6,315	6,169
Profit for the year	7,955	6,701	6,206	5,525	5,018
Non-controlling interests	710	673	712	717	492
Profit attributable to equity holders of the Company	7,245	6,028	5,494	4,808	4,526
ASSETS AND LIABILITIES					
Non-current assets	129,138	118,899	97,100	90,063	88,551
Net current assets/(liabilities)	1,648	(2,477)	(3,131)	7,498	3,520
Total assets less current liabilities	130,786	116,422	93,969	97,561	92,071
Non-current liabilities	42,782	26,781	20,231	20,912	16,925
Non-controlling interests	12,683	16,194	7,830	7,821	7,716
Capital and reserves attributable to equity holders of the Company	75,321	73,447	65,908	68,828	67,430
RETURN TO SHAREHOLDERS					
Earnings per share					
– Basic (HK cents)	219.54	183.90	175.58	155.07	159.41
– Diluted (HK cents)	219.54	183.90	175.58	154.91	159.28
Dividend per share (HK cents)	95.00	216.00	87.00	77.00	77.00



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 2018.

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 (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 2018, except for the following:-

Code Provision A.4.2

The Board resolved to appoint Mr. Su Jian as Executive Director of the Company with effect from 12 October 2017 to fill a casual vacancy. However, Mr. Su Jian was not subject to re-election at the first general meeting of the Company after his appointment (being the extraordinary general meeting of the Company held on 19 March 2018) in accordance with Code Provision A.4.2 set out in the Corporate Governance Code and was only subject to re-election at the annual general meeting of the Company held on 1 June 2018 (and Mr. Su Jian was re-elected as Executive Director of the Company by the shareholders of the Company at such general meeting).

Board of Directors

The Board of the Company comprises:

Executive Directors	Gender	Ethnicity	Age	Length of service (years)
Li Xiaopeng (<i>Chairman</i>) (resigned on 11 January 2018)	Male	Chinese	59	3.3
Fu Gangfeng (<i>Chairman</i>) (appointed on 20 March 2018)	Male	Chinese	52	0.8
Hu Jianhua (<i>Vice Chairman</i>) (resigned on 30 November 2018)	Male	Chinese	56	11.5
Wang Hong (resigned on 4 June 2018)	Male	Chinese	56	13.1
Su Jian	Male	Chinese	46	1.2
Xiong Xianliang (appointed on 4 June 2018)	Male	Chinese	51	0.6
Bai Jingtao (<i>Managing Director</i>)	Male	Chinese	53	3.6
Wang Zhixian	Male	Chinese	53	2.8
Zheng Shaoping	Male	Chinese	55	6.9
Shi Wei (resigned on 4 June 2018)	Female	Chinese	55	1.5

Independent Non-executive Directors	Gender	Ethnicity	Age	Length of service (years)
Kut Ying Hay	Male	Chinese	63	26.6
Lee Yip Wah Peter	Male	Chinese	76	17.5
Li Kwok Heem John	Male	Chinese	63	14.3
Li Ka Fai David	Male	Chinese	63	11.6
Bong Shu Ying Francis	Male	Chinese	76	8.5

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, 12 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 2018	Attendance rate
Li Xiaopeng*	N/A	N/A
Fu Gangfeng**	8/9	88.9%
Hu Jianhua****	8/12	66.7%
Wang Hong***	4/5	80%
Su Jian	9/12	75%
Xiong Xianliang***	8/8	100%
Bai Jingtao	12/12	100%
Wang Zhixian	7/12	58.3%
Zheng Shaoping	12/12	100%
Shi Wei***	1/5	20%
Kut Ying Hay	12/12	100%
Lee Yip Wah Peter	12/12	100%
Li Kwok Heem John	10/12	83.3%
Li Ka Fai David	12/12	100%
Bong Shu Ying Francis	12/12	100%

* 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.

*** Mr. Wang Hong and Ms. Shi Wei resigned as Executive Director of the Company on 4 June 2018. Besides, Mr. Xiong Xianliang was appointed as Executive Director on the same day.

**** Mr. Hu Jianhua resigned as Executive Director and Vice Chairman of the Company on 30 November 2018.

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	*
Fu Gangfeng	A,B,C
Hu Jianhua	A,B,C***
Wang Hong	**
Su Jian	A,B,C
Xiong Xianliang	A,B,C**
Bai Jingtao	A,B,C
Wang Zhixian	A,B,C
Zheng Shaoping	A,B,C
Shi Wei	**
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 an/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. Li Xiaopeng resigned as Executive Director and Chairman of the Company on 11 January 2018

** Mr. Wang Hong and Ms. Shi Wei resigned as Executive Directors of the Company on 4 June 2018. Besides, Mr. Xiong Xianliang was appointed as Executive Director at the same day

*** Mr. Hu Jianhua resigned as Executive Director and Vice Chairman of the Company on 30 November 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 20 March 2018, the Board resolved to appoint Mr. Fu Gangfeng as an Executive Director and Chairman of the Company.

At a Board meeting held on 4 June 2018, the Board resolved to appoint Mr. Xiong Xianliang as an Executive Director of the Company.

In respect of the appointment of Mr. Fu Gangfeng and Mr. Xiong Xianliang, 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. Four meetings was held in 2018. The attendance of each member is set out as follows:

Name of member	Number of meetings attended in 2018	Attendance rate
Kut Ying Hay (Chairman of the Nomination Committee)	4/4	100%
Bai Jingtao	3/4	75%
Lee Yip Wah Peter	4/4	100%
Li Kwok Heem John	4/4	100%
Li Ka Fai David	4/4	100%
Bong Shu Ying Francis	4/4	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. In addition, the Nomination Committee has made recommendation to the Board on 20 March 2018 on the appointment of Mr. Fu Gangfeng as Executive Director and Chairman to fill the vacancy caused by resignation of Mr. Li Xiaopeng on 11 January 2018 and has also made recommendation on the appointment of Mr. Xiong Xianliang as Executive Director on 4 June 2018 to fill the vacancies caused by the resignations of Mr. Wang Hong and Ms. Shi Wei on the same day. Besides, the Nomination Committee has accepted the resignation of Mr. Hu Jianhua as Executive Director and Vice Chairman on 30 November 2018.

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.

In light of the latest amendments made to the Corporate Governance Code (effective on 1 January 2019), the Board has further adopted a nomination policy (the "Nomination Policy" on 17 December 2018.

Nomination Criteria

The Nomination Committee shall consider the following criteria in evaluating and selecting candidates for directorship:

- Character and integrity;
- Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy;
- Willingness to devote adequate time to discharge duties as a member of the Board;
- Board Diversity Policy and any measurable objectives adopted for achieving diversity on the Board;
- Requirement for the Board to have independent directors in accordance with the listing rules and whether the candidates would be considered independent with reference to the independence guidelines set out in the Listing Rules;
- Such other perspectives appropriate to the Company's business or as suggested by the Board.

Nomination Process

The Nomination Committee reviews the structure, size and composition (including the skills, knowledge and experience) of the Board periodically and make recommendation on any proposed changes to the Board to complement the Company's corporate strategy. When it is necessary to fill a casual vacancy or appoint an additional director, the Nomination Committee identifies or selects candidates as recommended to the Committee, with or without assistance from external agencies or the Company. If the process yields one or more desirable candidates, the Nomination Committee shall rank them by order of preference based on the needs of the Company and reference check of each candidate (where applicable). The Nomination Committee makes recommendation to the Board including the terms and conditions of the Appointment. The Board deliberates and decides on the appointment based upon the recommendation of the Nomination Committee.

Pursuant to the Articles of Association, Mr. Wang Zhixian, Mr. Zheng Shaoping, Mr. Lee Yip Wah Peter and Mr. Bong Shu Ying Frances shall retire from office by rotation at the upcoming annual general meeting 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 2018. The attendance of each member is set out as follows:

Name of member	Number of meetings attended in 2018	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 78 to 80 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 2018, 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 93 to 98.

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 2018. 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 2018	Attendance rate
Lee Yip Wah Peter (Chairman of the Audit Committee)	3/3	100%
Kut Ying Hay	3/3	100%
Li Kwok Heem John	3/3	100%
Li Ka Fai David	3/3	100%
Bong Shu Ying Francis	3/3	100%

During the meetings held in 2018, the Audit Committee had performed the following work:

- (i) reviewed the financial reports for the year ended 31 December 2017 and for the six months ended 30 June 2018;
- (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 2017;
- (v) reviewed and recommended for approval by the Board the 2018 audit scope and fees; and
- (vi) reviewed the connected transactions entered into by the Group during 2017.

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 (which 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	15
Non-audit services (Tax, compliance and advisory services)	3
Total	18

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

Dividend policy

The Board has approved and adopted a dividend policy on 17 December 2018 (the “**Dividend Policy**”). Under the Dividend Policy, the Company may declare and pay dividends to the shareholders of the Company. Subject to compliance with applicable laws, rules, regulations and the Articles of Association, in deciding whether to propose any dividend payout, the Board will take into account, among other things, the financial results, the earnings, losses and distributable reserves, the operations and liquidity requirements, the debt ratio and possible effects on the credit lines, and the current and future development plans of the Company. There can be no assurance that dividends will be paid in any particular amount for any given period.

General Meetings with Shareholders

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 extraordinary general meeting held on 19 March 2018 and at the 2018 annual general meeting held on 1 June 2018, 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 2018 is set out as follows:

Name of Director	Number of general meeting attended in 2018
Li Xiaopeng ^{*1}	N/A
Fu Gangfeng ^{*2}	1/1
Hu Jianhua	1/2
Wang Hong	0/2
Su Jian	0/2
Xiong Xianliang ^{*3}	N/A
Bai Jingtao	2/2
Wang Zhixian	0/2
Zheng Shaoping	2/2
Shi Wei	0/2
Kut Ying Hay	0/2
Lee Yip Wah Peter	2/2
Li Kwok Heem John	1/2
Li Ka Fai David	2/2
Bong Shu Ying Francis	2/2

*1 Mr. Li Xiaopeng resigned as Executive Director and Chairman of the Company on 11 January 2018. He did not attend the captioned meetings held in 2018.

*2 Since Mr. Fu Gangfeng was appointed as Executive Director and Chairman of the Company on 20 March 2018, he did not attend the captioned extraordinary general meeting held on 19 March 2018.

*3 Since Mr. Xiong Xianliang was appointed as Executive Director of the Company on 4 June 2018, he did not attend the captioned general meetings held in 2018.

Constitutional Documents

During the year, there is no change in the Company’s Articles of Association.

Shareholders' Rights

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.

Investor Relations

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 2019 annual general meeting of the Company will be held at 9:30 a.m. on Monday, 3 June 2019 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 a global leading port developer, investor and operator, with a comprehensive ports network at the hub locations along coastal China. The terminals, which the Group became the controlling shareholder of or those the Group has interest in, are located in hub locations across Shenzhen, Hong Kong, Taiwan, Ningbo, Shanghai, Qingdao, Tianjin, Dalian, Zhangzhou, Zhanjiang and Shantou, as well as in South Asia, Africa, Americas, Oceania, Europe and Mediterranean Sea, amongst others.

In 2018, the Group has invested in 34 ports in 18 countries and regions and the container throughput handled during the year amounted to 109 million TEUs. The Group has earned itself a reputation across the industry, leveraging on 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, overseas and innovation strategies, the Company strives to achieve world-class level on various fronts, including container throughput of global ports, market share, comprehensive port development, operational management capabilities, resource utilisation, labour productivity and brand name, etc.

The Group has prepared this report covering the financial year ended 31 December 2018 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.

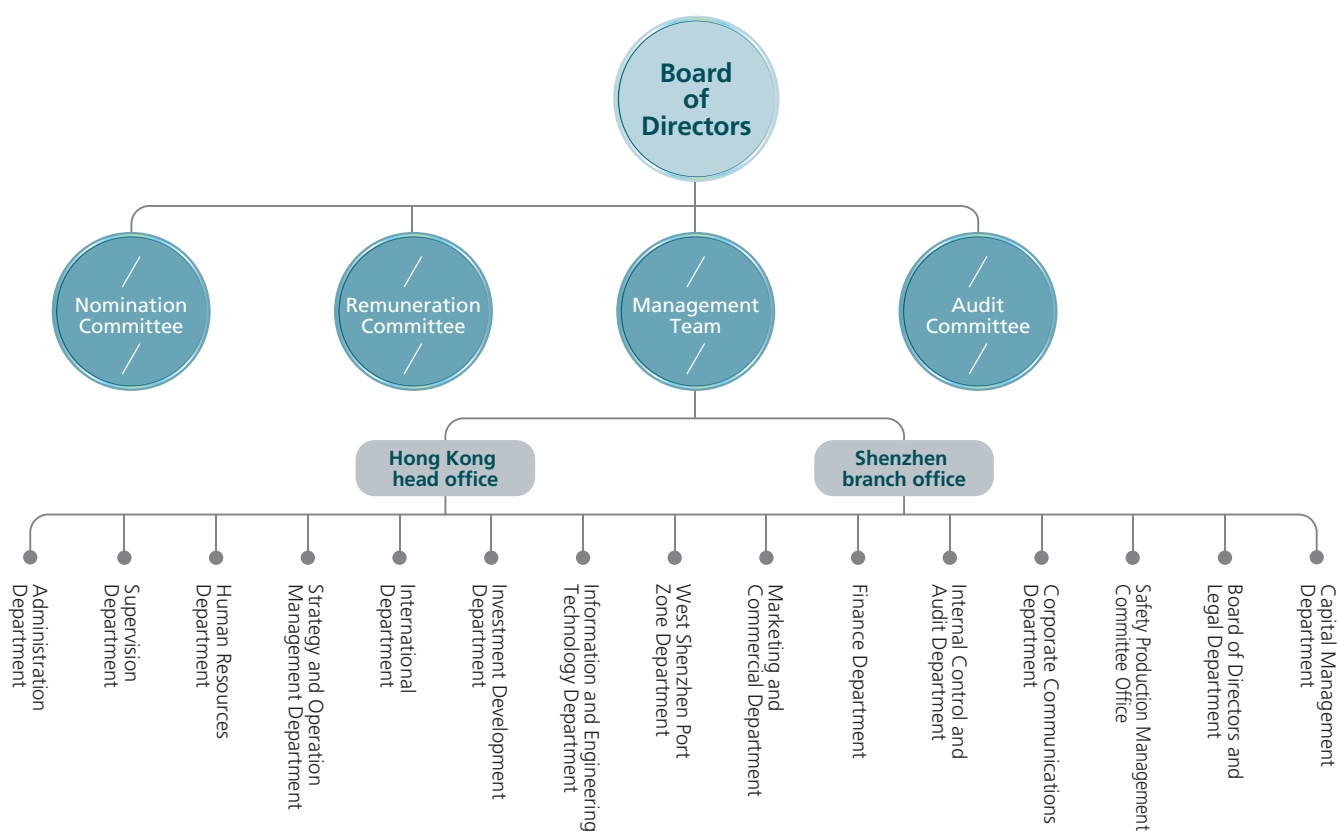
CORPORATE GOVERNANCE

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.

Governance structure diagram



Members of the Board

Executive Directors



Fu Gangfeng
(Chairman)



Su Jian



Xiong Xianliang



Bai Jingtao



Zheng Shaoping



Wang Zhixian

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

We adhere to the responsibility concept system containing corporate mission, vision, core values, philosophy and corporate spirit and strive to achieve value sharing and mutual benefit and promote a healthy, sustainable, stable and harmonious social development.

Promotion of responsibility

The Group has continuously been deepening responsibility awareness and improving the establishment of responsibility management mechanism and system to constantly integrate social responsibility concept into collective operation and management and continuously improve social responsibility management level.



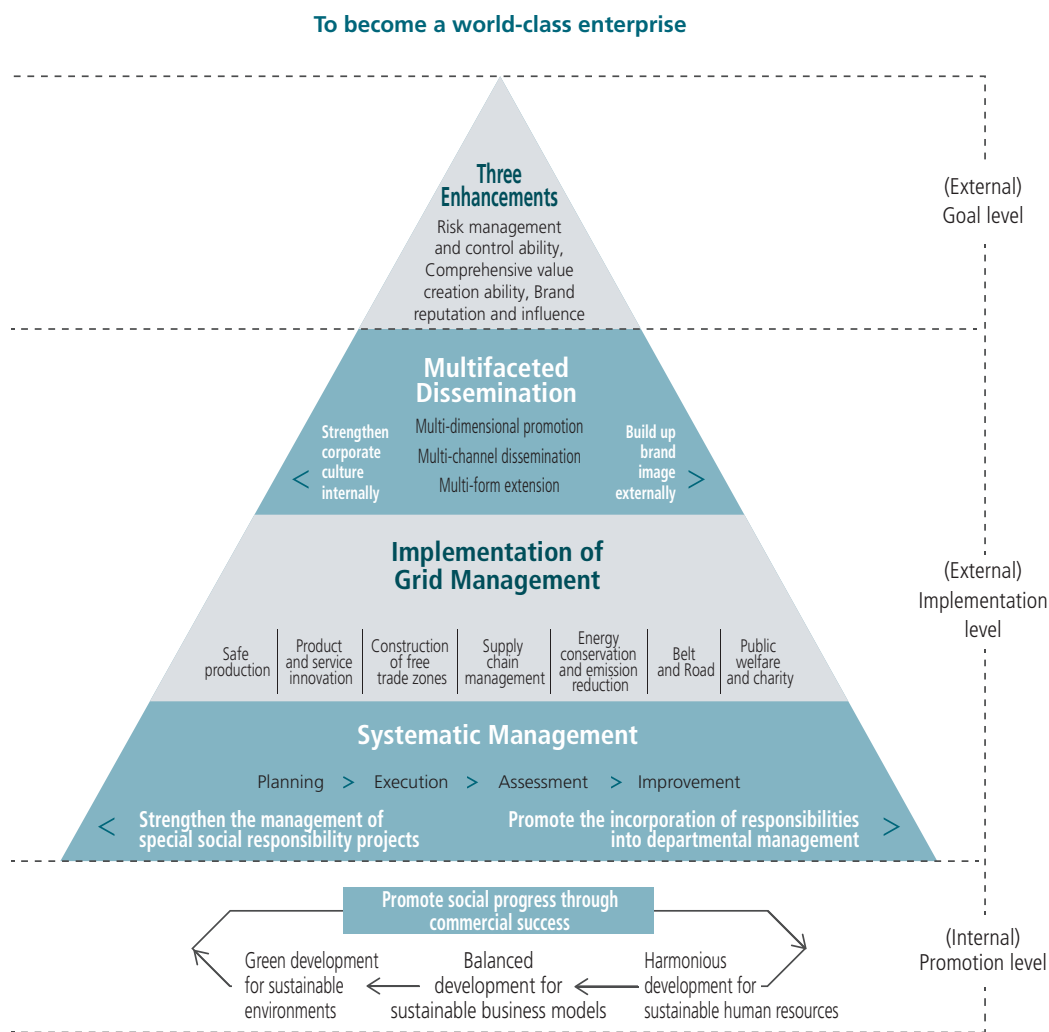
Social Responsibility Management System

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 communication with stakeholders to constantly improve the transparency of corporate operation. By establishing a multi-channel platform to enhance communication with various stakeholders, the Group would actively understand the expectations and respond to the appeals of stakeholders and strive to build a closer partnership with them.

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

7,245

HK\$ million

Return on Equity

9.7%

Total assets

139,937

HK\$ million

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

Gravitating upon the 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.

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 • Evaluation mechanism for risk management		• Promoting risk management culture • Information platform for risk management and internal control		

Legal audit rate of material operational decisions

100%

Legal audit rate of business contracts

100%

Legal audit rate of regulatory system

100%

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 2018, the Group has no material risk incidents or material loss on assets.

ANTI-CORRUPTION AND ADVOCATING INTEGRITY

In 2018, the Group fully implemented the spirits of the 19th National Congress of the Communist Party of China (“CPC”). Under the guidance of the philosophy of socialism with the characteristics of China in the new era proposed by Xi Jinping and led by the spirits of the Second Plenary Session of the 19th Central Commission for the Discipline Inspection, the Group was in strict compliance with the deployment and requirements of “four comprehensive, four upholds (四個全面、四個堅持)” raised at CMG Group’s meeting in relation to clean and honest management and anti-corruption. Combined with its strategic goals and annual tasks, the Group has enhanced internal supervision and reinforced supervision of discipline enforcement and accountability, maintaining a tough stance on combating corruption. It has also strengthened its efforts in rectifying the “four working styles (四風)”, striving to building an anti-corruption system that people “dare not, cannot and will not corrupt (不敢腐、不能腐、不想腐)” and deepening the comprehensive development under strict governance of the Party so as to provide solid assurance for becoming a world's leading comprehensive port service provider.

Stringent accountability system to promote implementation of dual responsibilities

Firstly, the Group took party building in respect of politics as the priority and strictly complied with political discipline and political rules. Focusing on political positions, principles, responsibilities and disciplines, the Group reinforced its supervision of discipline enforcement and accountability, and carefully selected candidates based on their political position, integrity and image during the recruitment process so as to ensure a clean political ecosystem within the Party in all aspects. Secondly, the Group reinforced the allocation of responsibilities and consolidated the accountability system. At the beginning of the year, the Group signed the Letter of Responsibility on Integrity Building within the Party with its subsidiaries to ensure responsibility across all levels. The management strictly implemented the principle of “Same responsibility for the Party and the Government, Dual Responsibility for One Position and Actions against Negligence (黨政同責、一崗雙責、失職追責)”. At the end of the year, the supervisory department of the Group will jointly make an appraisal on its subsidiaries with the Human Resources Department, the results of which will be linked to the performance of such companies. Thirdly, the Group adhered to the principle of management of cadres by the Party and constantly integrated ethics with professionalism and took integrity as the priority so as to put the standards of good cadres into practice. The Group has revised its systems including position management, performance appraisal and remuneration management of staff, thus further standardizing the mechanism and rules of talent management and improving the evaluation system of “ethics, capability, diligence, performance and integrity”. The discipline inspection and supervision department will be responsible for evaluation and supervision of the selection of the Group’s management.

Reinforcing building of disciplines to create an atmosphere of “dare not corrupt”

The Group organized regular education on disciplines to proactively create an in-depth atmosphere of “dare not corrupt” through demonstration of typical positive examples as guidance and typical negative examples as warning and lesson. The first objective is to learn from the positive examples and establish models as demonstration. The second objective is to put the “four forms (四種型態)” into practice to early focus on minute details. The third objective is to ensure proper reporting and review by making use of the accountability system.

Reinforcing construction of mechanism to laid down the solid boundary of “cannot corrupt”

Firstly, the Group has established an evaluation mechanism of integrity risk points, focusing primarily on prevention. The supervisory department of the Group will, based on the integrity risk points gathered by its subsidiaries, perform tasks such as targeted inspections and sample tests, listen to specific reports, interview staff of key positions and review relevant samples and drafts to ensure accurate identification of integrity risks with effective prevention and control measures in place, thereby ensuring risks are under control and preventable. Secondly, the Group has rationalized and optimized its systems to ensure its operation is in compliance with the laws. Any system that involves the exercise of power shall be improved constantly to integrate integrity building into the whole process of daily operation and management, thereby preventing and controlling integrity risks from the source of systems and preventing the abuse of power. Thirdly, the Group has improved the synergy-sharing mechanism to realise monitoring with joint efforts. Based on its actual business, the Group has revised the system of the Administration Measures on the Supervision of Integrity Building within the Party Through Comprehensive Synergy-Sharing (黨風廉政建設監督工作全面協同管理辦法), convened themed conferences on synergy to formulate plan for, conduct research on and provide supervision over synergy-related events. Each functional department has organized self-reflection, self-correction and

problem rectification within the system so as to effectively implement the synergy-sharing supervision of integrity building within the party. The Group has formed an “integrity safety net” to realise monitoring with joint efforts. Fourthly, the Group has increased the power delegated to the Commission for Discipline Inspection with clearly defined duties and strengthened accountability system. Fifthly, the Group has established the inspection mechanism and formulated the Measures for the Inspection of the Party Committee (Trial) (黨委巡察工作辦法(試行)), the “Work Plan for the Inspection of the Party Committee (2018-2022) (黨委巡察工作規劃(2018-2022年))”. It has also established leadership groups for the inspection of the Party Committee and inspection office for the Party Committee, thereby improving the mechanism and providing organizational support for the Group’s commencement of political inspection in the next stage.

Reinforcing building of concepts to firmly establish the defense line of “will not corrupt”

The Group has put the study and education principle of “frinciple to tgelitic 兩學一做) into a systematic and normal practice, which is conducive to the consistent implementation of the close integration of Party building in terms of concepts and organization with Party governance through systems, and is an effective approach to constantly strengthen works in relation to concept and political building of the Party. Firstly, the Group has regarded the rules and regulations under the Constitution of the Communist Party, laws and regulations and model cases as important contents for training the party members and cadres. We enhanced the knowledge and “red line” awareness of the party member cadres by organizing special trainings and prevented the mistakes due to “those who know nothing fear nothing (無知者無畏)”. Secondly, the Group has duly studied and implemented the spirits of the 19th National Congress of the Communist Party of China (“CPC”). Leveraging the “Learning Week” event, the Group has been proactively promoting the establishment of a learning-oriented enterprise. Thirdly, the Group has launched the education of alert awareness to firmly establish the psychological defense line.

Reinforcing team building to enhance duty performance capability

By organizing specialized business trainings and Learning Week activities for the discipline inspection and supervision team, the Group has developed a “strict, pragmatic, in-depth and careful” working style and established a truly loyal, clean and responsible discipline inspection and supervision team. Firstly, the Group arranged over 50 discipline inspection and supervision officers from the headquarters and the subsidiaries to attend specialized business trainings for discipline inspection and supervision in Shanghai Jiaotong University. Secondly, the Group assigned new discipline inspection and supervision officers to attend trainings in the discipline inspection and supervision academy to improve their professional capability of discipline inspection and supervision. Thirdly, the Group has compiled three volumes of the “Building of Concepts (思想建設)” periodic to enrich learning contents for discipline inspection and supervision officers and party members to study. Fourthly, by seizing the opportunities of supervision and inspection, the Group facilitated the exchange and dissemination of experience in discipline inspection and supervision, so that the responsible personnel can learn from each other’s advantages, work with concerted efforts and at the same pace for the same goal. Fifthly, the Group invited the management of the CMG Group’s inspection department to provide trainings for the discipline inspection personnel at the headquarters to enhance their capabilities. Sixthly, the Group organized the “Learning Week” activities under the theme of “Raising learning awareness, enhancing duty performance capability and become a loyal and responsible discipline inspection officer (增強學習意識, 提升履職能力, 做忠誠擔當紀檢人)” with a view to building a learning-oriented discipline inspection team.

Reinforcing the building of working disciplines to promote in-depth development through comprehensive and strict governance of the Party

Firstly, the Group consolidated the achievements from work against “four working styles”. The Group upheld a top-down approach to prevent the rebound of this adverse trend from the leaders at various levels; while constantly consolidating and expanding the achievements from the spirit of the eight-point frugality code of the central government. Secondly, the Group organized internal inspection. Thirdly, the Group organized specialized self-reflection and self-correction.



Training course for cadres of the discipline inspection and supervision team

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

The Group has complied with various laws and regulations relating to bribery, extortion, fraud and money laundering.

For the year ended 31 December 2018, there was no incident of non-compliance with relevant laws and regulations which have a significant impact on the Group.

ENHANCING QUALITY AND EFFICIENCY

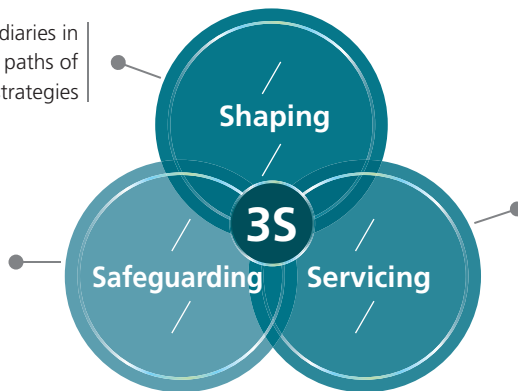
With a growing scale, it was an intrinsic requirement for the Group to build up its ability of organic growth in order to be a world's leading comprehensive port service provider. We grasped the balance between "quality" and "efficiency" with a view to comprehensively enhancing the management and control 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 "headquarters of authority", "headquarters of values" and "headquarters of innovation". Capitalising on the management and control functions of the headquarters 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.

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



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.

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 shortening the distance of control and enhancing 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 selfimprovement and collaboration", the Group will capitalize 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 vision "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 risks, the Group decided to improve and prevent incidents of the same kind by engaging third party expertise. Meanwhile, shipping companies required ports to take relevant preventive measures and obtain certificates for meeting standards step by step to ensure port safety and compliance as well as avoid any losses of benefits of the shipping companies. Driven by the market needs and social responsibility, 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.

The Group has complied with various laws and regulations to respect product responsibility relating to health and safety relating to products and services provided.

For the year ended 31 December 2018, there was no incident of non-compliance with relevant laws and regulations relating to products and services provided which have a significant impact on the Group.

Low-carbon growth to create a green future for all



Carbon
dioxide emission

108,000

tonnes

Comprehensive
energy consumption per
RMB10,000 operating
income (based on
comparable prices)

0.0267

tonnes of standard
coal/RMB10,000

Capital investment for
energy conservation and
emission reduction

107.21

RMB million

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

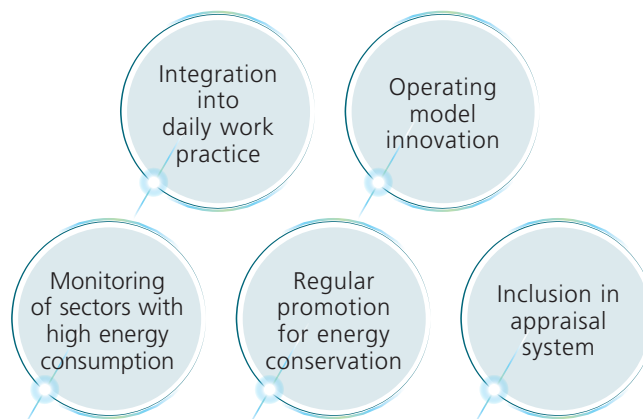
The Group has integrated environmental accountability into its operation process by establishing environmental management system, which has continuously arouse the environmental awareness and enhance the capabilities of members along the value chain, and thus putting the internalised environmental philosophy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

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 headquarters 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 headquarters

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, 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 multifunctional RTGs under the RTG remote control system. By the end of the year, all RTGs, storage yards, operation centers and machinery room equipment have completed installation and commission, passed the performance test of Shenzhen Special Inspection Institute and obtained the inspection certificate. Upon completion, it will be the first RTG remote control port in the PRC.

Shore-powered supply for vessels (Phase 2)

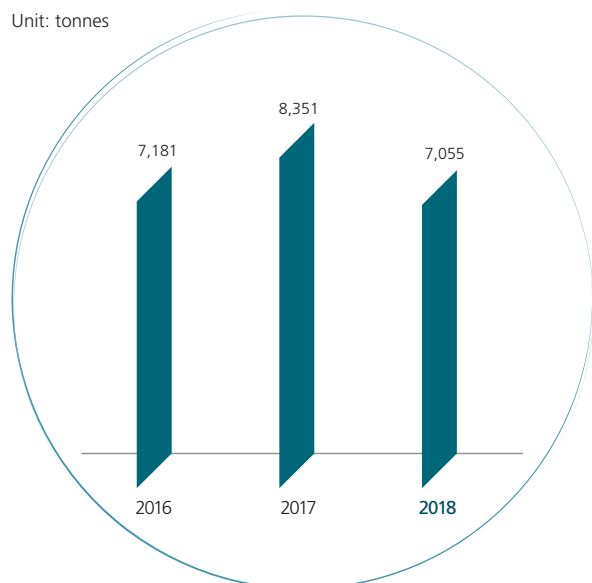
Shore-powered supply for vessels means that terrestrial power supply is used rather than using generating units in vessels during the docking period. We intend to set up shore power supply facilities at the existing docks to provide shore power supply during the docking period, and cease to use generating 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 capacity of a single generating unit in vessels docking at ports, which ensures the fulfillment of electricity needs for electrical equipment in vessels. With further promotion of the shore-powered supply for vessels (phase 2) in 2018, another set of power supply facility with a capacity of 3000KVA is expected to be installed to provide services to both docks simultaneously, thereby achieving interconnection with shore-powered supply for vessels (phase 1).

ERTG transformation project for power storage and saving

ERTG (rubber tyred gantry cranes, i.e. “substitution of fuel-powered equipment with electricity powered equipment (油改電)”) is the earliest environmental protection and power saving technology developed by the Group. In 2017, technological upgrade of replacing old diesel-fired power generating units with high power by low-power ones (high-power to low-power shift), which was developed based on the ERTG project, was adopted to optimize the ERTG project continuously. In 2018, the battery power supply technology and hybrid power technology have been adopted to further reduce or eliminate the fuel power used during the operation and relocation of ERTG, which not only reduced the power consumption but also enhanced the environmental performance.

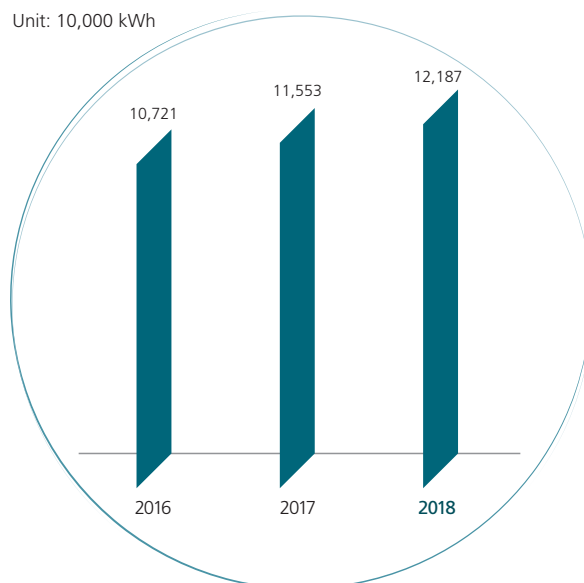
Diesel consumption (excluding outsource)

Unit: tonnes



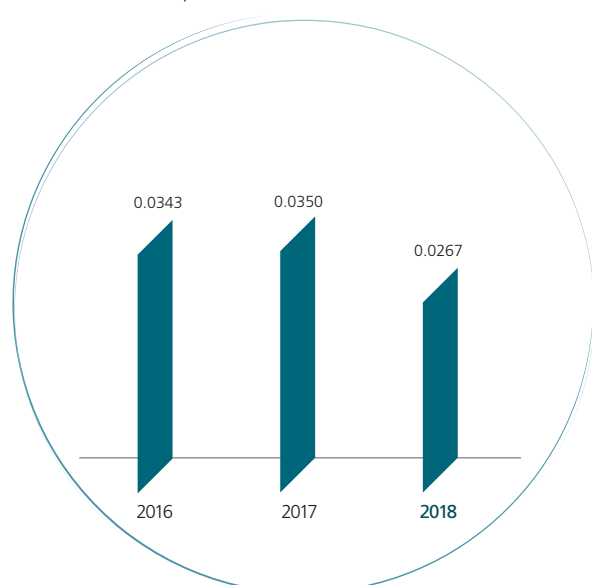
Electricity consumption

Unit: 10,000 kWh



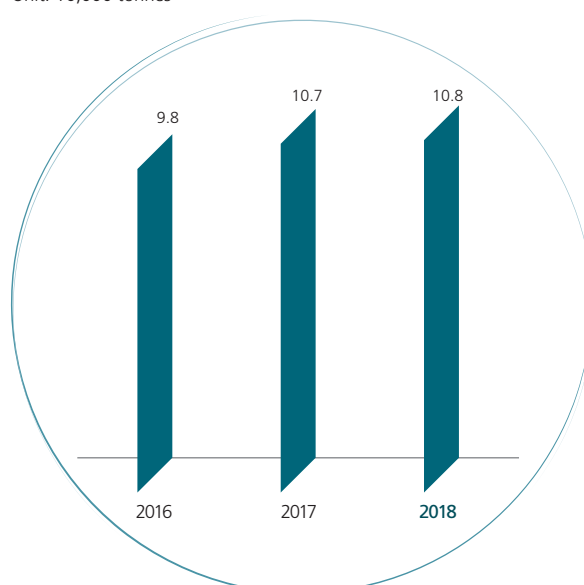
Comprehensive energy consumption per RMB10,000 operating income (based on comparable prices) ^{Note 1}

Unit: tonnes of standard coal/RMB10,000



Carbon dioxide emissions

Unit: 10,000 tonnes



Note 1: Comprehensive energy consumption per RMB10,000 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 (tonnes of standard coal)/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.

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.

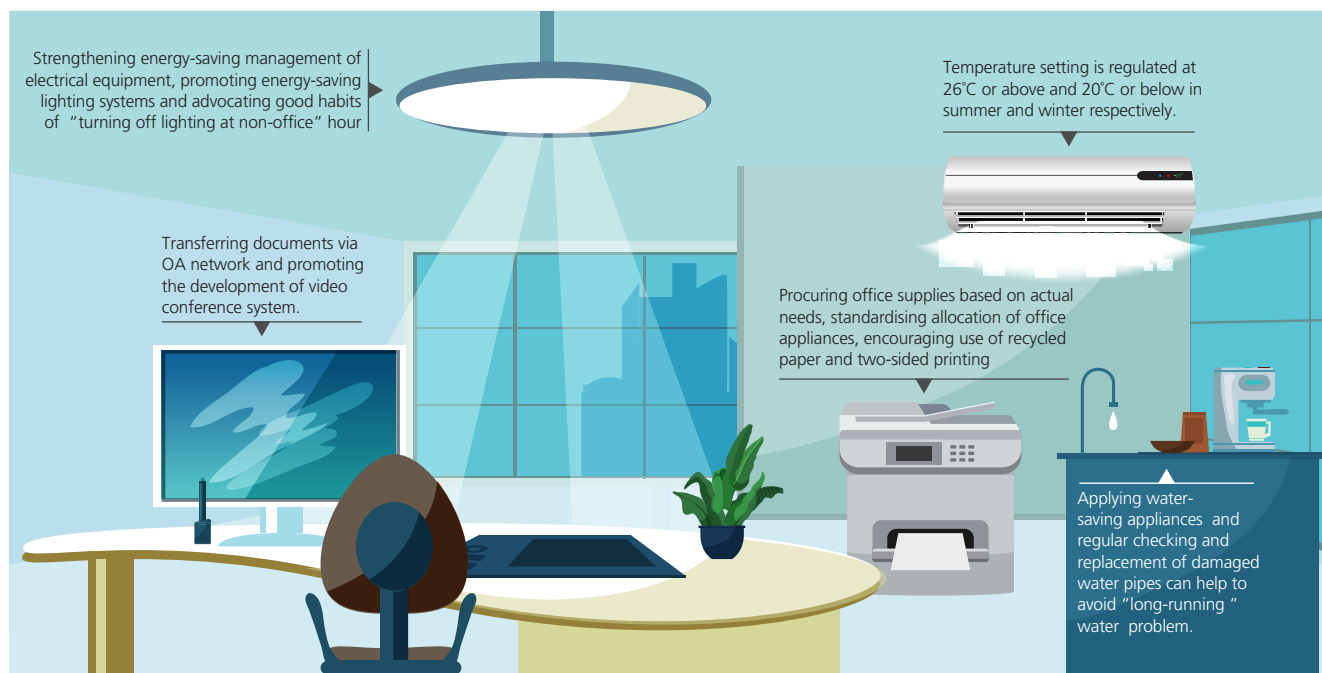
Minimise Waste Pollution

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, packaging materials or office supplies.

Graph of Green Office



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 2018, there was no incident of non-compliance with relevant environmental laws and regulations which have a significant impact on the Group.

Advocating Green Life

The Group will proactively organize activities of various forms, such as energy-saving publicity week and low-carbon day, with a view to advocating the concept of energy saving with its best endeavors and contributing to the building of ecological civilization.

China Merchants Container Services Limited ("CMCS") charitable and environmental-friendly activities

Adhering to the principle of solving the trash problems caused by typhoon "Mangkhut" with our all-out efforts, CMCS arranged staff to carry out suburban clean-up activities in Tai Mo Shan Country Park.



Clean-up activities of CMCS in country park



Cleaning up white trashes in Shenzhen Bay Park to realise "Shenzhen Blue" via real actions



Cleaning up the white trashes in the hidden area of the main road and the leaves on the sidewalk of the park



China Merchants Port Services (Shenzhen) Company Limited organised Blue Ocean Clean-up Day (藍色海洋清潔日)

People-oriented policy to promote staff development



Investment
in safety production

98

RMB million

Coverage of
trainings for staff
at headquarters

100%

Percentage of
female senior
management

20.45%

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

The Group regards employees as the most important resources. It believes that the development of the Group is dependent on and for the interests of its employees, hence, it 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” management 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.

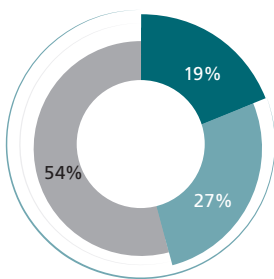
Equal Employment and Diversification

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 enables coexistence of diversified culture.

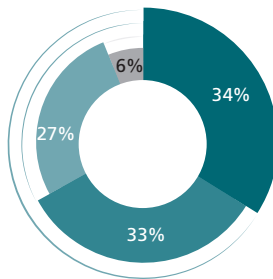
Remuneration and Benefits

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.

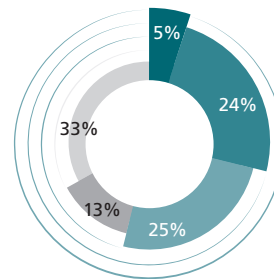
Human resources



Age of staff



Education background of staff



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

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

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

Number of staff served in the headquarters 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 and established the network learning system, through which the staff can replenish and refresh their knowledge on a continuous basis, at the same time mastering new skillsets and techniques and enhancing their overall strengths, so as to get prepared for changes in evolving internal and external environment and business development requirements.

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.



Love in the Staff Centers

The Group newly constructed five Staff Centers in 2018 and has completed the construction of 34 Staff Centers in total as of the end of 2018, 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.

In 2018, the Group organized a reading month at the Staff Center with the theme of "Thinking Long-Term and Seizing the Moment" to deepen the understanding of the forward thinking of "plan now for the future" and the pragmatic spirit of "future planning for now". The event aimed at motivating staff to read more and better, so as to increase their knowledge, strengthen their business skills and foster a pragmatic culture that is "willing to, capable of and competent to succeed". All 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 demonstrated and enhanced the aggressive and can-do spirit of China Merchants staff, the warmth of the China Merchants family was also crystallised and communicated, effectively inheriting and carrying forward the fine culture and tradition of China Merchants.

Diversified Cultural and Sports Activities

In order to enrich the after-work cultural life of our staff, the Group organized a series of diversified cultural and sports activities in the year, such as the Corporate Day series events, 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.



Flag-raising ceremony on Corporate Day



Corporate Day celebration with overseas staff



Outward-bound activity



Badminton competition



Care for Staff Facing Financial Difficulties and Retired Staff

The Group also devoted great resources to help its staff facing financial difficulties to solve problems in real life. The Group sent their love and care to these staff through various donation and visiting activities to help them overcome their difficulties. During festive seasons, the Group visited retired staff to express sincere gratitude to their contribution and dedication.

Care for Frontline Staff

Staff is the most valuable assets of a company. The Group always cares about its staff, especially the frontline workers. During the hot summer, all units of the Group distributed herbal tea to the frontline staff, sending frontline staff their warm regards on the summer day.



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

The Group demonstrates a relentless commitment to the protection of the legitimate right and interests of all employees and provides them with relevant statutory benefits such as statutory holidays and employment insurance, striving to build a working environment that is fair, diversified, anti-discrimination, and sound recruitment and promotion system in place so as to comply with the requirements of the relevant employment and labour laws and regulations.

For the year ended 31 December 2018, there was no incident of non-compliance with relevant employment and labour laws and regulations which have a significant impact on the Group.

Safety and Health

The Group views safety production management as a key part of its operation. Under the directives of “fulfilling responsibility, strengthening control, preventing accidents and making China Merchants a safe workplace”, 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 headquarters, 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 include the management of the Group, the persons in charge of the relevant functional departments at headquarters 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 provide 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 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

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.

› Safety Office

Responsible for the daily work within the specified scope of responsibilities of the Group's Safety Committee. A designated deputy director was newly added.

› Safety Committee of Subordinated Units

Responsible for the safety production management work of its own and its subordinate units.

› Safety Supervision Department

Responsible for providing professional guidance and services for and conducting inspection and supervision over the Group's safety production.



Annual meeting for safety work



On-site safety inspection by the management

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 safety production can be maintained steadily. No fatal accident that involves responsibilities of safety production of the Group has occurred in 2018.

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, focused rectification on fire safety 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.

No complaint about occupational diseases was received in 2018.

The Group implemented benchmark management and “one-on-one” assistance. Through “competence management” of benchmark enterprises, businesses and teams, it encouraged units at the frontline level to identify and overcome weaknesses and adopt a new mindset for production safety management, so as to enhance workforce competency.

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 2018, the Group remained committed to the theme of “Shaping Blue Dreams Together” (共鑄藍色夢想) (C Blue) 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.

“C Blue Summer Camp for Children” (C Blue 兒童夏令營) Charitable Event

The Group organised the “C Blue Summer Camp for Children” (C Blue 兒童夏令營) Charitable Event which 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, which 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. The event represented the entry of CMG Group into the “2018 Outstanding Youth Volunteer Service of Central State-owned Enterprises Contest” and won the gold award.



“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 and hosted by the Group, 2018 C Blue Training Programme is a corporate social responsibility project 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 and 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



Training programme

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 the 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. Two rounds of training were held in summer and autumn in the year.



Public Welfare and Charity

The Group carried out extensive charitable and volunteering projects in 2018. 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, Mega SCT Student Assistance Volunteering Activity and China Merchants International Information and Computer Classroom Charitable Event, all of which have received overwhelming responses from the public and appreciative remarks from both industry peers and outsiders.



In 2018, the Group continued to actively take up social responsibilities and increased its investment in public welfare and charities. The Group donated a total of HK\$13.518 million to China Merchants Charitable Foundation to facilitate the charities events jointly organized by China Merchants Charitable Foundation and 14 other organizations, including the volunteer teacher project organized with Teach for the Future in Beijing, aiming to enhance teaching quality of schools in rural areas; the comprehensive development project for poor villages and communities in Qichun County implemented in joint efforts with Sichuan Haihui Poverty Alleviation Center, providing livestock as gifts and technical trainings for 1,020 poor farmers in 4 project villages in Qichun County; and cooperation with the Office of Poverty Alleviation and Development of various poor counties, which aims to better support for the building and development of the target areas and solving the difficulties encountered by the local citizens in daily lives.



Public Welfare and Charity

Directors and Senior Management

Directors

Mr. Fu Gangfeng

aged 52, 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 Manager of Finance Department, Vice Chief Financial Officer, Chief Financial Officer of China Merchants Group Limited and the Vice Chairman of China Merchants Shekou Industrial Zone Holdings Co., Ltd., shares of which are listed on the Shenzhen Stock Exchange. He is also currently the Chairman of China Merchants Port Group Co., Ltd., shares of which is listed on the Shenzhen Stock Exchange, the Vice Chairman of China Merchants Bank Co., Ltd., shares of which are listed on both the Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited and Chief Supervisor of China Merchants Life Insurance Company 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. Su Jian

aged 46, is the Head of the Finance Department (Property Rights Department) of China Merchants Group Limited. He graduated from Shanghai University of Finance and Economics with a Bachelor's Degree in economics. He then obtained the qualifications of non-practising member of the Chinese Institute of Certified Public Accountants and intermediate accountant. He previously served as the Financial Manager of China Merchants International Travel Services Limited, Senior Manager of 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. He is also currently a Non-executive Director of China Merchants Energy Shipping Co., Ltd., shares of which are listed on the Shanghai Stock Exchange, a Non-executive Director of China Merchants Securities Co., Ltd., shares of which are listed on The Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange and the Director of China Merchants Port Group Co., Ltd., shares of which is listed on the Shenzhen Stock Exchange. He was appointed to the Board of Directors as Executive Director on 12 October 2017.

Mr. Xiong Xianliang

aged 51, is the General Manager of the Strategy and Development Department, Institute of Science, Technology and Innovation, and the Chairman of the Development and Research Center of China Merchants Group Limited. He graduated from Nankai University with a Master Degree and a Doctor Degree in Global Economics in July 1991 and January 1994, respectively. Prior to joining the Company, he was previously the Researcher and Director of the Development Research Center of the State Council, the Deputy Head of the Chongqing Development and Planning Commission, the Deputy Head of the General Group of the Steering Committee Office of the Western Region Development of the State Council, the Inspector of the Research Office of the State Council, the General Manager of the Strategy and Research Department of China Merchants Group Limited, and the Non-executive Director of China Merchants Bank Co., Ltd., shares of which are listed on both the Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited. He is also currently the Non-executive Director of China Merchants Securities Co. Ltd., shares of which are listed on both the Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited. He was appointed to the Board of Directors as Executive Director on 4 June 2018.

Mr. Bai Jingtao

aged 53, 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 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 General Manager of the Company, 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 as the Director and Chief Executive Officer of China Merchants Port Group Co., Ltd. (formerly known as Shenzhen Chiwan Wharf Holdings Limited), shares of which is listed on the Shenzhen Stock Exchange, Vice-Chairman of Shanghai International Port (Group) Co. Ltd., shares of which is listed on The Shanghai Stock Exchange and Vice Chairman and Non-executive Director of Dalian Port (PDA) Company Limited, share of which are listed on both The Stock Exchange of Hong Kong Limited and The Shanghai Stock Exchange. He was appointed as the Managing Director of the Board of Directors on 1 June 2015.

Mr. Wang Zhixian

aged 53, 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 of Science. He obtained a master degree of Business Administration from Peking University. Mr. Wang has extensive management experience in port and shipping industry. Prior to joining the Company, he worked in Hempel-Hai Hong Paint Company as sales manager. After joining the Company, he was the Deputy General Manager of Industrial Management Department, General Manager of Business Planning Department, and he was the Deputy General Manager of Shenzhen Mawan Port Services Co., Ltd., the Chairman and CEO of Ningbo Daxie China Merchants International Terminal Co., Ltd. and the Managing Director of China Merchants Port Services (Shenzhen) Co., Ltd. and Shenzhen Haixing Harbour Development Co., Ltd., 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 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 55, 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 as the Deputy General Manager of China Merchants Port Group Co., Ltd., a Non-executive Director of Dalian Port (PDA) Company Limited, shares of which is 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 Group 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.

Mr. Kut Ying Hay

aged 63, is a retired 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 is also a solicitor of the Supreme Court of England and Wales, the Supreme Court of Victoria, Australia, and the Supreme Court of Singapore, and is an associate member of the Institute of Chartered Arbitrators and the Institute of Arbitrators, Australia. He was appointed by the Hong Kong Government as a member of the Board of Review for the period from 1995 to 1998. He has also been appointed by the Ministry of Justice of the PRC as a China Appointed Attesting Officer. 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 76, is a retired solicitor. Following the delisting of shares of Sinotrans Shipping Limited on 16 January 2019, he ceased to act as Independent Non-Executive director of Sinotrans Shipping Limited on the same day. He is an Independent Non-executive Director of SHK Hong Kong Industries Limited, shares of which is 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 63, 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. He was appointed to the Board of Directors as Independent Non-executive Director on 8 October 2004.

Mr. Li Ka Fai David

aged 63, is currently the deputy managing partner of Li, Tang, Chen & Co. CPA (Practising). He is also a fellow of the Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants, UK, 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 76, 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. Yim Kong

aged 46, 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 an MBA program 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 logistics management positions in Neptune Orient Lines (NOL) of Singapore and Swire Group of Hong Kong; and was Deputy General Manager, Deputy Executive Manager, and General Manager of Shekou Container Terminals Limited, one of the Company's subsidiaries; and Chief Business Officer of CMPort (between May and November of 2016).

Mr. Lu Yongxin

aged 48, 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 Assistant 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 46, joined the Company in 2007 and currently serves as deputy general manager of the Company, Chief Representative of Representative Office of China Merchants Group in Djibouti, General Manager of China Merchants Holdings (Djibouti) FZE and Chairman of China Merchants Holdings (International) Information Technology Company Limited. Having earned a bachelor's degree in Port Engineering and 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 experience of operational management and strategic research and planning 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 Research and Development Department, International Division, and Commercial and Strategic Planning Department respectively, General Manager of the Strategy and Operations Department, Deputy Chief Economist and General Manager of China Merchants Bonded Logistics Co., Ltd..

Mr. Zhang Yi

aged 47, a senior economist, joining the Company in 2017 and currently served as deputy general manager of the Company. He graduated from Wuhan University of Technology with a P.H.D holder in Engineering. Mr. Yi 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., Party Secretary of Zhanjiang Port (Group) Co. Ltd..

Mr. Zhou Qinghong

aged 55, is a master's degree student at Shanghai Maritime University and is currently the deputy general manager of the Company. Mr. Zhou joined the work in 1986 and has more than 30 years of experience in port management. He has served as General Manager of the South China Container Terminal, Deputy General Manager, General Manager of Shenzhen Haixing Harbor Development Co., Ltd., General Manager of China Merchants Port (Shenzhen) Co., Ltd. and General Manager of Shekou Container Terminals Ltd..

Ms. Wen Ling

aged 53, joined the Company in 1994 and currently serves as Chief Financial Officer of the Company. Ms. Wen was graduated from Southwestern University of Finance and Economics with master's degree. Ms. Wen has over 20 years of experience in financial management and capital management. She has served as Deputy Financial Manager of China Merchants Port Service (Shenzhen) Co., Ltd., Financial Manager of Shenzhen Mawan Port Co., Ltd., Deputy General Manager and Senior Deputy General Manager of Finance Department of the Company, General Manager of Capital Management Department of the Company.

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 2018. 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 99.

The Board had declared an interim dividend of 22 HK cents per Share, totaling HK\$731 million, which was paid on 15 November 2018.

The Directors have resolved to recommend the payment of a final scrip dividend of 73 HK cents per share, totaling HK\$2,431 million for the year ended 31 December 2018 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 (2017: scrip dividend of 59 HK cents per share by way of issue of new shares equivalent with cash alternative), payable on or around 18 July 2019 to the shareholders whose names appear on the register of members of the Company (the "Register of Members") on 11 June 2019 (the "Scrip Dividend Scheme").

Subject to the approval by the Shareholders at the annual general meeting of the Company to be held on 3 June 2019, a circular containing details of the Scrip Dividend Scheme together with the relevant election form will be sent to shareholders on or around 14 June 2019. The Scrip Dividend Scheme is conditional upon the granting by the Listing Committee of the Stock Exchange of the listing of and permission to deal in the new shares to be issued pursuant thereto. It is expected that the final dividend warrants and certificates for the new shares will be despatched to Shareholders on or around 18 July 2019.

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 including shareholders, employees, customers and suppliers etc and environmental policies and performance are contained in the Management Discussion and Analysis, Corporate Governance Report and Environmental, Social and Governance Report on pages 12 to 25, pages 28 to 39 and pages 40 to 69 of this Annual Report respectively.

Principal subsidiaries

The particulars of the principal subsidiaries of the Company are set out from pages 221 to 225 of this Annual Report.

Charitable donations

HK\$13.52 million donation was made by the Group during the year (2017: HK\$42.70 million).

Reserves

Details of the movements in reserves of the Group and the Company during the year are set out in notes 31 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 29 to the consolidated financial statements.

Distributable reserves

Distributable reserves of the Company as at 31 December 2018 amounted to HK\$3,135 million (2017: HK\$4,088 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 2018 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*)
(resigned on 30 November 2018)
Mr. Wang Hong (resigned on 4 June 2018)
Mr. Su Jian
Mr. Xiong Xianliang (appointed on 4 June 2018)
Mr. Bai Jingtao (*Managing Director*)
Mr. Wang Zhixian
Mr. Zheng Shaoping
Ms. Shi Wei (resigned as 4 June 2018)

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 70 to 74 of this Annual Report.

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 work arrangement.

Mr. Wang Hong and Ms. Shi Wei also resigned as Executive Directors of the Company with effect from 4 June 2018 due to change of work arrangement.

Besides, Mr. Hu Jianhua resigned as Executive Director and Vice Chairman of the Board of the Company with effect from 30 November 2018 due to change of work arrangement.

In accordance with Article 89 of the Articles of Association, Mr. Wang Zhixian, Mr. Zheng Shaoping, Mr. Lee Yip Wah Peter and Mr. Bong Shu Ying Francis will retire from the Board at the forthcoming annual general meeting but, being eligible, will offer themselves for re-election.

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 12 October 2017;

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

One Executive Directors' appointment commenced on 29 March 2018;

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

One Executive Director's appointment commenced on 4 June 2018;

One Executive Director's appointment commenced on 18 February 2019;

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

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

Three Independent Non-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 2018 and up to the date of this report are Mr. Hu Jianhua (resigned on 30 November 2018), Mr. Bai Jingtao, Mr. Wang Zhixian and Mr. Zheng Shaoping.

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 2018, the interests of the Directors of the Company in the securities of the Company and its associated

corporations, within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO"), as recorded in the register maintained by the Company under Section 352 of the SFO were as follows:

Shares 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 2018
Mr. Fu Gangfeng	Beneficial owner	Personal interest	2,111	—	0.0001%
Mr. Lee Yip Wah Peter	Beneficial owner	Personal interest	209,376	—	0.0063%
Mr. Li Kwok Heem John	Interest of spouse	Family interest	1,876,102	—	0.0563%
			2,087,589	—	0.0627%

Save as disclosed above and based on the register maintained by the Company under section 352 of the SFO, as at 31 December 2018, none of the Directors or chief executive of the Company or any of their associates had any interests and short positions in the shares, underlying shares and 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 141 to 142 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 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 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 (including those outstanding, cancelled, lapsed or exercised in accordance with the terms of the 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 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 2019, the total number of shares available for issue under the Share Option Scheme was 247,441,123 shares, which represent approximately 7.43% of the total issued shares of the Company as at the same date.

(ix) Shares options outstanding, granted, exercised, lapsed or cancelled

No share options were outstanding, granted, exercised, lapsed or cancelled under the Share Option Scheme during the financial year from 1 January to 31 December 2018.

Substantial shareholders

As at 31 December 2018, the following persons, other than a Director or chief executive of the Company, have interest or short position in the shares and underlying shares of the Company as recorded in the register of the Company required to be kept under section 336 of the SFO:

Long Positions

Name of substantial shareholder	Capacity	Shares/underlying Shares held	%
China Merchants Group Limited	Interest of Controlled Corporation	2,070,335,311 ^(1,2,3)	62.18%
China Merchants Steam Navigation Company Limited	Interest of Controlled Corporation	2,067,335,311 ⁽²⁾	62.08%
China Merchants Holdings (Hong Kong) Company Limited	Interest of Controlled Corporation	2,067,335,311 ⁽²⁾	62.08%
Broadford Global Limited	Interest of Controlled Corporation	1,313,541,560 ⁽²⁾	39.45%
Rainbow Reflection Limited	Interest of Controlled Corporation	1,313,541,560 ⁽²⁾	39.45%
China Merchants Investment Development Company Limited	Interest of Controlled Corporation	1,313,541,560 ⁽²⁾	39.45%
China Merchants Port Group Co., Ltd.	Beneficial Owner	1,313,541,560 ⁽²⁾	39.45%
China Merchants Union (BVI) Limited	Beneficial Owner	753,793,751 ⁽²⁾	22.64%
China Merchants Shekou Industrial Zone Holdings Company Limited	Interest of Controlled Corporation	3,000,000 ^(1,3)	0.09%
Top Chief Company Limited	Interest of Controlled Corporation	3,000,000 ⁽³⁾	0.09%
Orienture Holdings Company Limited	Beneficial Owner	3,000,000 ⁽³⁾	0.09%
Pagoda Tree Investment Company Limited	Interest of Controlled Corporation	753,793,751 ⁽⁴⁾	22.64%
Compass Investment Company Limited	Interest of Controlled Corporation	753,793,751 ⁽⁴⁾	22.64%
CNIC Corporation Limited	Interest of Controlled Corporation	753,793,751 ⁽⁴⁾	22.64%
Verise Holdings Company Limited	Interest of Controlled Corporation	753,793,751 ⁽⁴⁾	22.64%

Notes:

- Each of China Merchants Steam Navigation Company Limited ("CMSN") and China Merchants Shekou Industrial Zone Holdings Co., Ltd. ("CMSIZ") is a subsidiary of China Merchants Group Limited ("CMG"). CMG is deemed to be interested in 2,070,335,311 shares, which represents the aggregate of 2,067,335,311 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).
- China Merchants Holdings (Hong Kong) Company Limited ("CMHK") is wholly-owned by CMSN and Broadford Global Limited ("Broadford"), is in turn wholly-owned by CMHK. Rainbow Reflection Limited ("Rainbow") is 74.66%-owned by Broadford and 25.34%-owned by China Merchants Union (BVI) Limited ("CMU"). China Merchants Investment Development Company Limited ("CMID") is in turn wholly-owned by Rainbow. China Merchants Port Group Co., Ltd. ("CMPG"), formerly known as Shenzhen Chiwan Wharf Holdings Limited, which is 64.05%-owned by CMID and CMU is 50%-owned by CMHK.

CMSN is deemed to be interested in 2,067,335,311 shares which are deemed to be interested by CMHK. Such shares represent the aggregate of 753,793,751 shares beneficially held by CMU and 1,313,541,560 shares beneficially held by CMPG.
- 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.

- According to the disclosure of interests form submitted by Pagoda Tree Investment Company Limited ("Pagoda Tree") on 24 May 2018, 50% interest in CMU is owned by Verise Holdings Company Limited ("Verise Holdings"), which is wholly-owned by CNIC Corporation Limited ("CNIC Corporation"), formerly known as GUOXIN International Investment Corporation Limited, which is in turn 90%-owned by Compass Investment Company Limited ("Compass Investment"), which is in turn wholly-owned by Pagoda Tree. Therefore, each of Verise Holdings, CNIC Corporation, Compass Investment and Pagoda Tree is deemed to be interested in the 753,793,751 shares beneficially held by CMU.

Short 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 note 29 and 30 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 2018, 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 26 January 2018, China Merchants Port Group Co Ltd (招商局港口集團股份有限公司) (formerly known as Shenzhen Chiwan Wharf Holdings Limited (深圳赤灣港航股份有限公司)) ("**Chiwan**"), a former subsidiary of the Company, entered in a subscription agreement (the "**Subscription Agreement**") with Zhoushan Nanhai Investment Company Limited (舟山藍海投資有限公司) ("**NHI**"), Shenzhen Changhang Vehicle Logistics Company Limited (深圳長航滾裝物流有限公司) ("**SZCH**"), Zhoushan Islands New District Vehicle Logistics Company Limited (舟山群島新區外運長航滾裝物流有限公司) ("**Zhoushan Logistics**") and Zhoushan Islands New District Xinghai Vehicle Terminal Company Limited (舟山群島新區興海滾裝碼頭有限公司) ("**Xinghai Terminal**") in relation to, inter alia, the subscription of equity interest in Zhoushan Logistics. The total consideration payable by Chiwan for the subscription of equity interest in Zhoushan Logistics under the Subscription Agreement is RMB149,709,800 (equivalent to approximately HK\$182,573,000). Upon completion of the transaction contemplated under the Subscription Agreement, Zhoushan Logistics will be owned by Chiwan, NHI and SZCH as to 51%, 35.13% and 13.87%, respectively and Xinghai Terminal will become a wholly-owned subsidiary of Zhoushan Logistics. SZCH is an indirect wholly-owned subsidiary of CMG, the ultimate holding company of the Company, and therefore a connected person of the Company. Accordingly, the subscription by Chiwan under the Subscription Agreement constituted a connected transaction of the Company.

(b) On 5 February 2018, Shenzhen Malai Storage Company Limited (碼來倉儲(深圳)有限公司) (“**Malai Storage**”) and Keen Field Enterprises Limited (景鋒企業有限公司) (“**Keen Field**”) (both being wholly-owned subsidiaries of the Company) entered into a share purchase agreement in respect of 161,190,933 ordinary A shares (“**Sale Shares A**”) of Chiwan held by Malai Storage (the “**Share Purchase Agreement A**”) and a share purchase agreement in respect of 55,314,208 ordinary B shares (“**Sale Shares B**”) of Chiwan held by Keen Field (the “**Share Purchase Agreement B**”) with China Merchants Gangtong Development (Shenzhen) Co., Ltd. (招商局港通發展(深圳)有限公司) (the “**SPV PRC**”) and Broadford Global Limited (布羅德福國際有限公司) (the “**SPV HK**”) (both being indirect wholly-owned subsidiaries of CMG, the ultimate holding company of the Company) respectively, in relation to the sale and purchase of Sale Shares A and Sale Shares B. On the same day, China Nanshan Development (Group) Incorporation (中國南山開發(集團)股份有限公司) (“**China Nanshan**”) (the Company owns, through its wholly-owned subsidiaries, approximately 37% of the total issued share capital of China Nanshan as at 5 February 2018) entered into a share purchase agreement in respect of 209,687,067 ordinary A shares (“**Sale Shares C**”) of Chiwan held by China Nanshan (the “**Share Purchase Agreement C**”, together with the Share Purchase Agreement A and Sale Purchase Agreement B, the “**Sale Purchase Agreements**”) with SPV PRC in relation to the sale and purchase of Sale Shares C. The consideration for each of the sale and purchase of Sale Shares A, Sale Shares B and Sale Shares C under the Share Purchase Agreements is RMB25.47 per A share of Chiwan, HK\$13.35 per B share of Chiwan and RMB25.47 per A share of Chiwan, respectively (subject to certain ex-dividend adjustments). The total consideration for each of the sale and purchase of Sale

Shares A, Sale Shares B and Sale Shares C under the Share Purchase Agreements is approximately RMB4.11 billion (equivalent to approximately HK\$5.01 billion), HK\$738.44 million and RMB5.34 billion (equivalent to approximately HK\$6.51 billion), respectively (subject to certain ex-dividend adjustments). As at 5 February 2018, the Company was entitled to exercise the management rights and has the power to direct the voting rights over the Sale Shares C pursuant to an entrustment agreement dated 17 September 2012 entered into between the Company and China Nanshan (the “**Chiwan Entrustment Agreement**”), thereby (together with the Sale Shares A and Sale Shares B held indirectly by the Company) allowing the Company to consolidate the assets, liabilities and other financial results of Chiwan into the consolidated financial statements of the Group. After completion of the Share Purchase Agreements, Chiwan will cease to be recognised as a subsidiary in the consolidated financial statements of the Company and therefore, the Company and China Nanshan entered into a termination agreement on 5 February 2018 (the “**Chiwan Entrustment Termination Agreement**”) to terminate the Chiwan Entrustment Agreement conditional on the completion of the Share Purchase Agreements. The Chiwan Entrustment Termination Agreement will be implemented from the date of completion of the Share Purchase Agreements. As SPV PRC and SPV HK are indirect wholly-owned subsidiaries of CMG, the ultimate holding company of the Company, they are therefore connected persons of the Company and the Share Purchase Agreement A and Share Purchase Agreement B each constituted a connected transaction of the Company. Furthermore, as the Chiwan Entrustment Termination Agreement and the Share Purchase Agreements are inter-conditional, the Chiwan Entrustment Termination Agreement also constituted a connected transaction of the Company.

- (c) On 6 February 2018, China Merchants Union (BVI) Limited (“**CMU**”), Gold Newcastle Property Holding Pty Limited and the Company entered into an acquisition agreement (the “**Acquisition Agreement**”) in relation to the sale and purchase of the 50 ordinary shares in Port of Newcastle Investments (Holdings) Pty Limited, 50 ordinary shares in Port of Newcastle Investments (Property Holdings) Pty Limited, 59,043,505 units in Port of Newcastle Investments (Holdings) Trust, 275,051,202 units in Port of Newcastle Investments (Property Holdings) Trust, and the shareholders’ loan notes with a principal amount of AUD162.5 million issued by Port of Newcastle Investments Pty Limited to CMU on 29 May 2014 (together, the “**Newcastle Sale Securities**”), as well as 10 ordinary shares of Gold Newcastle Property Holding Pty Limited and 275,051,162 units in Gold Newcastle Property Holding Trust (together, the “**Gold Newcastle Sale Securities**”). The total consideration for the sale and purchase of the Newcastle Sale Securities and the Gold Newcastle Sale Securities under the Acquisition Agreement is AUD607.5 million (equivalent to approximately HK\$3,809.0 million), subject to adjustment in accordance with the terms set out in the Acquisition Agreement. CMU is a substantial shareholder of the Company and an associate of CMG, the ultimate holding company of the Company, while Gold Newcastle Property Holding Pty Limited and Gold Newcastle Property Holding Trust are wholly-owned by CMU and therefore they are all connected persons of the Company. Accordingly, the acquisition of the Newcastle Sale Securities and the Gold Newcastle Sale Securities under the Acquisition Agreement constituted a connected transaction of the Company.
- (d) On 30 August 2018, Shenzhen Lianda Tug Services Company Limited (深圳聯達拖輪有限公司) (“**Shenzhen Lianda**”), an indirect subsidiary of the Company, entered into a sale and purchase agreement (the “**Sale and Purchase Agreement**”) with Zhangzhou China Merchants Tug Services Company Limited (漳州招商局拖輪有限公司) (“**CM Zhangzhou**”), pursuant to which Shenzhen Lianda agreed to sell and CM Zhangzhou agreed to buy a 4,000-horsepower tugboat named “SHEKOU TERMINAL #1(蛇港一號)” (the “**Tugboat**”). The consideration for the sale and purchase of the Tugboat is RMB13,358,000 (equivalent to approximately HK\$15,354,000). As CM Zhangzhou is an indirect subsidiary of CMG, the ultimately holding company of the Company, it is therefore a connected person of the Company and the sale and purchase of the Tugboat as contemplated under the Sale and Purchase Agreement constituted a connected transaction of the Company.
- (e) On 9 November 2018, the Company and the Khor Ambado Free Zone Company FZCO (the “**Djibouti Asset Company**”) entered into a deed of extension (the “**Deed of Extension**”) to a loan agreement dated 17 August 2017 (the “**CMP Loan Agreement**”) entered into between the Company and the Djibouti Asset Company, under 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 Facility**”), to amend the terms of the CMP Loan Agreement and to extend the CMP Loan Facility for a further 6-month period. The Djibouti Asset Company is an associate of CMG, the ultimate holding company of the Company, and therefore a connected person of the Company. Accordingly, the transaction contemplated under the Deed of Extension to the CMP Loan Agreement constituted a connected transaction of the Company.

- (f) On 24 December 2018, Ansuji Port and Warehouse Services (Shenzhen) Company Limited (安速捷碼頭倉儲服務(深圳)有限公司) ("**Ansuji**") and Antongjie Port and Warehouse Services (Shenzhen) Company Limited (安通捷碼頭倉儲服務(深圳)有限公司) ("**Antongjie**") (both being indirect wholly-owned subsidiaries of the Company) entered into a land restructuring agreement (the "**Land Restructuring Agreement**") with the Shenzhen Urban Planning, Land and Resources Commission (深圳市規劃和國土資源委員會), the Shenzhen Qianhai Shenzhen-Hong Kong Modern Services Commission (深圳市前海深港現代服務業合作區管理局) ("**QHSH**"), CMG, Shenzhen Qianhai Pingfangyuanqu Development Company Limited (深圳市前海平方園區開發有限公司) ("**QHPF**"), Shenzhen China Merchants Shekou Asset Management Company Limited (深圳市招商局蛇口資產管理有限公司) ("**CMSA**"), China Merchants Shekou Industrial Zone Holdings Company Limited (招商局蛇口工業區控股股份有限公司) ("**CMSIZ**"), a number of subsidiaries of CMSIZ (the "**CMSIZ Subsidiaries**"), and Shenzhen China Merchants Qianhai Chidi Asset Company Limited (深圳市招商前海馳迪實業有限公司) ("**A2 Company**") to set out the terms of the disposal of the various interest in land in Qianhai, Shenzhen with an aggregate land area of 2,911,141.6 square metres (the "**Aggregate CM Land**") currently held by CMG Group for the purpose of developing the Qianhai-Shekou Free Trade Zone with affiliates of QHSH through the establishment of another joint venture company. Pursuant to the Land Restructuring Agreement, among others, Antongjie, Ansuji, CMSA, CMSIZ and CMSIZ Subsidiaries (the "**Land Holding Companies**") agree to

dispose the Aggregate CM Land to QHSH and original land usage will be reclassified for commercial purpose (the "**Reclassification**"). The total consideration payable to the Land Holding Companies for the transactions contemplated by the Land Restructuring Agreement will comprise (i) a new land in Qianhai, Shenzhen after the Reclassification with an area of approximately 425,300 square metres and a value of approximately RMB43.21 billion (equivalent to approximately HK\$49.10 billion) (the "**New Land**") to be granted to A2 Company; and (ii) another piece of land located in Dachan Bay Port Phase II (大鵬灣港區二期) with the same area and corresponding coastal length equivalent to a prescribed area comprising approximately 55% of the area of lands (with an aggregate land area of 965,958.41 square metres) (the "**Exchange Land**") held by Antongjie and Ansuji to be transferred to the Group. On 24 December 2018, in relation to the Land Restructuring Agreement, A2 Company also entered into a confirmation letter (the "**Debt Confirmation Letter**") pursuant to which A2 Company agrees that it will pay to each of the Land Holding Companies an amount that is equal to the value of the New Land multiplied by the corresponding proportion of land interest that each Land Holding Company holds under the Aggregate CM Land (excluding the Exchange Land). As CMSA, CMSIZ, CMSIZ Subsidiaries, QHPF and A2 Company are subsidiaries of CMG, the ultimate holding company of the Company, they are therefore connected persons of the Company and the transactions contemplated under the Land Restructuring Agreement and the Debt Confirmation Letter constituted connected transactions of the Company.

- (g) Details of the continuing connected transactions of the Group for the year ended 31 December 2018 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 in Tsing Yi Terminal charged to the Group	(i)	(15.5)
CMSIZ	Rental of 14 parcels of land in Shekou charged to the Group	(ii)	(25.0)*
CMSIZ	Rental of 8 parcels of land in Shekou and certain property assets charged to the Group	(iii)	(17.9)*
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 Holdings Co., Ltd. (中國外運長航集團有限公司) ("Sinotrans & CSC")	Provision of port-related services charged by the Group	(v)	120.3*
Sinotrans & CSC	Provision of agency services charged to the Group	(v)	(20.0)*
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	(vi)	12.7*
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	(vii)	(15.0)*
China Merchants Group Finance Company Limited (招商局集團財務有限公司) ("China Merchants Finance")	Placing of deposits	(viii)	3,500.0**

Name of party	Nature of transaction	Note	Annual Caps HK\$' million
Sinotrans Air Transportation GmbH ("Sinotrans Air")	Provision of proxy services charged to the Group	(ix)	(18.5)*
Chiwan	Provision of port and port-related services charged by the Group	(x)	56.8*
Chiwan	Provision of port and freight forwarding services charged to the Group	(x)	(34.1)*
China Merchants Holdings (International) Information Technology Company Limited (招商局國際信息技術有限公司) ("CMHIT")	Provision of technology consulting services charged to the Group	(xi)	(18.0)*

* The transactions and respective annual caps are denominated in other currencies 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.

** This figure represents the cap in respect of the aggregate amount of deposit that may be placed by the Group at any point of time during the year ended 31 December 2018.

Notes:

- (i) On 28 December 2017, China Merchants Container Services Limited ("CMCS") entered into a cooperation agreement with Euroasia (the "Euroasia Cooperation Agreement") in relation to the renewal of the lease of the piece of land in Tsing Yi for a term of two years commencing on 1 January 2018 and ending on 31 December 2019. The annual rental fees payable by CMCS to Euroasia under the Euroasia Cooperation Agreement is HK\$15,500,000 for each of the years ending 31 December 2018 and 2019. On 28 December 2017, the Directors resolved to set the annual cap in respect of the rental fees to be paid by CMCS to Euroasia under the Euroasia Cooperation Agreement as HK\$15,500,000 for the year ended 31 December 2018. The annual rent paid by CMCS to Euroasia under the Euroasia Cooperation Agreement for the year ended 31 December 2018 was HK\$15,500,000. In addition 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 17 December 2018, the Directors resolved to set the annual cap in respect of the rental fees to be paid by CMCS to Euroasia under the Euroasia Cooperation Agreement as HK\$15,500,000 for the year ending 31 December 2019. The Directors are of the view that the transaction contemplated under the Euroasia Cooperation Agreement will continue to benefit the Group and is essential to enable the Group to offer various port and port-related services. Euroasia is an indirect wholly-owned subsidiary of CMG, the ultimate holding company of the Company, and accordingly, a connected person of the Company.
- (ii) On 13 June 2017, China Merchants Port Services (Shenzhen) Company Limited ("SCMPS") and CMSIZ entered into a lease agreement (the "2017-2019 CMSIZ Lease Agreement") to renew the lease for 14 out of the 16 parcels of land in Shekou Industrial Park that were leased to SCMPS for a term of 30 months commencing on 1 July 2017 and ending on 31 December 2019. On 13 June 2017, the Directors resolved that the annual caps for the annual rental fees payable by SCMPS to CMSIZ under the 2017-2019 CMSIZ Lease Agreement are RMB21,700,000 (equivalent to approximately HK\$25,000,000)

and RMB21,700,000 (equivalent to approximately HK\$25,000,000) for the years ending 31 December 2018 and 2019, respectively. The total rental fees paid by SCMPS to CMSIZ under the 2017-2019 CMSIZ Lease Agreement for the year ended 31 December 2018 was approximately RMB20,600,000 (equivalent to approximately HK\$24,400,000). The Directors are of the view that the transactions contemplated under the 2017-2019 CMSIZ Lease Agreement will continue to benefit the Group and are essential to enable the Group to offer various port and port-related services. CMSIZ is an indirect subsidiary of CMG, the ultimate holding company of the Company, and accordingly, a connected person of the Company.

- (iii) On 28 December 2017, SCMPS entered into a lease agreement with CMSIZ to renew the lease for 8 parcels of land in Shekou Industrial Park and certain property assets leased from CMSIZ (the "CMSIZ Lease Agreement"). The CMSIZ 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 CMSIZ Lease Agreement is approximately RMB15,200,000 (equivalent to approximately HK\$17,900,000) for each of the years ending 31 December 2018 and 2019. The total rental fees paid by SCMPS to CMSIZ under the CMSIZ Lease Agreement for the year ended 31 December 2018 was approximately RMB14,500,000 (equivalent to approximately HK\$17,200,000). CMSIZ is an indirect subsidiary of CMG, the ultimate holding company of the Company and accordingly, a connected person of the Company.
- (iv) On 28 December 2017, CMCS and Yiu Lian entered into a ship berthing services agreement, pursuant to which Yiu Lian agreed to continue to provide barges for bringing ships into and from the Tsing Yi Terminal for a term of one year commencing on 1 January 2018 and ended on 31 December 2018 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 "2018 Ship Berthing Services Agreement"). The Directors resolved to set the annual cap in respect of the aggregate ship berthing fees payable by CMCS under the 2018

Ship Berthing Services Agreement for the year ended 31 December 2018 at HK\$14,500,000. The aggregate ship berthing fees paid by CMCS to Yiu Lian under the 2018 Ship Berthing Services Agreement for the year ended 31 December 2018 was HK\$10,900,000. On 17 December 2018, in view of the expiry of the 2018 Ship Berthing Services Agreement on 31 December 2018, CMCS and Yiu Lian entered into a new ship berthing services agreement for a term of one year commencing on 1 January 2019 and ending on 31 December 2019 (the “**2019 Ship Berthing Services Agreement**”). The Directors resolved to set the annual cap in respect of the aggregate ship berthing fees payable under the 2019 Ship Berthing Services Agreement for the year ending 31 December 2019 at HK\$14,500,000, which is the same as the annual cap for the 2018 Ship Berthing Services Agreement. 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, the ultimate holding company of the Company, 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 (the “**2016 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 2016 Comprehensive Services Framework 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 would 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 2016 Comprehensive Services 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 2016 Comprehensive Services 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 2016 Comprehensive Services Framework Agreement. On the same day, the Directors resolved that the annual caps in respect of the service fees for the provision of the port-related services and agency services receivable and payable by the Group for the year ended 31 December 2018 shall be RMB101,400,000 (equivalent to approximately HK\$120,300,000) and RMB8,450,000 (equivalent to approximately HK\$10,000,000), 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 payable by the Group for the year ended 31 December 2018 shall be revised to RMB17,000,000 (equivalent to approximately

HK\$20,000,000). 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 2018 was RMB28,500,000 (equivalent to approximately HK\$33,700,000) and RMB2,600,000 (equivalent to approximately HK\$3,100,000), respectively. On 17 December 2018, in view of the expiry of the 2016 Comprehensive Services Framework Agreement on 31 December 2018, the Company and Sinotrans & CSC entered into the 2019 Comprehensive Services Framework Agreement for a term of three years commencing on 1 January 2019 and ending on 31 December 2021. 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, the ultimate holding company of the Company, and accordingly, a connected person of the Company.

- (vi) CMHIT, a 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 three years ended 31 December 2016, 2017 and 2018. The aggregate service fees paid by the associates of CMG was RMB10,500,000 (equivalent to approximately HK\$12,400,000) for the year ended 31 December 2018. 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 accordingly, a connected person of the Company.
- (vii) On 11 October 2016, Shenzhen Jinyu Rongtai Investment Development Company Limited (深圳金城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 the 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 caps in respect of the fees payable to CMPM under the agreement at RMB13,000,000 (equivalent to approximately HK\$15,000,000), RMB13,000,000 (equivalent to approximately HK\$15,000,000) and RMB2,550,000 (equivalent to approximately HK\$3,000,000) for the year ended 31 December 2017, for the year ended 31 December 2018 and for the two months and eleven days ended 11 March 2019, respectively. The aggregate amount of fees paid by Shenzhen Jinyu for the year ended 31 December 2018 was RMB5,800,000 (equivalent to approximately HK\$6,800,000). CMPM is an indirect subsidiary of CMG, the ultimate holding company of the Company, and accordingly, a connected person of the Company.

- (viii) 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 annual cap in respect of the daily closing balance of the aggregate amount of deposit that may be made 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 annual cap in respect of the daily closing balance of the aggregate amount of deposit that may be made 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 annual cap in respect of the daily closing balance of the aggregate amount of deposit that may be made 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 2018 was RMB1,641,300,000 (equivalent to approximately HK\$1,873,200,000). The Directors are of the view that since the terms of the financial services agreement provide that the various fees and charges to be paid to 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, the ultimate holding company of the Company) and accordingly, a connected person of the Company.
- (ix) 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 freight operation proxy services agreement for a term of one year commencing on 1 January 2018 and ended on 31 December 2018 (the "Proxy Services Agreement"). Pursuant to the Proxy Services Agreement, Sinotrans Air would manage and operate CM Luxembourg's air freight business for an annual management fee of EUR2,000,000 (equivalent to approximately HK\$18,500,000). On the same day, the Directors resolved to set the annual cap in respect of the aggregate management fees payable under the Proxy Services Agreement for the year ended 31 December 2018 at EUR2,000,000 (equivalent to approximately HK\$18,500,000). 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\$9,300,000). The aggregate management fee paid and payable under the Proxy Services Agreement for the year ended 31 December 2018 was EUR60,000 (equivalent to approximately HK\$555,000). On 17 December 2018, in view of the expiry of the

Proxy Services Agreement on 31 December 2018, CM Luxembourg and Sinotrans Air entered into a new proxy services agreement for a term of one year commencing on 1 January 2019 and ending on 31 December 2019. On the same day, the Directors resolved to set the annual cap in respect of the aggregate management fees payable under the new proxy services agreement for the year ending 31 December 2019 at EUR4,000,000 (equivalent to approximately HK\$35,400,000). Sinotrans Air is an indirect subsidiary of CMG, the ultimate holding company of the Company and accordingly, a connected person of the Company.

- (x) On 5 February 2018, the Company entered into a framework service agreement (the "Framework Service Agreement") with Chiwan (which became a connected person of the Company from 8 June 2018) to govern the mutual provision of port and port-related services for the year ended 31 December 2018. On the same day, the Directors resolved to set the annual caps in respect of the services fees payable by the Group and the service fees receivable by the Group for the year ended 31 December 2018 under the Framework Service Agreement at RMB30,000,000 (equivalent to approximately HK\$34,100,000) and RMB50,000,000 (equivalent to approximately HK\$56,800,000), respectively. The amount of service fees paid and service fees received by the Group from 8 June 2018 to 31 December 2018 under the Framework Service Agreement were RMB21,700,000 (equivalent to approximately HK\$25,700,000) and RMB23,600,000 (equivalent to approximately HK\$27,900,000), respectively. On 17 December 2018, in view of the expiry of the Framework Service Agreement on 31 December 2018, Chiwan and the Company entered into a new framework service agreement for a term of one year commencing on 1 January 2019 and ending on 31 December 2019. On the same day, the Directors also resolved to set the annual caps in respect of the service fees payable by the Group and service fees receivable by the Group under the new framework service agreement at RMB30,000,000 (equivalent to approximately HK\$34,100,000) and RMB25,000,000 (equivalent to approximately HK\$28,400,000), respectively. The transactions contemplated under the Framework Service Agreement have been part of the day to day operation between the Company and Chiwan and carried under the ordinary and usual course of business of both companies and are therefore mutually beneficial for these to be continued going forward. Chiwan is a substantial shareholder of the Company and a subsidiary of CMG, the ultimate holding company of the Company, and accordingly, a connected person of the Company.
- (xi) On 6 November 2018, the Company and CMHIT, a subsidiary of the Company, entered into a comprehensive services framework agreement (the "Comprehensive Services Framework Agreement") to set out the framework for future transactions in relation to the provision of technology consulting services, software development and information systems integration services by CMHIT to members of the Group. The Comprehensive Services Framework Agreement is valid until 31 December 2019 with an option to extend. The Directors also resolved to set the annual caps in respect of the service fees payable by the Group to CMHIT and its subsidiaries (the "CMHIT Group") for each of the two years ending 31 December 2018 and 2019 at RMB16,000,000 (equivalent to approximately HK\$18,000,000) and RMB18,000,000 (equivalent to approximately HK\$20,200,000), respectively. The amount of service fees paid by the Group to CMHIT Group for the year ended 31 December 2018 was RMB15,600,000 (equivalent to approximately HK\$18,500,000). The Directors are of the view that the provision of information technology solution services by the CMHIT Group to members of the Group under the Comprehensive Services Framework Agreement will enhance the business operation efficiency of the Group. Chiwan, a substantial shareholder of the Company and a subsidiary of CMG, the ultimate

holding company of the Company, is interested in 23.16% of CMHIT. Accordingly, CMHIT is a connected subsidiary of the Company and the transactions contemplated under the Comprehensive Services Framework Agreement constitute continuing connected transactions of the Company.

- (xii) China Merchants Bank Co., Ltd ("CMB") is no longer a connected person of the Company throughout the financial year ended 31 December 2018 and accordingly, the transactions entered into between the Group and CMB do not constitute connected transactions of the Company for the year ended 31 December 2018.

(h) The Independent Non-executive Directors have reviewed the continuing connected transactions set out in paragraph (g) 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 (g) of this section, the aggregate rental fees for the year ended 31 December 2018 have not exceeded HK\$15,500,000, the annual cap for the year ended 31 December 2018;
- (ii) 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 (g) of this section, the aggregate rental fees for the year ended 31 December 2018 have not exceeded RMB21,700,000, the annual cap for the year ended 31 December 2018;

(iii) the lease agreements set out in notes (i) to (iii) to paragraph (g) of this section are of a similar nature or otherwise connected, and thus will need to be aggregated as if they were one transaction. In addition, members of the Group and other associates of the CMG Group have also entered into other lease agreements and management agreements requiring the payment of rental or management service fees by members of the Group to the corresponding associates of the CMG Group which individually, are de minimis continuing connected transactions 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 (g) 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 for the year ended 31 December 2018 has not exceeded RMB130,000,000, the aggregate annual cap for the year ended 31 December 2018;

(iv) 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 transactions 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 fees received by the Group under these lease agreements for the year ended 31 December 2018 has not exceeded RMB42,000,000 and RMB57,000,000 (as applicable during the relevant time during the year ended 31 December 2018), being the aggregate annual cap for rental fees receivable by the Group during the relevant time for the year ended 31 December 2018;

- (v) 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 (g) 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 2018;
- (vi) 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 (g) of this section, the aggregate service fees received for the year ended 31 December 2018 have not exceeded RMB101,400,000, the aggregate annual cap for the services fees for the year ended 31 December 2018 and the aggregate agency fees paid for the year ended 31 December 2018 have not exceeded RMB17,000,000, the aggregate annual cap for the agency fees for the year ended 31 December 2018;
- (vii) 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 (vi) to paragraph (g) of this section, the aggregate service fees received has not exceeded RMB11,000,000, the annual cap for the year ended 31 December 2018;
- (viii) in respect of the provision of property services by CMPM to Shenzhen Jinyu, details of which are set out in note (vii) to paragraph (g) of this section, the property service fees paid have not exceeded RMB13,000,000, the annual cap for the year ended 31 December 2018;
- (ix) in respect of the placing of deposits with China Merchants Finance, details of which are set out in note (viii) to paragraph (g) of this section, the aggregate amount of deposits that was made by the Group with China Merchants Finance at any relevant point of time during the year ended 31 December 2018 did not exceed HK\$3,500,000,000, the annual cap for the year ended 31 December 2018;
- (x) in respect of the provision of proxy services by Sinotrans Air to CM Luxembourg, details of which are set out in note (ix) to paragraph (g) of this section, the aggregate management fee paid under the Proxy Services Agreement for the year ended 31 December 2018 did not exceed EUR2,000,000, the annual cap for the year ended 31 December 2018;
- (xi) in respect of the provision of services in respect of the Framework Service Agreement, details of which are set out in note (x) to paragraph (g) of this section, the amount of service fees paid by Group for the year ended 31 December 2018 did not exceed RMB30,000,000, the aggregate annual cap for the services fees payable for the year ended 31 December 2018 and the amount of service fees received by Group for the year ended 31 December 2018 did not exceed RMB50,000,000, the aggregate annual cap for the services fees receivable for the year ended 31 December 2018; and
- (xii) in respect of the technology consulting services provided by CMHIT, details of which are set out in note (xi) to paragraph (g) of this section, the amount of service fees paid by the Group to the CMHIT Group for the year ended 31 December 2018 did not exceed RMB16,000,000, the annual cap for the year ended 31 December 2018.

The Company has followed the pricing terms and policies set out in respect of each of the continuing connected transaction listed in paragraph (g) 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 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 82 to 91 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 2018, 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 2019

Independent Auditor's Report

Deloitte.

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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 99 to 231, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, 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 2018, 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 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 2018 was HK\$4,826 million in aggregate, representing approximately 61% 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\$57,780 million in aggregate as at 31 December 2018, representing approximately 66% 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:

- Identifying the associates and joint ventures which are considered by the management of the Group to be of significance to the Group's consolidated financial statements as a whole;
- Obtaining an understanding of these 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 these 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 these 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 these 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

Acquisition of TCP Participações S.A. (“TCP”, together with its subsidiaries, the “TCP Group”)

We identified the acquisition of 90% issued shares of TCP (the “TCP Acquisition”) as a key audit matter due to the significance of financial impact as a result of the TCP Acquisition to the Group’s consolidated financial statements as a whole.

As disclosed in note 38 to the consolidated financial statements, the Group completed the TCP Acquisition during the year ended 31 December 2018. TCP is principally engaged in operation of port facilities in Brazil. The total consideration of the TCP Acquisition were Brazilian Real 2,812 million (equivalent to approximately HK\$6,731 million). The fair values of the goodwill and intangible assets arising from the TCP Acquisition was approximately HK\$4,886 million and HK\$6,485 million respectively. Details of the fair values of the other identifiable assets acquired and liabilities assumed, the put option granted to the non-controlling equity holders of the TCP Group and non-controlling interests arising from the TCP Acquisition are also set out in this note.

Our procedures in relation to the acquisition of TCP included:

- Assessing whether all identifiable assets (tangible and intangible) and liabilities have been identified by the management of the Group;
- 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, including the put option granted to the non-controlling equity holders, and the consequential determination of goodwill recognised as a result of the TCP Acquisition;
- Evaluating the competence, capabilities and objectivity of the independent valuer engaged by the management of the Group; and
- Working with our internal valuation specialists to assess the appropriateness of the valuation model and inputs used by the independent valuer.

Key audit matter

How our audit addressed the key audit matter

Impairment assessment of goodwill allocated to ports operation in Pearl River Delta ("PRD") and Brazil

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

As disclosed in note 16(b) to the consolidated financial statements, the carrying amount of goodwill allocated to the Group's ports operation in PRD amounted to HK\$2,391 million and Brazil amounted to HK\$4,890 million as at 31 December 2018. For the purpose of assessing impairment, the recoverable amounts of each of these two business units 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 inputs parameters include growth rates and discount rates.

Based on the management's assessment, there is no impairment of goodwill allocated to any of the Group's ports operation in PRD or Brazil as at 31 December 2018 based on the value in use calculations of these business units.

Our procedures in relation to the impairment assessment of goodwill of the Group's ports operation in PRD and Brazil 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; and
- Assessing the reasonableness of the discount rates used by the management in determining the value in use, with reference to the current market risk-free rate of interest and the industry specific risk factor.

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 HKSAAs 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 HKSAAs, 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.

Independent Auditor's Report

- 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 2019

Consolidated Statement of Profit or Loss

For the Year Ended 31 December 2018

	Note	2018 HK\$'million	2017 HK\$'million
Revenue	5	10,160	8,692
Cost of sales		(5,771)	(5,251)
Gross profit		4,389	3,441
Other income and other gains, net	8	3,391	870
Administrative expenses		(1,766)	(1,170)
Finance income	12	319	135
Finance costs	12	(1,909)	(1,303)
Finance costs, net	12	(1,590)	(1,168)
Share of profits less losses of			
Associates		4,323	5,087
Joint ventures		503	385
		4,826	5,472
Profit before taxation		9,250	7,445
Taxation	13	(1,295)	(744)
Profit for the year	7	7,955	6,701
Attributable to:			
Equity holders of the Company		7,245	6,028
Non-controlling interests		710	673
Profit for the year		7,955	6,701
Dividends	14	3,162	6,914
Earnings per share for profit attributable to equity holders of the Company	15		
Basic and diluted (HK cents)		219.54	183.90

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 31 December 2018

	Note	2018 HK\$'million	2017 HK\$'million
Profit for the year		7,955	6,701
Other comprehensive (expense)/income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences from retranslation of investments in subsidiaries, associates and joint ventures		(3,808)	5,406
Release of reserves upon disposal of subsidiaries	37	(98)	(57)
Increase in fair value of available-for-sale financial assets, net of deferred taxation		—	530
Share of investment revaluation reserve of associates		—	448
Share of other reserve of a joint venture		(7)	—
Release of reserve upon disposal of an available-for-sale financial asset, net of deferred taxation		—	(276)
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Net actuarial (loss)/gain on defined benefit plans of subsidiaries		(24)	26
Increase in fair value of equity instruments at fair value through other comprehensive income ("FVTOCI"), net of deferred taxation		120	—
Share of other reserves of associates		(139)	(241)
Share of net actuarial gain on defined benefit plans of associates and joint ventures		1	89
Total other comprehensive (expense)/income for the year, net of tax		(3,955)	5,925
Total comprehensive income for the year		4,000	12,626
Total comprehensive income attributable to:			
Equity holders of the Company		3,653	11,090
Non-controlling interests		347	1,536
		4,000	12,626

Consolidated Statement of Financial Position

As at 31 December 2018

	Note	2018 HK\$'million	2017 HK\$'million
ASSETS			
Non-current assets			
Goodwill	16	7,922	3,628
Intangible assets	16	11,132	5,925
Property, plant and equipment	17	29,212	30,880
Investment properties	18	8,332	8,411
Land use rights	19	10,973	12,851
Interests in associates	21	45,821	43,314
Interests in joint ventures	22	11,959	9,750
Other financial assets	23	3,399	3,689
Other non-current assets	24	328	400
Deferred tax assets	34	60	51
		129,138	118,899
Current assets			
Inventories	25	108	99
Debtors, deposits and prepayments	26	3,377	3,705
Taxation recoverable		7	1
Cash and bank balances	27	7,175	9,247
		10,667	13,052
Non-current assets held for sale	28	132	—
		10,799	13,052
Total assets		139,937	131,951

Consolidated Statement of Financial Position

As at 31 December 2018

	Note	2018 HK\$'million	2017 HK\$'million
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	29	39,070	38,207
Reserves		33,820	33,306
Proposed dividend	14	2,431	1,934
		75,321	73,447
Non-controlling interests			
		12,683	16,194
Total equity		88,004	89,641
LIABILITIES			
Non-current liabilities			
Bank and other borrowings	32	33,622	22,292
Other non-current liabilities	33	5,806	1,851
Deferred tax liabilities	34	3,354	2,638
		42,782	26,781
Current liabilities			
Creditors and accruals	35	3,684	8,999
Bank and other borrowings	32	5,234	6,268
Taxation payable		233	262
		9,151	15,529
Total liabilities		51,933	42,310
Total equity and liabilities		139,937	131,951
Net current assets/(liabilities)		1,648	(2,477)
Total assets less current liabilities		130,786	116,422

The consolidated financial statements on pages 99 to 231 were approved and authorised for issue by the Board of Directors on 29 March 2019 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 2018

	Note	Attributable to equity holders of the Company				Non-controlling interests	Total
		Share capital	Other reserves	Retained earnings	Total		
		HK\$'million	HK\$'million (note 31)	HK\$'million	HK\$'million	HK\$'million	HK\$'million
As at 31 December 2017 (audited)		38,207	6,978	28,262	73,447	16,194	89,641
Adjustments (note 2.1)		—	(1,935)	1,935	—	—	—
As at 1 January 2018 (adjusted)		38,207	5,043	30,197	73,447	16,194	89,641
COMPREHENSIVE INCOME							
Profit for the year		—	—	7,245	7,245	710	7,955
Other comprehensive (expense)/income							
Exchange differences from retranslation of investments in subsidiaries, associates and joint ventures		—	(3,369)	—	(3,369)	(439)	(3,808)
Increase in fair value of equity instruments at FVTOCI, net of deferred taxation		—	44	—	44	76	120
Share of other reserves of associates and a joint venture		—	(146)	—	(146)	—	(146)
Net actuarial loss on defined benefit plans of subsidiaries	33	—	—	(24)	(24)	—	(24)
Share of net actuarial gain on defined benefit plans of an associate and a joint venture		—	—	1	1	—	1
Release of reserves upon disposal of subsidiaries		—	1,055	(1,153)	(98)	—	(98)
Total other comprehensive expense for the year, net of tax		—	(2,416)	(1,176)	(3,592)	(363)	(3,955)
Total comprehensive (expense)/income for the year		—	(2,416)	6,069	3,653	347	4,000
TRANSACTIONS WITH OWNERS							
Issue of shares in lieu of dividends	29	863	—	—	863	—	863
Acquisition of subsidiaries	38	—	—	—	—	226	226
Transfer to reserves		—	318	(318)	—	—	—
Share of other changes in equity attributable to equity holders of associates		—	23	—	23	—	23
Repayment of capital contribution to a non-controlling equity holder		—	—	—	—	(2)	(2)
Capital contribution to subsidiaries		—	—	—	—	48	48
Dividends	45	—	—	(2,665)	(2,665)	(874)	(3,539)
Obligation arising from a put option to non-controlling equity holders of subsidiaries	33	—	—	—	—	(579)	(579)
Disposal of subsidiaries	37	—	—	—	—	(2,677)	(2,677)
Total transactions with owners for the year		863	341	(2,983)	(1,779)	(3,858)	(5,637)
As at 31 December 2018		39,070	2,968	33,283	75,321	12,683	88,004

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2018

	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 31)	Retained earnings HK\$'million	Total HK\$'million	HK\$'million
As at 1 January 2017		19,548	15,219	2,099	29,042	65,908	7,830
COMPREHENSIVE INCOME							
Profit for the year		—	—	—	6,028	6,028	673
Other comprehensive income/(expense)							
Exchange differences from retranslation of investments in subsidiaries, associates and joint ventures		—	—	4,555	—	4,555	851
Increase in fair value of available-for-sale financial assets, net of deferred taxation		—	—	529	—	529	1
Share of reserves of associates		—	—	207	—	207	—
Net actuarial gain on defined benefit plans of subsidiaries		—	—	—	15	15	11
Share of net actuarial gain on defined benefit plans of associates and a joint venture		—	—	—	89	89	—
Release of reserves upon disposal of a subsidiary		—	—	(522)	465	(57)	—
Release of reserve upon disposal of an available-for-sale financial asset, net of deferred taxation		—	—	(276)	—	(276)	—
Total other comprehensive income for the year, net of tax		—	—	4,493	569	5,062	863
Total comprehensive income for the year		—	—	4,493	6,597	11,090	1,536
TRANSACTIONS WITH OWNERS							
Issue of shares in lieu of dividends	29	3,440	—	—	—	3,440	—
Issue of shares upon conversion of mandatory convertible securities	29	15,219	(15,219)	—	—	—	—
Acquisition of subsidiaries	38	—	—	—	—	—	7,179
Transfer to reserves		—	—	386	(386)	—	—
Repayment of capital contribution to a non-controlling equity holder		—	—	—	—	—	(14)
Capital contribution to subsidiaries		—	—	—	—	—	192
Dividends	45	—	—	—	(6,687)	(6,687)	(529)
Distribution to mandatory convertible securities holders	29	—	—	—	(304)	(304)	—
Total transactions with owners for the year		18,659	(15,219)	386	(7,377)	(3,551)	6,828
As at 31 December 2017		38,207	—	6,978	28,262	73,447	16,194

Consolidated Statement of Cash Flows

For the Year Ended 31 December 2018

	Note	2018 HK\$'million	2017 HK\$'million
Cash flows from operating activities			
Net cash inflow from operations	36(a)	4,547	4,370
Hong Kong Profits Tax paid		(4)	—
PRC corporate income tax paid		(329)	(301)
Overseas Profits Tax paid		(31)	—
Withholding tax paid on dividends received		(203)	(235)
Dividends received from associates and joint ventures		2,242	1,923
Net cash generated from operating activities		6,222	5,757
Cash flows (used in)/from investing activities			
Proceeds from disposal of subsidiaries (net of cash and cash equivalents disposed of, and tax paid)	37	4,159	8,739
Proceeds from disposal of an available-for-sale financial asset		—	340
Proceeds from disposal of property, plant and equipment		14	24
Proceeds from disposal of joint ventures		—	4
Repayment from an associate		143	112
Advance to a related party		—	(1,169)
Interest income received		294	132
Investments in associates and joint ventures		(4,221)	(2,545)
Payment of acquisition of assets through acquisition of subsidiaries in current year (net of deposit previously paid and cash and cash equivalents acquired) (2017: acquisition in prior years)	39	(10)	(1,144)
Purchase of property, plant and equipment, land use rights and port operating rights		(2,564)	(1,752)
Acquisition of available-for-sale financial assets		—	(97)
Payments relating to disposal of an available-for-sale financial asset in prior year		(30)	—
Payment of acquisition of subsidiaries (net of cash and cash equivalents acquired)	38	(5,628)	—
— completed during the year		(5,366)	(2,119)
— completed in previous years		(1,968)	—
Placement of other deposits and restricted bank balance		(177)	—
Deposit paid for acquisition of a subsidiary		(15,354)	525
Net cash (used in)/generated from investing activities		(9,132)	6,282
Net cash (outflow)/inflow before financing activities carried forward			

Consolidated Statement of Cash Flows

For the Year Ended 31 December 2018

	2018 HK\$'million	2017 HK\$'million
Net cash (outflow)/inflow before financing activities brought forward	(9,132)	6,282
Cash flows from/(used in) financing activities		
Proceeds from bank loans	23,873	6,451
Net proceeds on issue of notes payable	12,463	2,999
Loans from a fellow subsidiary	1,238	2,180
Loan from an associate	—	275
Capital contributions from non-controlling equity holders of subsidiaries	48	192
Dividends paid to ordinary shareholders	(1,802)	(3,247)
Dividends paid to non-controlling equity holders of subsidiaries	(1,016)	(403)
Distribution to mandatory convertible securities holders	—	(304)
Interests paid	(1,685)	(1,192)
Repayment of bank loans	(22,930)	(5,144)
Repayment of notes payable	(2,337)	(2,018)
Repayment of loans from shareholders	(178)	(526)
Repayment of loans from a fellow subsidiary	(2,323)	—
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	(2)	(14)
Net cash from/(used in) financing activities	5,349	(902)
(Decrease)/increase in cash and cash equivalents	(3,783)	5,380
Cash and cash equivalents at 1 January	9,247	3,637
Effect of foreign exchange rate changes	(226)	230
Cash and cash equivalents at 31 December, represented by cash and bank balances	5,238	9,247

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

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”).

During the current year, subsequent to the Group’s disposal of Shenzhen Chiwan Wharf Holdings Limited (“Shenzhen Chiwan”, whose shares are listed on the Shenzhen Stock Exchange, and has changed its name to China Merchants Port Group Co., Ltd. on 14 December 2018) to the subsidiaries of China Merchants Group Limited (“CMG”) as detailed in note 37, Shenzhen Chiwan has entered into an agreement with China Merchants Investment Development Company Limited (“CMID”), an indirect subsidiary of CMG, pursuant to which Shenzhen Chiwan acquired CMID’s entire interest in the Company for a consideration of Renminbi (“RMB”) 24,650 million (the “Material Transfer”). The consideration was settled by Shenzhen Chiwan by issuing 1,148,648,648 shares (representing approximately 64.05% of the enlarged total issued capital of Shenzhen Chiwan) to CMID on 26 December 2018. As part of this transaction, Shenzhen Chiwan also entered into an acting in concert agreement with China Merchants Holdings (Hong Kong) Company Limited (“CMHK”), an indirect subsidiary of CMG (the “Acting in Concert Agreement”), in relation to the voting rights attached to the shares in the Company entitled by CMHK.

Upon the completion of the series of transactions above on 26 December 2018, Shenzhen Chiwan holds approximately 39.45% of the total issued share capital of the Company directly. Together with the Acting in Concert Agreement, Shenzhen Chiwan has the power to direct voting right over approximately 62.09% of the total issued share capital of the Company. Accordingly, the directors of the Company regard Shenzhen Chiwan as an immediate holding company.

As at 31 December 2018, CMG, directly and indirectly, including through Shenzhen Chiwan and its subsidiaries as described above and China Merchants Union (BVI) Limited (“CMU”), a company incorporated in the British Virgin Islands held as to 50% by CMG, held an effective interest of approximately 42.82% 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 22.64% 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 62.18% of the total issued share capital of the Company. Accordingly, the directors of the Company regard CMG, as being the ultimate holding company.

CMG is a state-owned enterprise registered in the People’s Republic of China (“PRC”) and 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, available-for-sale financial assets, financial assets at fair value through profit or loss ("FVTPL"), equity instruments at FVTOCI and financial liabilities at FVTPL 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.

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 financial instruments 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

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.

(i) *New and amendments to HKFRSs that are mandatorily effective for the current year*

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(i) *New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)*

(a) HKFRS 15 “Revenue from Contracts with Customers”

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

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

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Terminal handling charge, representing loading of cargos and containers on and off vessels at the Group’s port terminals, stevedoring and the auxiliary services; and
- Warehousing services income, representing temporary storage of cargos and containers, customs clearance services and the auxiliary services

Information about the Group’s performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 5 and 2.21 respectively.

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

The Group also recognises rental income from investment properties, as set out in note 2.24.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(i) New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

(b) HKFRS 9 “Financial Instruments and the related amendments”

In the current year, the Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities and 2) expected credit losses (“ECL”) for financial assets.

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

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

Accounting policies resulting from application of HKFRS 9 are disclosed in note 2.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

(i) New and amendments to HKFRSs that are mandatorily effective for the current year (Continued)

(b) HKFRS 9 "Financial Instruments and the related amendments" (Continued)

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

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

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

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

(ii) New and revised HKFRSs in issue but are not yet effective for the financial year beginning 1 January 2018 and have not been early adopted by the Group

		Effective for annual periods beginning on or after (Note a)
HKFRS 16	Leases	1 January 2019
HKFRS 17	Insurance Contracts	1 January 2021
HK(IFRIC) - Int 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to HKFRS 3	Definition of a Business	Note (c)
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 1 and HKAS 8	Definition of Material	1 January 2020
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019
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
- (c) Effective for business combinations and asset acquisitions for which the acquisition date is on or after 1 January 2020

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 2018 and have not been early adopted by the Group (Continued)*

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 other new and amendments to HKFRSs will have material impact to the consolidated financial statements in the foreseeable future.

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. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

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, upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the nature, as appropriate.

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 2018 and have not been early adopted by the Group (Continued)*

HKFRS 16 “Leases” (Continued)

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.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group as lessee has non-cancellable operating lease commitments of HK\$1,993 million as disclosed in note 40(c).

A preliminary assessment indicates that these arrangements will meet the definition of a lease. 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.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(i) Subsidiaries (Continued)

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

(a) Business combinations

The Group applies the acquisition method of account for business combinations, other than business combination under common control. 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 2.19 below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(i) Subsidiaries (Continued)

(a) Business combinations (Continued)

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

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKFRS 9/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 retrospectively 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 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 or cash-generating units ("CGU")

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)

(i) Subsidiaries (Continued)

(d) Disposal of subsidiaries or cash-generating units ("CGU") (Continued)

On disposal of the relevant subsidiaries or CGU or any of the CGU within the group of CGUs, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the CGU (or a CGU within a group of CGUs), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the CGU) disposed of and the portion of the CGU (or the group of CGUs) retained.

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(ii) *Associates and joint ventures (Continued)*

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates or joint ventures are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates or joint ventures. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

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 HKFRS 9/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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Consolidation (Continued)

(ii) *Associates and joint ventures (Continued)*

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

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the key management team of the Company that makes strategic decisions.

2.4 Foreign currency translation

(i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars ("HK\$") which is the Company's functional and the Group's presentation currency.

(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 (prior to 1 January 2018) or FVTOCI (from 1 January 2018), 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 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 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 of the related borrowed funds up to the extent that they are regarded as an adjustment to interest costs 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 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. For those items having finite useful lives 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. Those with indefinite useful lives that are acquired in a business combination are carried at cost less any subsequent accumulated impairment losses.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the amount of gain 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 as 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 of disposal and value in use. For the purposes of assessing impairment, the recoverable amount of tangible and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, 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.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

2.9 Financial assets

(i) Classification

Before application of HKFRS 9 on 1 January 2018

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Financial assets (Continued)

(i) Classification (Continued)

Before application of HKFRS 9 on 1 January 2018 (Continued)

(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.

Upon application of HKFRS 9 in accordance with transitions in note 2.1

Financial assets that meet the following conditions are subsequently measured at amortised cost:

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

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

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

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

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Financial assets (Continued)

(ii) Recognition and measurement

Before application of HKFRS 9 on 1 January 2018

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 equity 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.

Upon application of HKFRS 9 in accordance with transitions in note 2.1

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Financial assets (Continued)

(ii) Recognition and measurement (Continued)

Upon application of HKFRS 9 in accordance with transitions in note 2.1 (Continued)

Equity instruments designated as at FVTOCI

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

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

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

Financial assets at FVTPL

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

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

(iii) Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9 Financial assets (Continued)

(iii) Derecognition of financial assets (Continued)

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in a debt instrument classified as at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the other reserves is reclassified to profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

On derecognition of an available-for-sale financial asset, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

2.10 Impairment of financial assets

Before application of HKFRS 9 on 1 January 2018

(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;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Impairment of financial assets (Continued)

Before application of HKFRS 9 on 1 January 2018 (Continued)

(i) Assets carried at amortised cost (Continued)

- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - (a) adverse changes in the payment status of borrowers in the portfolio; or
 - (b) national or local economic conditions that correlate with defaults on the assets in the portfolio; or
- any other objective evidence that indicate an impairment of the financial asset may exist.

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

For trade debtors (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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Impairment of financial assets (Continued)

Before application of HKFRS 9 on 1 January 2018 (Continued)

(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.

Upon application of HKFRS 9 in accordance with transitions in note 2.1

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

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

The Group always recognises lifetime ECL for trade debtors. The ECL on these assets are assessed individually for trade debtors with significant balances and collectively for others based on internal credit rating with appropriate groupings.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Impairment of financial assets (Continued)

Upon application of HKFRS 9 in accordance with transitions in note 2.1 (Continued)

Significant increase in credit risk

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

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

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

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

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Impairment of financial assets (Continued)

Upon application of HKFRS 9 in accordance with transitions in note 2.1 (Continued)

Definition of default

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

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over three years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Impairment of financial assets (Continued)

Upon application of HKFRS 9 in accordance with transitions in note 2.1 (Continued)

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

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

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade debtors are assessed as a separate group. Amounts due from/advances to fellow subsidiaries/associates/joint ventures/a related party and dividend receivables are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Impairment of financial assets (Continued)

Upon application of HKFRS 9 in accordance with transitions in note 2.1 (Continued)

Measurement and recognition of ECL (Continued)

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

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

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.

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 bank and other borrowings 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which HKFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Financial liabilities and equity (Continued)

Financial liabilities at FVTPL (Continued)

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKFRS 9/HKAS 39 permits the entire combined contract to be designated as at FVTPL.

Upon application of HKFRS 9, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Prior to application of HKFRS 9 on 1 January 2018, financial liabilities designated at FVTPL are stated at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss. The net gain or loss recognised in profit or loss includes any interest paid on the financial liability and is included in the "other income and other gains, net" line item in the consolidated statement of profit or loss.

Other financial liabilities

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.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16 Creditors

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Creditors are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer), 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.

2.17 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.

2.18 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Current and deferred income tax (Continued)

(ii) *Deferred income tax*

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.18 Current and deferred income tax (Continued)

(iii) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.19 Employee benefits

(i) *Pension obligations*

Group companies operate various pension schemes 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 Schemes 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.19 Employee benefits (Continued)

(i) Pension obligations (Continued)

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.

(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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

2.21 Revenue

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2.1)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Revenue (Continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2.1) (Continued)

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

Output method

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

Refund liabilities

The Group recognises a refund liability if the Group expects to refund some or all of the consideration received from customers.

Variable consideration

For contracts that contain variable consideration, the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

Revenue recognition (prior to 1 January 2018)

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 makes its estimates based on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Revenue (Continued)

Revenue recognition (prior to 1 January 2018) (Continued)

(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.

2.22 Interest income (prior to 1 January 2018)

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 flows 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 (prior to 1 January 2018)

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 lessor*

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.

(ii) *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.

(iii) *Leasehold land and buildings*

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.

2.27 Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell, except for financial assets within the scope of HKFRS 9 and investment properties, which continue to be measured in accordance with the accounting policies as set out in respective sections.

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, Euro and Brazilian Real.

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.

At 31 December 2018, 65% (2017: 47%) of the Group's borrowings are denominated in United States dollar, 23% (2017: 45%) are denominated in Renminbi, 5% (2017: 8%) are denominated in Euro, 5% (2017: nil) are denominated in Brazilian Real and 2% (2017: nil) are denominated in Hong Kong dollar. 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 2018, if Renminbi had strengthened/weakened against the other currencies by 3% (2017: 3%) with all other variables held constant, profit for the year would have been approximately HK\$48 million higher/lower (2017: HK\$24 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 bank and other borrowings denominated in non-functional currencies of the relevant group companies.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(i) Market risk (Continued)

(a) Foreign exchange risk (Continued)

At 31 December 2018, if United States dollar had strengthened/weakened against the other currencies by 0.1% (2017: 0.1%) with all other variables held constant, profit for the year would have been approximately HK\$21 million higher/lower (2017: HK\$10 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 bank and other borrowings denominated in non-functional currencies of the relevant group companies.

(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 financial assets at FVTPL (2017: available-for-sale financial assets) and equity instruments at FVTOCI (2017: available-for-sale financial assets). At 31 December 2018, if there had been a 10% (2017: 10%) increase/decrease in the prices of the respective equity instruments with all other variables held constant, (i) profit for the year ended 31 December 2018 would increase/decrease by HK\$238 million (2017: nil) as a result of the changes in fair value of the financial assets at FVTPL and (ii) other comprehensive income, net of deferred tax, for the year ended 31 December 2018 would increase/decrease by HK\$11 million (2017: HK\$369 million) as a result of the changes in fair value of the equity instruments at FVTOCI (2017: 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/advances to certain associates, a joint venture and a related party and bank deposits as at 31 December 2018, 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.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(i) Market risk (Continued)

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

At 31 December 2018, if interest rates on borrowings had been 100 basis points (2017: 100 basis points) higher/lower with all other variables held constant, profit for the year would have been HK\$118 million (2017: HK\$101 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(ii) Credit risk and impairment assessment

Credit risk arises if a customer or other counterparty fails to meet its contractual obligations. At 31 December 2018, 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. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances individually for trade debtors with significant balances and collectively for others based on appropriate groupings. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Regarding amounts due from/advances to 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 amount due from a related party at the end of the reporting period and credit risk of which is considered by the Group's management as limited because the amount is fully secured as set out in note 26.

The Group accounts for its credit risk on other debtors by performing credit evaluation and appropriately providing expected credit losses on a timely basis. The credit evaluations focus on the historical loss rates and adjusts for information specific to the other debtors and forward looking information.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(ii) Credit risk and impairment assessment (Continued)

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.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade debtors	Financial assets other than trade debtors
A	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL - not credit-impaired	12m ECL
B	Debtor frequently repays after due dates but usually settle in full	Lifetime ECL - not credit-impaired	12m ECL
C	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL - not credit-impaired	Lifetime ECL - not credit-impaired
D	There is evidence indicating the asset is credit-impaired	Lifetime ECL - credit-impaired	Lifetime ECL - credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

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3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(ii) Credit risk and impairment assessment (Continued)

The tables below detail the credit risk exposures of the Group's financial assets and financial guarantee contracts which are subject to ECL assessment:

2018	Note	External credit rating	Internal credit rating	12m or lifetime ECL	Gross carrying amount HK\$'million HK\$'million	
Financial assets at amortised cost						
Trade debtors (Note (a))	26	N/A	A	Lifetime ECL (not credit-impaired)	312	
			B	Lifetime ECL (not credit-impaired)	515	
			C	Lifetime ECL (not credit-impaired)	165	
			D	Lifetime ECL (credit-impaired)	68	1,060
Amounts due from fellow subsidiaries (Note (b))	26	N/A	B	12m ECL	12	12
Amounts due from associates (Note (b))	26	N/A	B	12m ECL	136	136
Advance to an associate	23	N/A	B	12m ECL	11	11
Amounts due from joint ventures (Note (b))	26	N/A	B	12m ECL	19	19
Advance to a joint venture	23	N/A	B	12m ECL	895	895
Amount due from a related party (Note (b))	26	N/A	B	12m ECL	1,183	1,183
Dividend receivables (Note (b))	26	N/A	A	12m ECL	297	297
Other debtors (Note (b))	26	N/A	B	12m ECL	573	
			D	Lifetime ECL (credit-impaired)	39	612*
Cash and bank balances (Note (b))	27	A1 to Baa2	N/A	12m ECL	7,175	7,175
Other item						
Financial guarantee contracts (Note (c))	40(e)	N/A	A	12m ECL	136	136

* The gross carrying amounts disclosed above include the relevant interest receivables which are presented in note 26.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(ii) Credit risk and impairment assessment (Continued)

Notes:

- (a) For the trade debtors, the Group applied the simplified approach in HKFRS 9 to measure loss allowance at lifetime ECL. Except for debtors with significant outstanding balances, the Group determines the expected credit losses on these items by internal credit rating with appropriate groupings.
- (b) For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

	Past due HK\$'million	Not past due/ no fixed repayment terms HK\$'million	Total HK\$'million
Amounts due from fellow subsidiaries	—	12	12
Amounts due from associates	—	136	136
Advance to an associate	—	11	11
Amount due from joint ventures	—	19	19
Advance to a joint venture	—	895	895
Amounts due from a related party	—	1,183	1,183
Dividend receivables	—	297	297
Other debtors	39	573	612
Cash and bank balances	—	7,175	7,175

- (c) For financial guarantee contracts, the gross carrying amount represents the maximum amount the Group has guaranteed under the respective contracts.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(ii) Credit risk and impairment assessment (Continued)

The following table summarises average loss rates of each internal credit rating of financial assets:

Internal credit rating	Average loss rate
A	0.01%
B	0.06%
C	1.28%
D	78.51%

The estimated loss rates are estimated based on historical observed default rates over the expected life of the financial assets and are adjusted for forward-looking information that is available without undue cost or effort. The internal credit rating of the financial assets is regularly reviewed by management to ensure relevant information about specific debtors is updated.

The following table shows the movement in lifetime ECL that has been recognised for trade debtors.

	Lifetime ECL (not credit-impaired) HK\$'million	Lifetime ECL (credit-impaired) HK\$'million	Total HK\$'million
As at 31 December 2017 under HKAS 39	—	52	52
Adjustment upon application of HKFRS 9	—	—	—
As at 1 January 2018 - As restated	—	52	52
Changes due to financial instruments recognised as at 1 January:			
– Impairment losses recognised	5	—	5
– Impairment losses reversed	—	(8)	(8)
Exchange adjustments	(1)	1	—
As at 31 December 2018	4	45	49

The Group makes full provision for a trade debtor where is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, or when the trade debtors are over three years past due, whichever occurs earlier.

3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(ii) Credit risk and impairment assessment (Continued)

The following table shows reconciliation of loss allowances that has been recognised for other debtors.

	Lifetime ECL (credit- impaired) HK\$'million
As at 31 December 2017 under HKAS 39	30
Adjustment upon application of HKFRS 9	—
	30
As at 1 January 2018 - As restated	
Changes due to financial instruments recognised as at 1 January:	
– Impairment losses recognised	12
– Impairment losses reversed	(1)
Exchange adjustments	(2)
As at 31 December 2018	39

The Group makes full provision for other debtors where there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, or when the other debtors are over three years past due, whichever occurs earlier.

For financial guarantee contracts, the maximum amount that the Group has guaranteed under the respective contracts was HK\$136 million as at 31 December 2018. As at 31 December 2018, the directors of the Company have performed impairment assessment, and concluded that the loss allowance for financial guarantee contracts, if any, should not be material to these consolidated financial statements.

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(g)) 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 including both interest and principal.

	Within 1 year		Between 1 and 2 years		Between 2 and 5 years		More than 5 years		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million
Interest-bearing debts	7,034	7,482	5,522	3,326	22,542	15,734	11,791	7,010	46,889	33,552
Other financial liabilities included in creditors and accruals	2,978	8,743	—	—	—	—	—	—	2,978	8,743
	10,012	16,225	5,522	3,326	22,542	15,734	11,791	7,010	49,867	42,295

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 BBB by Standard and Poor's. The net gearing ratios at 31 December 2018 and 2017 were as follows:

	2018 HK\$'million	2017 HK\$'million
Total interest-bearing debts (note 32)	38,856	28,560
Less: cash and bank balances (note 27)	(7,175)	(9,247)
Net interest-bearing debts	31,681	19,313
Net gearing ratio:		
Net interest-bearing debts divided by total equity	36.0%	21.5%

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 is 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 financial instruments that are measured at fair value at 31 December 2018 and 2017:

	Level 1 HK\$'million	Level 2 HK\$'million	Level 3 HK\$'million	Total HK\$'million
At 31 December 2018				
Financial assets				
Financial assets at FVTPL	1,771	—	612	2,383
Equity instruments at FVTOCI	—	—	110	110
	1,771	—	722	2,493
Financial liabilities				
Financial liabilities at FVTPL	—	—	(4,383)	(4,383)
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

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 financial assets at FVTPL (2017: available-for-sale financial assets) is valued based on the quoted prices in active markets for the identical assets directly.

The fair value of the unlisted equity instruments of a listed entity that are accounted for as financial assets at FVTPL (2017: available-for-sale financial assets) is valued based on the quoted price of the same listed entity in active market and adjusted for the factor of discount for lack of marketability. As at 31 December 2018, if the factor of discount for lack of marketability was 5% (2017: 5%) higher/lower while all the other variables were held constant, the increase/decrease in fair value of the unlisted equity instruments of a listed entity would be HK\$24 million (2017: insignificant).

The fair value of other unlisted equity instruments that are accounted for as financial assets at FVTPL or equity instruments at FVTOCI (2017: 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 2018, if any of the significant unobservable input above was 5% (2017: 5%) higher/lower while all the other variables were held constant, the change in fair value of the unlisted equity instruments would be insignificant (2017: insignificant).

The fair value of the liabilities arising from the concession arrangements (see note 33) that are accounted for as financial liabilities at FVTPL is valued at the present value of the expected future economic benefits that will flow out of the Group arising from such obligation by using discounted cash flow method. The significant unobservable inputs are the factor of inflation and probability-adjusted business volume. As at 31 December 2018, if factor of inflation was 5% (2017: N/A) higher/lower while all the other variables were held constant, the changes in fair value of the liabilities arising from the concession arrangements would be insignificant (2017: N/A). As at 31 December 2018, if the probability-adjusted business volume was 5% (2017: N/A) higher/lower while all the other variables were held constant, the decrease/increase in fair value of the liabilities arising from the concession arrangements would be HK\$147 million (2017: N/A).

The fair value of the Put Option Liability (see note 33) that is accounted for as a financial liability at FVTPL is valued using Black-Scholes option model and the significant unobservable inputs used in the fair value measurement are the exercise price, the risk-free rate, the expected dividend yield, the expected volatility and the time-to-maturity. As at 31 December 2018, if the exercise price was 5% (2017: N/A) higher/lower while all the other variables was held constant, the increase/decrease in fair value of the put option would be HK\$15 million and HK\$13 million respectively (2017: N/A). As at 31 December 2018, if any of the significant unobservable inputs, other than the exercise price, was 5% (2017: N/A) higher/lower while all the other variables were held constant, the change in fair value of the put option would be insignificant (2017: N/A).

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 2018 and 2017:

	Financial assets at FVTPL HK\$'million	Equity instrument at FVTOCI HK\$'million	Financial liabilities at FVTPL HK\$'million
Year ended 31 December 2018			
As at 1 January 2018	752	120	—
Additions	2	—	—
Arising from acquisition of subsidiaries (note 38)	—	—	(5,091)
Disposal	(40)	—	—
Disposal of subsidiaries (note 37)	—	(168)	—
Exchange adjustments	(23)	—	706
Settlement	—	—	151
Unrealised fair value loss recognised in profit or loss	(79)	—	(149)
Unrealised fair value gain recognised in other comprehensive income (included in other reserves)	—	158	—
As at 31 December 2018	612	110	(4,383)

	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

3. FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation (Continued)

- (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.

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 future growth rates 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, an impairment loss may arise. Details of the impairment loss calculation are set out in note 16(b).

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 of the Company 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.

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.

	2018 HK\$'million	2017 HK\$'million
Terminal handling charge, representing loading of cargos and containers on and off vessels at the Group's port terminals, stevedoring and the auxiliary services	9,544	8,185
Warehousing services income, representing temporary storage of cargos and containers, customs clearance services and the auxiliary services	459	410
Revenue from contracts with customers	10,003	8,595
Gross rental income from investment properties (Note)	157	97
	10,160	8,692

Note: Direct operating expenses incurred for gross rental income from investment properties amounted to HK\$68 million (2017: HK\$54 million) during the year ended 31 December 2018.

5. REVENUE (Continued)

Performance obligations for contracts with customers

Terminal handling services

The Group provides terminal handling services as described above. Such services are recognised as a performance obligation satisfied over time as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. Revenue is recognised for these services based on the contract prices, net of discounts, if any. Refund liabilities are recognised for expected discounts payable to customers in relation to sales made until the end of reporting period.

Warehousing services

The Group provides warehousing services as described above. Such services are recognised as a performance obligation satisfied over time as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. Revenue is recognised for these services based on the contract prices.

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.

The Group's reportable segments of the ports operation are 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

6. SEGMENT INFORMATION (Continued)

- (ii) Bonded logistics operation includes logistic park operation, ports transportation and airport cargo handling operated by the Group and its associates.
- (iii) Port-related manufacturing operation represents container manufacturing operated by the Group's associate. Following the disposal of the Group's entire interest in Soares Limited ("Soares"), a wholly-owned subsidiary of the Company, during the year ended 31 December 2017 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.
- (iv) Other operations mainly include property development and investment and construction of modular housing operated by the Group's associate, property investment operated by the Group and corporate function.

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

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

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

During the current year, one customer has accounted for over 10% of the Group's total revenue amounting to HK\$1,231 million (2017: no single customer accounted for over 10% of the Group's total revenue).

The Group's revenue by geographical areas of operations and information about its non-current assets other than 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	
	2018 HK\$'million	2017 HK\$'million	2018 HK\$'million	2017 HK\$'million
Mainland China, Hong Kong and Taiwan	6,530	6,952	82,562	83,813
Other locations	3,630	1,740	43,117	31,246
	10,160	8,692	125,679	115,059

6. SEGMENT INFORMATION (Continued)

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

	For the year ended 31 December 2018										
	Ports operation						Bonded logistics operation	Other operations			Total
	Mainland China, Hong Kong and Taiwan				Other locations	Sub-total		Other investments	Corporate function	Sub-total	
	Pearl River Delta	Yangtze River Delta	Bohai Rim	Others							
	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million
Revenue	4,945	—	83	886	3,630	9,544	459	157	—	157	10,160
Earnings/(losses) before finance costs, net, taxation and share of profits less losses of associates and joint ventures	6,139	(1,095)	(68)	52	1,158	6,186	109	413	(694)	(281)	6,014
Share of profits less losses of											
- Associates	146	3,061	134	17	562	3,920	21	382	—	382	4,323
- Joint ventures	—	122	233	(42)	190	503	—	—	—	—	503
	6,285	2,088	299	27	1,910	10,609	130	795	(694)	101	10,840
Finance costs, net	(4)	—	1	1	(373)	(375)	(37)	(46)	(1,132)	(1,178)	(1,590)
Taxation	(924)	(52)	(15)	(22)	(112)	(1,125)	(18)	(152)	—	(152)	(1,295)
Profit/(loss) for the year	5,357	2,036	285	6	1,425	9,109	75	597	(1,826)	(1,229)	7,955
Non-controlling interests	(371)	—	—	(50)	(280)	(701)	(9)	—	—	—	(710)
Profit/(loss) attributable to equity holders of the Company	4,986	2,036	285	(44)	1,145	8,408	66	597	(1,826)	(1,229)	7,245
Other information:											
Depreciation and amortisation	701	—	2	321	828	1,852	95	3	20	23	1,970
Capital expenditure	551	—	—	788	1,012	2,351	220	6	7	13	2,584

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6. SEGMENT INFORMATION (Continued)

An analysis of the Group's segment revenue, 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 2017											
	Ports operation						Bonded logistics operation	Port-related manufacturing operation	Other operations			Total
	Mainland China, Hong Kong and Taiwan				Other locations	Sub-total			Other investments	Corporate function	Sub-total	
	Pearl River Delta	Yangtze River Delta	Bohai Rim	Others								
	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million
Revenue	5,844	—	77	524	1,740	8,185	410	—	97	—	97	8,692
Earnings(losses) before finance costs, net, taxation and share of profits less losses of associates and joint ventures	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)

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 2018											
Ports operation							Bonded logistics operation	Other operations			Total
Mainland China, Hong Kong and Taiwan				Other locations	Sub-total	Other investments		Corporate function	Sub-total		
Pearl River Delta	Yangtze River Delta	Bohai Rim	Others								
HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million		HK\$'million	HK\$'million	HK\$'million	
ASSETS											
Segment assets											
(excluding interests in associates and joint ventures)											
16,921	1,611	916	10,686	36,855	66,989	2,766	8,151	4,052	12,203	81,958	
2,545	25,775	3,657	269	6,879	39,125	384	6,312	—	6,312	45,821	
3	931	2,844	2,631	5,516	11,925	5	29	—	29	11,959	
Interests in joint ventures											
Non-current assets held for sale											
—	—	—	132	—	132	—	—	—	—	132	
19,469	28,317	7,417	13,718	49,250	118,171	3,155	14,492	4,052	18,544	139,870	
Total segment assets											7
Taxation recoverable											60
Deferred tax assets											
Total assets											139,937
LIABILITIES											
Segment liabilities											
(1,203)	—	(37)	(2,172)	(12,372)	(15,784)	(921)	(1,169)	(30,472)	(31,641)	(48,346)	
Taxation payable											(233)
Deferred tax liabilities											(3,354)
Total liabilities											(51,933)

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6. SEGMENT INFORMATION (Continued)

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

As at 31 December 2017											
Ports operation						Bonded logistics operation	Other operations			Total	
Mainland China, Hong Kong and Taiwan				Other locations	Sub-total		Other investments	Corporate function	Sub-total		
Pearl River Delta 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
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)	

7. PROFIT FOR THE YEAR

	2018 HK\$'million	2017 HK\$'million
Profit for the year has been arrived at after charging:		
Staff costs (including Directors' emoluments) (note 9)	1,932	1,675
Depreciation of property, plant and equipment	1,434	1,197
Amortisation of intangible assets and land use rights	536	360
Auditor's remuneration (including fees for non-audit services)	18	17
Operating lease rentals in respect of		
– land and buildings	203	246
– plant and machinery	34	37

8. OTHER INCOME AND OTHER GAINS, NET

	2018 HK\$'million	2017 HK\$'million
Dividend income from equity investments	54	85
Gain on deemed disposal of interest in an associate	—	3
Gain on disposal of an available-for-sale financial asset	—	307
Gain/(loss) on disposal of property, plant and equipment	15	(1)
Gain on disposal of a subsidiary (note 37)	4,400	813
Increase in fair value of investment properties (note 18)	376	247
Impairment loss of interest in an associate (note 21)	—	(739)
Decrease in fair value of financial assets at FVTPL	(1,113)	—
Increase in fair value of financial liabilities at FVTPL	(149)	—
Net exchange (losses)/gains	(277)	86
Others	85	69
	3,391	870

9. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2018 HK\$'million	2017 HK\$'million
Wages, salaries and bonus	1,630	1,386
Retirement benefit scheme contributions (Note)	302	289
	1,932	1,675

Note: No forfeiture was utilised for the year ended 31 December 2018 (2017: nil), leaving no available balance at the year end to reduce future contributions.

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For the Year Ended 31 December 2018

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	2018 Total HK\$'million	2017 Total HK\$'million
<i>Executive Directors:</i>							
Li Xiaopeng (Note (ii))	—	—	—	—	—	—	—
Fu Gangfeng (Note (iii))	—	—	—	—	—	—	N/A
Hu Jianhua (Note (iv))	—	—	—	—	—	—	—
Wang Hong (Note (v))	—	—	—	—	—	—	—
Hua Li (Note (vi))	N/A	N/A	N/A	N/A	N/A	N/A	—
Su Jian (Note (vi))	—	—	—	—	—	—	—
Xiong Xianliang (Note (v))	—	—	—	—	—	—	N/A
Bai Jingtao (Note (vii))	—	1.46	1.17	—	0.21	2.84	2.69
Wang Zhixian	—	1.28	0.88	—	0.15	2.31	2.37
Zheng Shaoping	—	1.32	0.88	—	0.15	2.35	2.35
Shi Wei (Note (v))	—	—	—	—	—	—	1.26
<i>Independent non-executive Directors:</i>							
Kut Ying Hay	0.28	—	—	—	—	0.28	0.27
Lee Yip Wah Peter	0.28	—	—	—	—	0.28	0.27
Li Kwok Heem John	0.28	—	—	—	—	0.28	0.27
Li Ka Fai David	0.28	—	—	—	—	0.28	0.27
Bong Shu Ying Francis	0.28	—	—	—	—	0.28	0.27
Total for the year ended 31 December 2018	1.40	4.06	2.93	—	0.51	8.90	
Total for the year ended 31 December 2017	1.35	4.68	3.46	—	0.53		10.02

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 resigned as the Chairman of the Board of Directors and an executive director of the Company on 11 January 2018.
- (iii) 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.
- (iv) Mr. Hu Jianhua resigned as an executive director and the Vice Chairman of the Board of Directors on 30 November 2018.
- (v) Mr. Wang Hong and Ms. Shi Wei resigned as executive directors of the Company and Mr. Xiong Xianliang was appointed as an executive director of the Company on 4 June 2018.
- (vi) 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.
- (vii) Mr. Bai Jingtao is the Managing Director of the Board of Directors of the Company.
- (viii) No remuneration or director's fee from the Company were paid to the executive directors who had not entered into employment contract with the Company. There was no other arrangement under which a director agreed to waive any remuneration during the year.

11. EMPLOYEES' EMOLUMENTS

(a) Emoluments of senior management

Of the eleven (2017: ten) senior management of the Company for the year ended 31 December 2018, three (2017: four) of them are directors of the Company and their remuneration has been disclosed in note 10. The total emoluments of the remaining eight (2017: six) senior management is as follows:

	2018 HK\$'million	2017 HK\$'million
Salaries, other allowances and benefit-in-kinds	7	6
Performance related incentive payments	6	4
	13	10

The emoluments fell within the following bands:

	Number of senior management	
	2018	2017
Below HK\$1,500,000	2	1
HK\$1,500,001 - HK\$2,000,000	4	2
HK\$2,000,001 - HK\$2,500,000	2	3
	8	6

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, three (2017: three) are directors (including the chief executive) and two (2017: two) are senior management of the Company whose emoluments are included in notes 10 and 11(a), respectively.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

12. FINANCE INCOME AND COSTS

	2018 HK\$'million	2017 HK\$'million
Finance income from:		
Interest income from bank deposits	214	118
Interest income from advance to a joint venture	41	—
Interest income from amount due from a related party	61	8
Others	3	9
	319	135
Interest expense on:		
Bank loans	(748)	(489)
Listed notes payable	(842)	(559)
Unlisted notes payable	(185)	(158)
Loans from:		
– non-controlling equity holders of subsidiaries	(20)	(21)
– a fellow subsidiary	(52)	(50)
– the ultimate holding company and an intermediate holding company	(5)	(15)
– an associate	(29)	(3)
Others	(73)	(42)
Total borrowing costs incurred	(1,954)	(1,337)
Less: amount capitalised on qualifying assets (Note)	45	34
Finance costs	(1,909)	(1,303)
Finance costs, net	(1,590)	(1,168)

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 5.97% per annum (2017: 4.35% 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% (2017: 16.5%) on the estimated assessable profit for the year.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime under The Inland Revenue (Amendments) (No. 7) Bill 2017 as insignificant to the consolidated financial statements.

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 enjoy the preferential tax rate of 15% upon the fulfilment of the criteria of the PRC tax laws or are exempted from PRC corporate income tax in the first three profit making years and followed by a 50% reduction in PRC corporate income tax for the next three years thereafter. 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:

	2018 HK\$'million	2017 HK\$'million
Current taxation		
Hong Kong Profits Tax	3	3
PRC corporate income tax (Note)	906	309
Overseas profits tax	57	2
Withholding income tax	169	245
Deferred taxation		
Origination and reversal of temporary differences	160	185
	1,295	744

Note: Included in the amount for the current year is the PRC corporate income tax of HK\$630 million levies on the Group for the gain on disposal of Shenzhen Chiwan and its subsidiaries during the year.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

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:

	2018 HK\$'million	2017 HK\$'million
Profit before taxation (excluding share of profits less losses of associates and joint ventures)	4,424	1,973
Expected tax calculated at the weighted average applicable tax rate	1,283	562
Income not subject to tax	(770)	(577)
Expenses not deductible for tax purposes	370	301
Tax losses and other temporary differences not recognised	99	91
Utilisation of previously unrecognised tax losses	(55)	(31)
Withholding tax on earnings of subsidiaries, associates and joint ventures	368	398
Tax charge	1,295	744

The weighted average applicable tax rate was 29.0% (2017: 28.5%).

The amount of taxation charged to other comprehensive income represents:

	2018 HK\$'million	2017 HK\$'million
Deferred taxation		
Arising on income and expense recognised in other comprehensive income:		
Revaluation of equity investments at FVTOCI (2017: available-for-sale financial assets)	38	66
Release upon disposal of an available-for-sale financial asset	—	(31)
	38	35

14. DIVIDENDS

	2018 HK\$'million	2017 HK\$'million
Interim, paid, of 22 HK cents (2017: 22 HK cents) per ordinary share	731	698
Special interim dividend for 2017, paid, of 135 HK cents per ordinary share	—	4,282
Final, proposed, of 73 HK cents (2017: 59 HK cents) per ordinary share	2,431	1,934
	3,162	6,914

Details of scrip dividends offered in respect of the 2017 final and 2018 interim dividends are set out in note 29(a).

At a meeting held on 29 March 2019, the Board of Directors proposed a final dividend of 73 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 the consolidated financial statements.

The amount of proposed final dividend for 2018 was based on 3,329,849,550 (2017: 3,277,619,310) shares in issue as at 29 March 2019.

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:

	2018	2017
Basic and diluted		
Profit attributable to equity holders of the Company (HK\$'million)	7,245	6,028
Weighted average number of ordinary shares in issue (Note)	3,299,845,627	3,277,619,310
Basic and diluted earnings per share (HK cents)	219.54	183.90

Note: The weighted average number of ordinary shares in issue for the purposes of basic and diluted earnings per share for the years ended 31 December 2018 and 2017 included the ordinary shares of the Company in issue during each year. The number for the year ended 31 December 2017 also included the ordinary shares issued upon conversion of the MCS from the issue date as the MCS are mandatorily convertible instruments.

The directors are of the opinion, based on the best information available thereto, including the terms of the MCS and the identities of its holders, that the MCS are substantially the same as ordinary shares of the Company, and accordingly, the MCS before and after its conversion to ordinary shares have been taken into account in the calculation of the basic and diluted earnings per share above for the year ended 31 December 2017.

16. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Intangible assets		
		Port operating rights	Others	Total
	HK\$'million (Note (b))	HK\$'million (Note (c))	HK\$'million (Note (d))	HK\$'million
Year ended 31 December 2018				
As at 1 January 2018	3,628	5,785	140	5,925
Exchange adjustments	(119)	(981)	—	(981)
Addition	—	24	78	102
Acquisition of subsidiaries (note 38)	4,886	5,977	508	6,485
Amortisation (Note (a))	—	(257)	(1)	(258)
Disposal of subsidiaries (note 37)	(473)	—	(141)	(141)
As at 31 December 2018	7,922	10,548	584	11,132
As at 31 December 2018				
Cost	7,922	11,997	590	12,587
Accumulated amortisation	—	(1,449)	(6)	(1,455)
Net book value	7,922	10,548	584	11,132
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 38)	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

16. GOODWILL AND INTANGIBLE ASSETS (Continued)

Notes:

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

	2018 HK\$'million	2017 HK\$'million
Cost of sales	257	148
Administrative expenses	1	3
	258	151

- (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:

	2018 HK\$'million	2017 HK\$'million
Ports operation		
– Mainland China, Hong Kong and Taiwan		
– Pearl River Delta	2,391	2,957
– Others	641	671
– Brazil	4,890	—
	7,922	3,628

The recoverable amount of a CGU is determined based on the higher of fair value less cost of disposal and its value in use. 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/Brazil'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))	
	2018	2017	2018	2017
Ports operation				
– Mainland China, Hong Kong and Taiwan				
– Pearl River Delta	3% - 4%	3% - 4%	7.56%	8.05%
– Others	5%	5%	7.56%	8.05%
– Brazil	3%	N/A	12.87%	N/A

Notes:

- (i) Weighted average growth rates are used to extrapolate cash flows beyond the five-year budget period which do not exceed the historical trend of the respective CGUs nor the industry growth rate.
- (ii) Pre-tax discount rate has been applied to the cash flow projections. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

As at 31 December 2018 and 31 December 2017, no impairment of any of the CGUs or group of CGUs containing goodwill with indefinite useful life 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 2018 is an amount of HK\$4,376 million (2017: HK\$4,665 million) related to the concession for operation of a terminal in the Port of Lomé in Togo for a concession period of 35 years commencing from 2011 granted by the Government of Togolese Republic. The carrying amount of the concession represents the aggregate of 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 their accumulated amortisation. Amortisation is provided for 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\$21 million (2017: HK\$57 million) for the year ended 31 December 2018 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.

Included in port operating rights as at 31 December 2018 is also an amount of HK\$5,076 million (2017: nil) related to the concession for operation of a terminal in Brazil for an concession period of 50 years commencing from 1998 granted by the Brazilian Federal Government. 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 less its accumulated amortisation. Amortisation is provided for over the period in which the Group operates the relevant terminals on an economic usage basis.

The remaining amount of port operating rights amounting to HK\$1,096 million (2017: HK\$1,120 million) relates to the concession for operation of a terminal built in Colombo in Sri Lanka for a concession period of 35 years commencing 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(c).

- (d) Balance as at 31 December 2018 mainly represents trademark acquired in a business combination during the year and is considered by the management of the Group as having an indefinite useful live because it is expected to contribute to the generation of net cash inflows to the Group indefinitely. It is tested for impairment annually and whenever there is an indication that they may have been impaired. No impairment loss of the trademark is recognised for the current year.

Amount as at 31 December 2017 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. The relevant intangible assets have been disposed of upon disposal of the relevant subsidiaries by the Group during the current year.

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 2018						
As at 1 January 2018	1,187	21,109	4,949	941	2,694	30,880
Exchange adjustments	(34)	(460)	(178)	(16)	(298)	(986)
Additions	2	52	51	76	2,214	2,395
Acquisition of subsidiaries (note 38)	8	1,325	490	53	577	2,453
Disposals	—	(35)	(38)	(48)	—	(121)
Disposal of subsidiaries (note 37)	(74)	(2,917)	(731)	(147)	(81)	(3,950)
Transfers	25	(1,565)	391	179	970	—
Transfer to non-current assets held for sale (note 28)	—	(25)	—	—	—	(25)
Depreciation (Note (c))	(48)	(684)	(617)	(85)	—	(1,434)
As at 31 December 2018	1,066	16,800	4,317	953	6,076	29,212
As at 31 December 2018						
Cost	1,412	21,786	9,372	1,483	6,076	40,129
Accumulated depreciation and impairment	(346)	(4,986)	(5,055)	(530)	—	(10,917)
Net book value	1,066	16,800	4,317	953	6,076	29,212
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 38)	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

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17. PROPERTY, PLANT AND EQUIPMENT (Continued)

Notes:

- (a) Included in assets under construction is capitalised interest of HK\$75 million (2017: HK\$63 million).
- (b) Others comprise vessels and ships, motor vehicles and leasehold improvements with net book values of HK\$812 million (2017: HK\$804 million), HK\$48 million (2017: HK\$67 million) and HK\$93 million (2017: HK\$70 million) respectively as at 31 December 2018.
- (c) Depreciation expenses charged for the year are included in the consolidated statement of profit or loss as follows:

	2018 HK\$'million	2017 HK\$'million
Cost of sales	1,391	1,164
Administrative expenses	43	33
	1,434	1,197

- (d) As at 31 December 2018, harbour works, buildings and dockyard and assets under construction with aggregate net book value of HK\$413 million (2017: HK\$369 million) were pledged as security for the Group's bank borrowings (note 32(a)).
- (e) Included in the property, plant and equipment are leasehold land and buildings, harbour works, buildings and dockyard and plant, machinery, furniture and equipment amounting to HK\$167 million (2017: HK\$173 million), HK\$7,531 million (2017: HK\$7,616 million) and HK\$3 million (2017: HK\$3 million), respectively, which are held under finance lease of 99 years whereas the relevant obligations under finance leases have been fully paid.

18. INVESTMENT PROPERTIES

	2018 HK\$'million	2017 HK\$'million
As at 1 January	8,411	7,455
Exchange adjustments	(396)	538
Increase in fair value (note 8)	376	247
Additions	1	4
Acquisition of subsidiaries (note 38)	—	167
Acquisition of assets through acquisition of a subsidiary (note 39)	13	—
Disposal of subsidiaries (note 37)	(73)	—
As at 31 December	8,332	8,411

The investment properties were revalued at the end of each reporting period by independent and professional qualified valuers.

18. INVESTMENT PROPERTIES (Continued)

The fair value measurements for all of the Group's investment properties are categorised as level 3 (see note 2.1).

Description	Valuation techniques	Significant unobservable inputs	Sensitivity
Commercial and residential complex in Shenzhen, PRC	Investment approach	Monthly market rent, taking into account the growth rate and rent of comparables, at an average of HK\$86 (2017: HK\$76) per square metre ("sqm") per month. Capitalisation rate, at an average of 6.5% (2017: 6.5%).	A significant increase in the rental income would result in a significant increase in the fair value, and vice versa. A significant increase in the capitalisation rate would result in a significant decrease in the fair value, and vice versa.
Commercial properties in Shenzhen, PRC	Market comparison approach	Market unit rate, taking into account the transaction dates, floor areas, locations and conditions of the property, which ranged from HK83,314 to HK\$86,738 (2017: HK\$78,956 to HK\$83,742) per sqm.	A significant increase in the market unit rate used would result in a significant increase in the fair value, 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.

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19. LAND USE RIGHTS

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

	2018 HK\$'million	2017 HK\$'million
As at 1 January	12,851	7,265
Exchange adjustments	(511)	614
Additions	—	785
Acquisition of subsidiaries (note 38)	—	4,396
Acquisition of assets through acquisition of a subsidiary (note 39)	45	—
Transfer to non-current assets held for sale (note 28)	(110)	—
Amortisation	(278)	(209)
Disposal of subsidiaries (note 37)	(1,023)	—
Disposal	(1)	—
As at 31 December	10,973	12,851

Notes:

- (a) The Group's interest in land use rights are located in:

	2018 HK\$'million	2017 HK\$'million
Mainland China, medium-term lease	8,920	10,787
Other locations outside of Mainland China and Hong Kong, long-term lease	2,053	2,064
	10,973	12,851

- (b) As at 31 December 2018, land use rights with a net book value of HK\$184 million (2017: HK\$197 million) were 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 2018 are set out in note 42.

(b) Non-wholly-owned subsidiaries of the Group that have material non-controlling interests

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	
		2018	2017	2018	2017	2018	2017
						HK\$'million	HK\$'million
Shenzhen Chiwan	Note (i)	N/A	66%	N/A	33%	N/A	3,764
Shantou China Merchants Port Group Co., Ltd. ("SPG")	Note (ii)	40%	40%	40%	40%	3,817	3,988
Hambantota International Port Group (Private) Limited ("HIPG")	Note (ii)	15%	15%	15%	15%	3,290	3,328
Individually immaterial subsidiaries with non-controlling interests						5,578	5,114
						12,685	16,194

Notes:

- (i) Shenzhen Chiwan is a company listed on the Shenzhen Stock Exchange. During the year, the Group disposed of its entire interest in Shenzhen Chiwan to follow subsidiaries of CMG. Further details are set out in note 37. For the year ended 31 December 2017 and up to date of disposal, 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%, the Group had the power to direct approximately 67% of the voting right in Shenzhen Chiwan pursuant to an entrustment agreement entered into with China Nanshan, the beneficial owner of 33% equity interest in Shenzhen Chiwan. The ownership interest and voting rights held by numerous other shareholders other than the Group and China Nanshan in Shenzhen Chiwan was approximately 33%. Therefore, the directors of the Company concluded the Group had control over Shenzhen Chiwan and Shenzhen Chiwan was a consolidated subsidiary up to the date of disposal.
- (ii) Both SPG and HIPG were 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 ended 31 December 2017 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 ended 31 December 2017 is not presented. No dividend was paid to non-controlling interests of SPG or 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") is prepared in accordance with the significant accounting policies of the Group.

20. INTERESTS IN SUBSIDIARIES (Continued)

- (b) 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, SPG Group and HIPG Group is set out below:

	2018			2017
	Shenzhen Chiwan Group HK\$'million (Note)	SPG Group HK\$'million	HIPG Group HK\$'million	Shenzhen Chiwan Group HK\$'million
<i>Financial information of consolidated statement of profit or loss and other comprehensive income</i>				
Revenue	1,332	483	133	2,820
Other income and gains	58	154	—	90
Expenses and taxation	(905)	(567)	(298)	(2,084)
Profit/(loss) for the year	485	70	(165)	826
Other comprehensive income	136	—	—	376
Total comprehensive income/(expense) for the year	621	70	(165)	1,202
Profit/(loss) for the year, attributable to:				
Equity holders of the Company	260	42	(121)	438
Non-controlling interests of the Group	225	28	(44)	388
	485	70	(165)	826
Total comprehensive income/(expense) for the year, attributable to:				
Equity holders of the Company	329	42	(121)	636
Non-controlling interests of the Group	292	28	(44)	566
	621	70	(165)	1,202
Dividends paid to non-controlling interests of the Group	570	—	—	131
<i>Financial information of consolidated statement of cash flows</i>				
Net cash inflow from operating activities	347	133	37	1,341
Net cash outflow from investing activities	(228)	(1,220)	(17)	(112)
Net cash outflow from financing activities	(277)	(335)	—	(890)
Net cash (outflow)/inflow	(158)	(1,422)	20	339

Note: The financial information shown above included the financial performance and cash flows of the Shenzhen Chiwan Group from 1 January 2018 up to the date of disposal by the Group.

20. INTERESTS IN SUBSIDIARIES (Continued)

- (b) 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 (for 2017 only), SPG Group and HIPG Group is set out below:

	2018		2017		
	SPG Group HK\$'million	HIPG Group HK\$'million	Shenzhen Chiwan Group HK\$'million	SPG Group HK\$'million	HIPG Group HK\$'million
Non-current assets	6,128	10,787	8,619	6,276	10,922
Current assets	5,194	45	1,385	6,001	7
Current liabilities	(593)	(52)	(1,059)	(733)	(7)
Non-current liabilities	(892)	—	(626)	(1,065)	—
	9,837	10,780	8,319	10,479	10,922
Equity attributable to:					
Equity holders of the Company	6,020	7,490	4,555	6,491	7,594
Non-controlling interests of the Group	3,817	3,290	3,764	3,988	3,328
	9,837	10,780	8,319	10,479	10,922

- (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.

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21. INTERESTS IN ASSOCIATES

	2018 HK\$'million	2017 HK\$'million
Share of net assets of associates, net of impairment:		
Listed associates	26,984	26,093
Unlisted associates	13,616	12,101
	40,600	38,194
Goodwill:		
Listed associates	2,447	2,276
Unlisted associates	2,774	2,844
	5,221	5,120
Total	45,821	43,314

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 was 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 categorised 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, impairment loss was recognised in profit or loss for the year ended 31 December 2017.

The management of the Group carried out an assessment as at 31 December 2018 for whether there is any indication that the impairment loss recognised during the year ended 31 December 2017 for the listed associate may no longer exist or may be decreased. The management of the Group concluded that the indications of impairment previously identified still existed as at 31 December 2018, no reversal of impairment loss has been recognised.

Particulars of the Group's principal associates at 31 December 2018 are set out in note 43.

The Group's material associate at the end of the reporting period includes Shanghai International Port (Group) Co., Ltd. ("SIPG"). All of the Group's associates are accounted for using equity method in the consolidated financial statements.

Summarised financial information in respect of SIPG and its subsidiaries (the "SIPG Group") 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 Group prepared in accordance with the significant accounting policies of the Group.

21. INTERESTS IN ASSOCIATES (Continued)

(a) Material associate

	SIPG Group	
	2018 HK\$'million	2017 HK\$'million
<i>Financial information of consolidated statement of profit or loss and other comprehensive income</i>		
Revenue	45,079	42,017
Profit for the year, attributable to equity holders of the associate	11,441	13,260
Other comprehensive income for the year, attributable to equity holders of the associate	359	6,485
Total comprehensive income for the year, attributable to equity holders of the associate	11,800	19,745
Dividends received from the associate by the Group during the year	1,318	1,029
<i>Financial information of consolidated statement of financial position</i>		
Non-current assets	113,378	112,137
Current assets	54,436	60,134
Current liabilities	(36,157)	(45,565)
Non-current liabilities	(36,702)	(33,385)
Net assets of the associate	94,955	93,321
<i>Reconciliation to the carrying amounts of interests in the associate:</i>		
Net assets of the associate	94,955	93,321
Less: non-controlling interests	(7,763)	(9,071)
Net assets attributable to equity holders of the associate	87,192	84,250
Proportion of the Group's interests in the associate (Note)	26.77%	26.45%
Net assets attributable to the Group's interests in the associate	23,341	22,284
Goodwill	2,443	2,271
Carrying amount of the Group's interests in the associate	25,784	24,555
Market value of the listed associate, 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 associate	36,669	48,770

Note: During the year, 72,199,132 shares (2017: 302,685,482 shares) of SIPG were purchased by the Group from open market for aggregate considerations of HK\$540 million (2017: HK\$2,304 million). Consequently, the Group's interest in SIPG has been increased from 26.45% to 26.77% (2017: from 25.15% to 26.45%).

21. INTERESTS IN ASSOCIATES (Continued)**(b) Aggregate of other associates**

	2018 HK\$'million	2017 HK\$'million
The Group's share of:		
Profit for the year	1,262	1,437
Other comprehensive (expense)/income	(224)	1,430
Total comprehensive income	1,038	2,867
Aggregate carrying amount of the Group's interests in these associates	20,037	18,759

22. INTERESTS IN JOINT VENTURES

	2018 HK\$'million	2017 HK\$'million
Share of net assets of unlisted joint ventures	11,908	9,697
Goodwill	51	53
	11,959	9,750

Acquisitions of joint ventures 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 equity interests in the Port of Newcastle (as defined below). As part of the transaction, CMU also agreed to sell and the Group also agreed to purchase the entire interest in Gold Newcastle. Upon completion, Gold Newcastle will become a wholly-owned subsidiary of the Company. The total consideration for these acquisitions, including the interest-bearing shareholder's loan from CMU to the Port of Newcastle with a principal amount of Australian dollar ("AUD") 162.5 million, is AUD607.5 million, subject to certain adjustments as set forth in the relevant agreement.

22. INTERESTS IN JOINT VENTURES (Continued)

Acquisitions of joint ventures engaged in port operation in Australia (Continued)

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

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

Particulars of the Group's principal joint ventures at 31 December 2018 are set out in note 44.

The Group's material joint ventures at the end of the reporting period include Port of Newcastle Investments (Property Holdings) Trust ("PONI Property Trust Group") and Port of Newcastle Investments (Holdings) Trust ("PONI Corporate Trust Group"). All of the Group's joint ventures are accounted for using equity method in the consolidated financial statements.

Summarised financial information in respect of PONI Property Trust Group and PONI Corporate Trust Group is set out below. Other joint ventures invested by the Group are not individually material. The summarised financial information below represents the financial information prepared in accordance with the significant accounting policies of the Group.

22. INTERESTS IN JOINT VENTURES (Continued)*Material joint ventures*

	2018	
	PONI Property Trust Group	PONI Corporate Trust Group
	HK\$'million	HK\$'million
<i>Financial information of consolidated statement of profit or loss and other comprehensive income</i>		
Revenue	266	738
Profit/(loss) for the year, attributable to the equity holders of the joint ventures	303	(187)
Other comprehensive expense for the year, attributable to the equity holders of the joint ventures	(13)	—
Total comprehensive income/(expense) for the year, attributable to the equity holders of the joint ventures	290	(187)
Dividends received from the joint ventures by the Group during the year	54	—
<i>Financial information of consolidated statement of financial position</i>		
Non-current assets	7,949	7,965
Current assets	75	106
Current liabilities	(140)	(106)
Non-current liabilities	(4,830)	(6,079)
Net assets of the joint ventures	3,054	1,886
<i>Reconciliation to the carrying amounts of interests in the joint ventures:</i>		
Net assets attributable to the equity holders of the joint ventures	3,054	1,886
Proportion of the Group's interests in the joint ventures	50%	50%
Carrying amount of the Group's interests in the joint ventures	1,527	943
Share of profit/(loss) of the joint ventures	152	(94)

22. INTERESTS IN JOINT VENTURES (Continued)

(b) Aggregate of other joint ventures

	2018 HK\$'million	2017 HK\$'million
The Group's share of:		
Profit for the year	445	385
Other comprehensive (expense)/income	(300)	452
Total comprehensive income	145	837
Aggregate carrying amount of the Group's interests in these joint ventures	9,489	9,750

23. OTHER FINANCIAL ASSETS

	2018 HK\$'million	2017 HK\$'million
Financial assets at FVTPL (Note (a))	2,383	—
Equity instruments at FVTOCI (Note (b))	110	—
Advance to an associate (Note (c))	11	—
Advance to a joint venture (Note (d))	895	—
Available-for-sale financial assets (Note (e))	—	3,689
	3,399	3,689

Notes:

(a) Financial assets at FVTPL

	2018 HK\$'million
Listed equity investments in Hong Kong	217
Listed equity investments in Mainland China	1,554
Unlisted equity investments in Mainland China	612
	2,383

90.9% of the financial assets at FVTPL is denominated in Renminbi and the remaining balance is denominated in Hong Kong dollar. The balances are mandatorily measured at FVTPL.

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23. OTHER FINANCIAL ASSETS (Continued)

Notes: (Continued)

(b) Equity instruments at FVTOCI

	2018 HK\$'million
Unlisted equity investments in Mainland China	8
Unlisted equity investments in Hong Kong	102
	110

7.3% of the equity instruments at FVTOCI is denominated in Renminbi and the remaining balance is denominated in Hong Kong dollar.

(c) The amount is denominated in Euro, unsecured, interest-bearing at a rate of one-year Euro Interbank Offered Rate plus 50 basis point per annum and repayable in 2021.

(d) The amount is denominated in AUD, unsecured, interest-bearing at a rate of 8% per annum and repayable in 2020.

(e) Available-for-sale financial assets

	2017 HK\$'million
Listed equity investments in Hong Kong	216
Listed equity investments in Mainland China	2,601
Unlisted equity investments in Mainland China	775
Unlisted equity investments in Hong Kong	97
	3,689

91.5% of the available-for-sale financial assets was denominated in Renminbi and the remaining balance was denominated in Hong Kong dollar.

24. OTHER NON-CURRENT ASSETS

	2018 HK\$'million	2017 HK\$'million
Prepayments and deposits for purchase of non-current assets	244	237
Others	84	163
	328	400

25. INVENTORIES

	2018 HK\$'million	2017 HK\$'million
Raw materials	84	79
Spare parts and consumables	24	20
	108	99

26. DEBTORS, DEPOSITS AND PREPAYMENTS

	2018 HK\$'million	2017 HK\$'million
Trade debtors from contracts with customers (Note (a))	1,060	1,094
Less: allowance for credit losses (Note (a))	(49)	(52)
Trade debtors, net (Note (c))	1,011	1,042
Amounts due from fellow subsidiaries (Note (f))	12	5
Amounts due from associates (Note (g))	136	284
Amounts due from joint ventures (Note (f))	19	2
Amount due from a related party (Note (h))	1,183	1,181
Dividend receivables	297	231
	2,658	2,745
Other debtors, deposits and prepayments	719	960
	3,377	3,705

Notes:

- (a) Movements in the allowance for credit losses of trade debtors are as follows:

	2018 HK\$'million	2017 HK\$'million
As at 1 January	52	58
Allowance for credit losses	5	2
Reversal of allowance	(8)	(12)
Exchange adjustments	—	4
As at 31 December	49	52

The allowance for credit losses have been included in administrative expenses in the consolidated statement of profit or loss.

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\$13 million (2017: HK\$20 million) are included in trade debtors as at 31 December 2018.

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26. DEBTORS, DEPOSITS AND PREPAYMENTS (Continued)

Notes: (Continued)

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

	2018 HK\$'million	2017 HK\$'million
0 - 90 days	938	862
91 - 180 days	48	149
181 - 365 days	15	23
Over 365 days	10	8
	1,011	1,042

- (d) As at 31 December 2018, trade debtors of HK\$715 million (2017: HK\$583 million) and balances with related companies of HK\$1,647 million (2017: HK\$1,703 million) are neither past due nor impaired and are fully performing.
- (e) As at 31 December 2018, included in the Group's trade debtors balance are debtors with aggregate carrying amount (before any allowance from credit losses) of HK\$345 million which are past due as at the reporting date. Out of the past due balances, HK\$43 million has been past due 90 days or more and is not considered as in default as these are related 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.

As at 31 December 2017, included in the Group's trade debtors balance are debtors with aggregate carrying amount of HK\$428 million which are past due as at the reporting date for which the Group has not provided for impairment loss. These related 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 as at 31 December 2017 is as follows:

	HK\$'million
Days overdue	
– 1 to 90 days	281
– 91 to 180 days	147
	428

- (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 as at 31 December 2017 were unsecured, interest-bearing at fixed rate of 1% per annum and has been settled during the year ended 31 December 2018. The remaining balances as at 31 December 2017 and the entire balance as at 31 December 2018 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

	2018 HK\$'million	2017 HK\$'million
Cash at bank and in hand	4,750	7,309
Short-term time deposits (Note (a))	488	1,938
Other deposits (Note (b))	793	—
Restricted bank balance (Note (c))	1,144	—
	7,175	9,247

Cash and bank balances are denominated in the following currencies:

	2018 HK\$'million	2017 HK\$'million
Hong Kong dollar	123	2,788
Renminbi	4,475	5,219
United States dollar ("US\$")	1,484	952
Euro	411	262
Brazilian Real	616	—
Other currencies	66	26
	7,175	9,247

Notes:

- (a) The weighted average effective interest rate on the balances as at the end of the reporting period is approximately 3.22% (2017: 2.22%) per annum. These deposits can be readily convertible to cash before maturity.
- (b) The weighted average effective interest rate on the balances as at the end of the reporting period is approximately 3.76% (2017: N/A) per annum. These deposits are not convertible to cash until maturity.
- (c) The restricted bank balance represents a deposit with a bank denominated in US\$ which will be utilised for port and marine-related activities in overseas. The Company is entitled to repatriate any amounts in the bank account at the expiration of an one-year period if no agreement has been reached for the use of the funds.

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28. NON-CURRENT ASSETS HELD FOR SALE

During the year, the Group commenced the negotiation with a municipal PRC government, pursuant to which the Group agreed to dispose of, and the counter-party agreed to acquire a piece of land and harbour works, buildings and dockyard (previously included in the land use rights and property, plant and equipment respectively in the consolidated statement of financial position) in the Mainland China. The sale proceeds are expected to exceed the carrying amount of the relevant assets and, accordingly, no impairment loss has been recognised.

The transaction is expected to be completed within one year from the date of this reclassification and the assets are therefore classified as held for sale at the end of the reporting period.

29. SHARE CAPITAL

	Company			
	Number of shares		Share capital	
	2018	2017	2018 HK\$'million	2017 HK\$'million
Issued and fully paid:				
As at 1 January	3,277,619,310	2,625,732,225	38,207	19,548
Issue of scrip dividend shares (Note (a))	52,230,240	148,751,483	863	3,440
Issue of shares on conversion of MCS (Note (b))	—	503,135,602	—	15,219
As at 31 December	3,329,849,550	3,277,619,310	39,070	38,207

Notes:

- (a) 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
2017 final dividend	17 July 2018	47,006,515
2018 interim dividend	15 November 2018	5,223,725
2018 Total		52,230,240
2017 Total		148,751,483

- (b) During the year ended 31 December 2017, 503,135,602 shares were issued upon conversion of the MCS. No proceeds were received by the Company for the shares issued.

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 were converted to ordinary shares of the Company.

Distribution amounted to HK\$304 million had been declared and paid to the holders of the MCS during the year ended 31 December 2017 before its conversion on 13 June 2017.

30. SHARE OPTION SCHEME

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 nor outstanding during the year upon the expiry of the old scheme.

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31. OTHER RESERVES

	Capital reserve HK\$'million	Investment revaluation reserve HK\$'million	Translation reserve HK\$'million	Statutory reserves HK\$'million (Note)	Total HK\$'million
As at 31 December 2017 (audited)	(1,250)	2,339	3,408	2,481	6,978
Adjustments (note 2.1)	—	(1,935)	—	—	(1,935)
As at 1 January 2018 (adjusted)	(1,250)	404	3,408	2,481	5,043
OTHER COMPREHENSIVE INCOME/(EXPENSE)					
Exchange differences from retranslation of investments in subsidiaries, associates and joint ventures	—	—	(3,369)	—	(3,369)
Increase in fair value of equity instruments at FVTOCI, net of deferred taxation	—	44	—	—	44
Share of reserves of associates and a joint venture	—	(146)	—	—	(146)
Release of reserves upon disposal of subsidiaries	1,218	(39)	(98)	(26)	1,055
Other comprehensive income/(expense) for the year, net of tax	1,218	(141)	(3,467)	(26)	(2,416)
TRANSACTIONS WITH OWNERS					
Transfer from retained earnings	—	—	—	318	318
Share of other changes in equity attributable to equity holders of associates	23	—	—	—	23
Total transactions with owners for the year	23	—	—	318	341
As at 31 December 2018	(9)	263	(59)	2,773	2,968
As at 1 January 2017	(1,152)	1,659	(1,111)	2,703	2,099
OTHER COMPREHENSIVE (EXPENSE)/INCOME					
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 (expense)/income 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

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.

32. BANK AND OTHER BORROWINGS

	2018 HK\$'million	2017 HK\$'million
Bank loans		
Unsecured short-term bank loans		
– variable rate	1,989	239
– fixed rate	359	586
Unsecured long-term fixed rate bank loans	86	30
Long-term variable rate bank loans		
– unsecured	6,200	5,608
– secured (Note (a))	3,646	4,284
	12,280	10,747
Loans from an intermediate holding company (Note (b))	—	179
Loan from a non-controlling equity holder of a subsidiary (Note (c))	446	445
Loans from a fellow subsidiary (Note (d))	634	2,261
Loan from an associate (Note (e))	276	276
Notes payable (Note (f))		
– US\$200 million, 7.125% guaranteed listed notes maturing in 2018	—	1,562
– US\$200 million, 3.5% guaranteed listed notes maturing in 2020	1,563	1,558
– US\$500 million, 5% guaranteed listed notes maturing in 2022	3,890	3,877
– US\$900 million, 4.375% guaranteed listed notes maturing in 2023	6,992	—
– US\$500 million, 4.75% guaranteed listed notes maturing in 2025	3,897	3,888
– US\$600 million, 5% guaranteed listed notes maturing in 2028	4,637	—
– Brazilian Real 428 million, Brazil's National Consumer Price Index ("IPCA") +7.82% listed notes maturing in 2022	817	—
– RMB250 million, 6.38% unlisted notes maturing in 2018	—	299
– RMB100 million, 4.74% unlisted notes maturing in 2018	—	119
– RMB300 million, 2.97% unlisted notes maturing in 2019	—	358
– RMB500 million, 5.15% unlisted notes maturing in 2021	571	—
– RMB2,500 million, 4.89% unlisted notes maturing in 2022	2,853	2,991
	25,220	14,652
Total	38,856	28,560
Less: amounts due within one year included under current liabilities	(5,234)	(6,268)
Non-current portion	33,622	22,292

Notes to the Consolidated Financial Statements

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32. BANK AND OTHER BORROWINGS (Continued)

Notes:

- (a) As at 31 December 2018, the following assets are pledged against the Group's secured bank loans:

	2018 HK\$'million	2017 HK\$'million
Property, plant and equipment (note 17)	413	369
Land use rights (note 19)	184	197
	597	566

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

- (b) As at 31 December 2017, the amount was denominated in Renminbi, interest-bearing at fixed rate at 4.35% per annum and unsecured. Except for the amount of HK\$59 million, the remaining amount was repayable within twelve months from the end of the reporting period. The entire balance has been settled during the current year.
- (c) The amount is unsecured, interest-bearing at 4.65% (2017: 4.65%) per annum and is not required to be repaid within twelve months from the end of the reporting period.
- (d) The fellow subsidiary is a financial institution approved and regulated by the People's Bank of China and the China Banking Regulatory Commission. The amounts are unsecured, interest-bearing at 4.28% to 4.80% (2017: 3.83% to 4.35%) per annum. Except for the amount of HK\$154 million (2017: nil), the remaining balance is repayable within twelve months from the end of the reporting period.
- (e) The amount is unsecured, interest-bearing at floating interest rate per annum and repayable within twelve months from the end of the reporting period.
- (f) Listed notes issued by subsidiaries of the Company amounting to HK\$20,979 million (2017: HK\$10,885 million) are secured by corporate guarantees provided by the Company.

The effective interest rate of the Group's notes payables are as follows:

	2018	2017
US\$200 million, 7.125% guaranteed listed notes maturing in 2018	N/A	7.36%
US\$200 million, 3.5% guaranteed listed notes maturing in 2020	3.64%	3.64%
US\$500 million, 5% guaranteed listed notes maturing in 2022	5.22%	5.22%
US\$900 million, 4.375% guaranteed listed notes maturing in 2023	4.78%	N/A
US\$500 million, 4.75% guaranteed listed notes maturing in 2025	4.83%	4.83%
US\$600 million, 5% guaranteed listed notes maturing in 2028	5.40%	N/A
Brazilian Real 428 million, IPCA +7.82% listed notes maturing in 2022	14.66%	N/A
RMB250 million, 6.38% unlisted notes maturing in 2018	N/A	6.68%
RMB100 million, 4.74% unlisted notes maturing in 2018	N/A	4.89%
RMB300 million, 2.97% unlisted notes maturing in 2019	N/A	3.57%
RMB500 million, 5.15% unlisted notes maturing in 2021	5.22%	N/A
RMB2,500 million, 4.89% unlisted notes maturing in 2022	4.94%	4.94%

The fair values of the listed notes payable and the unlisted notes payable were HK\$22,558 million (2017: HK\$11,530 million) and HK\$3,598 million (2017: HK\$3,828 million) respectively. The fair value of unlisted notes payable was 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 bank and other borrowings approximate their fair values as at 31 December 2018 and 2017.

- (g) As at 31 December 2018, the Group has undrawn facilities of bank loan and other debt financing instruments amounting to HK\$21,517 million (2017: HK\$29,786 million), of which HK\$14,712 million (2017: HK\$23,679 million) and HK\$6,805 million (2017: HK\$6,107 million) are committed and uncommitted credit facilities respectively.

32. BANK AND OTHER BORROWINGS (Continued)

Notes: (Continued)

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

	Bank loans		Loans from an intermediate holding company		Loan from a non-controlling equity holder of a subsidiary		Loans from a fellow subsidiary		Loan from an associate		Listed notes payable		Unlisted notes payable		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million
Within 1 year	4,478	1,631	—	120	—	—	480	2,261	276	276	—	1,562	—	418	5,234	6,268
Between 1 and 2 years	2,351	1,811	—	59	—	—	—	—	—	—	1,563	—	—	358	3,914	2,228
Between 2 and 5 years	4,206	5,242	—	—	—	—	63	—	—	—	11,699	5,435	3,424	2,991	19,392	13,668
Within 5 years	11,035	8,684	—	179	—	—	543	2,261	276	276	13,262	6,997	3,424	3,767	28,540	22,164
More than 5 years	1,245	2,063	—	—	446	445	91	—	—	—	8,534	3,888	—	—	10,316	6,396
	12,280	10,747	—	179	446	445	634	2,261	276	276	21,796	10,885	3,424	3,767	38,856	28,560

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

	2018	2017
Hong Kong dollar	3.32%	N/A
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	3.09% to 5.69%	4.54%
Brazilian Real	3.50% to 8.29%	N/A

(j) The carrying amounts of bank and other borrowings are denominated in the following currencies:

	2018 HK\$'million	2017 HK\$'million
Hong Kong dollar	500	—
Renminbi	8,934	12,790
Euro	2,113	2,409
United States dollar	25,209	13,361
Brazilian Real	2,100	—
	38,856	28,560

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33. OTHER NON-CURRENT LIABILITIES

	2018 HK\$'million	2017 HK\$'million
TCP Concession Liabilities (Note (a))	3,622	—
Put Option Liability (Note (b))	661	—
Royalty Provision (Note (c))	940	943
Net deferred benefit obligation (Note (d))	428	420
Others	155	488
	5,806	1,851

Notes:

- (a) Amount as at 31 December 2018 represents the liabilities arising from the concession arrangements for a port located in Brazil with the local port authority due by the TCP Group (as defined in note 38) (the "TCP Concession Liabilities"). The relevant concession arrangement allows for operations in the relevant port for up to 2048. Pursuant to the said concession arrangements, including the amendments thereto, with the relevant authority, concession payment is payable on a monthly basis and is adjusted from time to time, among other conditions, with reference to an official inflation index in Brazil. The TCP Concession Liabilities are designated as FVTPL at initial recognition upon the completion of the TCP Acquisition (as defined in note 38) and subsequently measured at fair value, with any gains or losses arising on remeasurement (other than those attributable to changes in credit risks of these liabilities) recognised in profit or loss. The current portion of the TCP Concession Liabilities amounting to HK\$100 million is included in creditors and accruals under current liabilities.
- (b) Amount as at 31 December 2018 represents gross obligation arising from a put option issued to non-controlling equity holders of subsidiaries ("Put Option Liability"). The excess of Put Option Liability over the fair value of the put option (as stated in note 38) amounting to HK\$579 million at initial recognition was debited to the non-controlling interests. The amount is designated as FVTPL at initial recognition and subsequently measured at fair value, with any gains or losses arising on remeasurement (other than those attributable to changes in credit risks of these liabilities) recognised in profit or loss. Further details are set out in note 38.
- (c) Amount represents the minimum guaranteed royalty and premium provision (the "Royalty Provision") 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 amounting to HK\$56 million (2017: HK\$52 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.
- (d) Amount represents the net defined benefit obligation for a defined benefit plan. During the year ended 31 December 2017, the Group acquired SPG 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 2018 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\$12 million (2017: HK\$2 million) 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:

	2018 HK\$'million	2017 HK\$'million
As at 1 January	(2,587)	(1,924)
Exchange adjustments	139	(158)
Arising from acquisition of subsidiaries (note 38)	(683)	(557)
Charged to consolidated statement of profit or loss (note 13)	(160)	(185)
(Charged)/credited to other comprehensive income		
– Revaluation of equity investments at FVTOCI (2017: available-for-sale financial assets) (note 13)	(38)	(66)
– Release upon disposal of an available-for-sale financial asset (note 13)	—	31
Disposal of subsidiaries (note 37)	35	272
As at 31 December	(3,294)	(2,587)

Deferred income tax assets are recognised for tax losses 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\$1,228 million (2017: HK\$866 million) to be carried forward against future taxable income. The entire amount expires in the following years:

	2018 HK\$'million	2017 HK\$'million
2018	—	233
2019	95	202
2020	122	164
2021	152	117
2022	365	150
2023	494	—
	1,228	866

Notes to the Consolidated Financial Statements

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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	
	2018	2017	2018	2017	2018	2017	2018	2017
	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million
As at 1 January	(909)	(966)	(1,271)	(660)	(458)	(347)	(2,638)	(1,973)
Exchange adjustments	49	(62)	84	(87)	19	(13)	152	(162)
Arising from acquisition of subsidiaries (note 38)	—	—	(705)	(557)	(17)	—	(722)	(557)
(Charged)/credited to profit or loss	(199)	(153)	53	33	(10)	(63)	(156)	(183)
Credited/(charged) to other comprehensive income								
– Revaluation of equity investments at FVTOCI	—	—	—	—	(38)	(66)	(38)	(66)
– Release upon disposal of an available-for-sale financial asset	—	—	—	—	—	31	—	31
Disposal of subsidiaries (note 37)	—	272	4	—	44	—	48	272
As at 31 December	(1,059)	(909)	(1,835)	(1,271)	(460)	(458)	(3,354)	(2,638)

Deferred tax assets

	Provision		Others		Total	
	2018	2017	2018	2017	2018	2017
	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million
As at 1 January	10	11	41	38	51	49
Exchange adjustments	—	1	(13)	3	(13)	4
Arising from acquisition of subsidiaries (note 38)	—	—	39	—	39	—
Charged to profit or loss	(1)	(2)	(3)	—	(4)	(2)
Disposal of subsidiaries (note 37)	—	—	(13)	—	(13)	—
As at 31 December	9	10	51	41	60	51

35. CREDITORS AND ACCRUALS

	2018 HK\$'million	2017 HK\$'million
Trade creditors (Note (a))	396	397
Amounts due to fellow subsidiaries (Note (b))	183	193
Consideration payable for acquisition of subsidiaries (note 38)	—	5,351
Other payables and accruals	3,105	3,058
	3,684	8,999

Notes:

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

	2018 HK\$'million	2017 HK\$'million
0 - 90 days	296	246
91 - 180 days	19	24
181 - 365 days	10	43
Over 365 days	71	84
	396	397

(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:

	2018 HK\$'million	2017 HK\$'million
Earnings before finance costs, net, taxation and share of profits less losses of associates and joint ventures	6,014	3,141
<i>Adjustments for:</i>		
Depreciation and amortisation	1,970	1,557
Increase in fair value of investment properties	(376)	(247)
Decrease in fair value of financial assets at FVTPL	1,113	—
Increase in fair value of financial liabilities at FVTPL	149	—
Net allowance for/(reversal of) credit losses of trade debtors and other debtors	8	(10)
Impairment loss of interest in an associate	—	739
Gain on disposal of an available-for-sale financial asset	—	(307)
(Gain)/loss on disposal of property, plant and equipment	(15)	1
Gain on deemed disposal of interest in an associate	—	(3)
Gain on disposal of subsidiaries	(4,400)	(813)
Operating profit before working capital changes	4,463	4,058
Increase in inventories	(27)	(4)
Increase in debtors, deposits and prepayments	(33)	(92)
Increase in creditors and accruals	144	408
Net cash inflow from operations	4,547	4,370

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.

	Bank and other borrowings										Total
	Bank loans	Loans from the ultimate holding company and an intermediate holding company	Loans from equity holders of a subsidiary	Loans from a fellow subsidiary	Loan from an associate	Notes payable	Interest payable (included in creditors and accruals)	Dividend payable to non-controlling equity holders of subsidiaries (included in creditors and accruals)	Dividend payable to equity holders of the Company	Distribution to MCS holders	
	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million
At 1 January 2018	10,747	179	445	2,261	276	14,652	292	248	—	—	29,100
Financing cash flows	943	(178)	—	(1,085)	—	10,126	(1,685)	(1,016)	(1,802)	—	5,303
<i>Non-cash changes</i>											
Acquisition of subsidiaries	1,349	—	—	—	—	1,365	—	—	—	—	2,714
Disposal of subsidiaries	(178)	—	—	(515)	—	(611)	(9)	(105)	—	—	(1,418)
Exchange adjustments	(581)	(1)	1	(27)	—	(361)	115	50	—	—	(804)
Interest capitalised	—	—	—	—	—	—	45	—	—	—	45
Issue of shares in lieu of dividends	—	—	—	—	—	—	—	—	(863)	—	(863)
Interest expense	—	—	—	—	—	49	1,860	—	—	—	1,909
Declaration of dividend	—	—	—	—	—	—	—	874	2,665	—	3,539
At 31 December 2018	12,280	—	446	634	276	25,220	618	51	—	—	39,525
At 1 January 2017	8,260	678	416	—	—	13,080	171	42	—	—	22,647
Financing cash flows	1,307	(526)	(45)	2,180	169	981	(1,192)	(403)	(3,247)	(304)	(1,080)
<i>Non-cash changes</i>											
Acquisition of subsidiaries	640	—	—	—	106	289	7	—	—	—	1,042
Exchange adjustments	540	27	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	10,747	179	445	2,261	276	14,652	292	248	—	—	29,100

37. DISPOSAL OF SUBSIDIARIES

For the year ended 31 December 2018

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

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

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

	HK\$'million
Analysis of the aggregate assets and liabilities of Shenzhen Chiwan Group over which control was lost:	
Goodwill (note 16)	473
Intangible assets (note 16)	141
Property, plant and equipment (note 17)	3,950
Investment properties (note 18)	73
Land use rights (note 19)	1,023
Interests in associates	897
Other financial assets	180
Other non-current assets	345
Deferred tax assets	13
Inventories	21
Debtors, deposits and prepayments	548
Taxation recoverable	29
Cash and bank balances	584
Bank and other borrowings	(1,304)
Other non-current liabilities	(223)
Deferred tax liabilities	(48)
Creditors and accruals	(432)
Taxation payable	(94)
Net assets disposed of	6,176
Gain on Disposal:	
Cash consideration	5,410
Interests in associates (Note)	2,595
Net assets disposed of	(6,176)
Non-controlling interests	2,677
Cumulative reserves reclassified from equity to profit or loss upon disposal	98
Costs directly attributable to the disposal	(204)
Gain on Disposal	4,400

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37. DISPOSAL OF SUBSIDIARIES (Continued)

For the year ended 31 December 2018 (Continued)

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

	HK\$'million
Net cash inflow arising on disposal:	
Cash consideration received	5,410
Less: Cash and cash equivalents disposed of	(584)
Payment of tax arising on disposal	(667)
	4,159

The cash flows arose from the Shenzhen Chiwan Group in the year ended 31 December 2018 prior to the Disposal is set out in note 20(b).

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 then 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

37. DISPOSAL OF SUBSIDIARIES (Continued)

For the year ended 31 December 2017 (Continued)

The net cash inflow arising on disposal of Soares amounting to HK\$8,739 million has been received by the Group during the year ended 31 December 2017.

The impact of Soares and CIMC on the Group's results in prior year 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.

38. ACQUISITION OF SUBSIDIARIES

For the year ended 31 December 2018

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

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

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

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

38. ACQUISITION OF SUBSIDIARIES (Continued)**For the year ended 31 December 2018 (Continued)**

Further details of the TCP Acquisition are set out below:

	HK\$'million
Consideration	
Cash	6,731
Fair value of identifiable assets acquired and liabilities assumed:	
Intangible assets (note 16)	6,485
Property, plant and equipment (note 17)	2,453
Deferred tax assets	39
Inventories	1
Debtors, deposits and prepayments	255
Taxation recoverable	40
Cash and bank balances	1,103
Bank and other borrowings	(2,714)
Other non-current liabilities	(4,349)
Deferred tax liabilities	(722)
Creditors and accruals	(274)
Taxation payable	(57)
Total identifiable net assets	2,260

The fair values of the above intangible assets acquired in the TCP Acquisition and the value of put option have been determined by a group of professional valuers, Greater China Appraisal Limited. Fair values of the identifiable assets acquired and liabilities assumed are determined by reference to valuations performed by Greater China Appraisal Limited based on asset-based approach. Significant assumptions of the valuations include the growth rates, discount rates and expected future cash inflows/outflows of TCP Group.

	HK\$'million
Net cash outflow arising in the TCP Acquisition:	
Cash consideration	6,731
Less: Cash and bank balances acquired	(1,103)
Net cash outflow during the year ended 31 December 2018	5,628

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

38. ACQUISITION OF SUBSIDIARIES (Continued)

For the year ended 31 December 2018 (Continued)

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

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

Goodwill arising on the TCP Acquisition:

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

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

Included in the profit and revenue of the Group for the current year are net profit of HK\$107 million and revenue of HK\$1,373 million generated by TCP Group.

Had the TCP Acquisition been completed on 1 January 2018, total group revenue for the current year would have been HK\$10,287 million, and profit for the current year would have been HK\$7,976 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the TCP Acquisition been completed on 1 January 2018, nor is it intended to be a projection of future results.

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

- calculated depreciation of property, plant and equipment and amortisation of intangible assets acquired on the basis of the fair values arising in the accounting for the acquisition rather than the carrying amounts recognised in the pre-acquisition financial statements; and
- determined borrowing costs based on the funding levels, credit ratings and debt/equity position of the Group after the acquisition.

38. ACQUISITION OF SUBSIDIARIES (Continued)

For the year ended 31 December 2017

During the year ended 31 December 2017, the Group completed the acquisition of certain entities engaged in ports operation in Shantou (the “SPG Acquisition”) and certain entities engaged in to 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, 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 Sri Lanka Ports Authority Act, No. 51 of 1979, 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 US\$146 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. During the year ended 31 December 2018, the agreed deposit of US\$146 million (equivalent to approximately HK\$1,144 million) has been placed in the said account.

38. 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	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
Bank and other borrowings	(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.

38. ACQUISITION OF SUBSIDIARIES (Continued)**For the year ended 31 December 2017 (Continued)**

	SPG Group HK\$'million	HIPG Group HK\$'million	Total HK\$'million
Net cash outflow arising in the Acquisitions:			
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

Consideration for the acquisition of HIPG Group of US\$684 million (equivalent to HK\$5,351 million) not yet been paid as at 31 December 2017 has been settled during the year ended 31 December 2018 at an amount equivalent to HK\$5,366 million.

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 flows 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 year ended 31 December 2017, within administrative expenses, in the consolidated statement of profit or loss.

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.

38. ACQUISITION OF SUBSIDIARIES (Continued)

For the year ended 31 December 2017 (Continued)

Included in the profit and revenue of the Group for the year ended 31 December 2017 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 ended 31 December 2017 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 year ended 31 December 2017, the directors have:

- calculated depreciation of property, plant and equipment and amortisation of 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.

39. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY

For the year ended 31 December 2018

In September 2018, a non-wholly-owned subsidiary of the Company completed the acquisition of an additional 80% equity interest in Shenzhen Haixing Xiaoyetian Logistics Development Company Limited ("Shenzhen Xiaoyetian") from an independent third party (the "Xiaoyetian Acquisition"). After the Xiaoyetian Acquisition, the Group's equity interest in Shenzhen Xiaoyetian has increased from 20% to 100%. Shenzhen Xiaoyetian was previously recognised as a financial asset at FVTPL. The total cash consideration is RMB133 million (equivalent to approximately HK\$153 million).

The transaction is accounted for as acquisition of assets as the acquisition does not meet the definition of business combination.

	HK\$'million
Consideration	
Cash	153
Fair value of previously held equity interest in Shenzhen Xiaoyetian	49
Total consideration	202

39. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY (Continued)

	HK\$'million
The net assets acquired in the Xiaoyetian Acquisition are as follows:	
Investment properties (note 18)	13
Land use right (note 19)	45
Cash and bank balances	143
Debtors, deposits and prepayments	1
Total identifiable net assets	202
Net cash outflow arising in the Xiaoyetian Acquisition:	
Cash consideration	153
Less: Cash and bank balances acquired	(143)
Total consideration paid	10

The fair value of other receivables at the date of acquisition amounted to HK\$1 million which is also the gross contractual amount and best estimate contractual cash flows at the date of acquisition.

40. COMMITMENTS AND CONTINGENT LIABILITIES

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

	2018 HK\$'million	2017 HK\$'million
Group:		
Property, plant and equipment and intangible assets	4,105	3,214
Joint ventures:		
Property, plant and equipment	523	556
	4,628	3,770

40. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

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

	2018 HK\$'million	2017 HK\$'million
Group:		
– Ports projects	6	6
– Acquisition of subsidiaries (note 38)	—	7,228
	6	7,234

(c) Commitments under operating leases

As at 31 December 2018, the Group has future aggregate minimum lease payments under non-cancellable operating leases for property, plant and equipment and land use rights as follows:

	2018 HK\$'million	2017 HK\$'million
Within one year	136	211
In the second to fifth year inclusive	202	280
After the fifth year	1,655	1,705
	1,993	2,196

(d) Future operating lease receivables

As at 31 December 2018, the Group has future aggregate lease receivables under non-cancellable operating leases for investment properties and property, plant and equipment as follows:

	2018 HK\$'million	2017 HK\$'million
Within one year	290	188
In the second to fifth year inclusive	492	428
After the fifth year	296	183
	1,078	799

40. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

(e) Contingent liabilities

- (i) As at 31 December 2018, TCP Group has significant contingent liabilities arising from pending legal proceedings in Brazil in respect of disputes with local tax authorities, employees or former employees of TCP Group and other parties, amounting to HK\$369 million (2017: nil), which, based on the latest estimates of the management of the Group, is not probable that outflows of resources embodying economic benefits will be required to settle these obligations. Accordingly, no provision for litigation claims in respect of the above cases has been made in the consolidated financial statements. A counter indemnity in favour of the Group is executed by the Selling Shareholders pursuant to which the latter indemnify to the Group for the above contingent liabilities for and up to predetermined amounts and specified length of time.
- (ii) As at 31 December 2018, 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\$108 million (2017: HK\$131 million) arising from the above loan facilities and other obligations.

In addition to above, the Group also provides guarantees for banking facilities granted to and other obligations borne by associates of the Group. The total amount guaranteed by the Group is HK\$392 million (2017: HK\$391 million) and the aggregate amount utilised by the relevant associates amounted to HK\$28 million (2017: HK\$64 million).

The directors of the Company 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.

- (iii) As at 31 December 2018, the Company was involved in a legal action involving dispute over the Group's overseas investment. Based on advice of legal counsel and information available to the Group, the directors of the Company are of the opinion that it is pre-mature to assess the possible outcome of the case and the Company is unable to ascertain the likelihood and estimate a reliable amount of the claim at the current stage.

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.

41. RELATED PARTY TRANSACTIONS (Continued)

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, and 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 2018 are as follows:

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

	Note	2018 HK\$'million	2017 HK\$'million
Rental income from	(i)		
– an immediate holding company		3	—
– fellow subsidiaries		26	12
Rental expenses paid to	(i)		
– fellow subsidiaries		105	114
– associates		33	86
– a joint venture		1	—
Service income from	(ii)		
– the ultimate holding company		—	1
– an intermediate holding company		2	—
– fellow subsidiaries		95	90
– associates		43	61
– joint ventures		105	91
– a related party		27	—
Service fees paid to	(iii)		
– fellow subsidiaries		81	65
– an associate		23	—
– a joint venture		18	19
Interest income from			
– a fellow subsidiary	(v)	17	4
– associates	(iv)	3	9
– a joint venture	(iv)	41	—
– a related party	(iv)	61	8
Interest expenses and upfront fees paid to			
– the ultimate holding company	(vi)	—	5
– an intermediate holding company	(vi)	5	10
– a fellow subsidiary	(vi)	52	50
– an associate	(vi)	29	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 services to the Group. The service fees were charged with reference to market rates.
- (iv) Interest income was charged at interest rates as specified in notes 23 and 26 on the outstanding amounts due from associates of the Group and a related party, and advance to a joint venture.
- (v) As at 31 December 2018, the Group placed deposits of HK\$494 million (2017: HK\$724 million) with China Merchants Group Finance Co., Ltd., a subsidiary of CMG which is a financial institution approved and regulated by the People's Bank of China and the China Banking Regulatory Commission. The amounts are included in cash and bank balances.
Interest income was charged at interest rates ranged from 1.61% to 3.12% (2017: 1.15% to 1.89%) per annum.
- (vi) Interest expenses were charged at interest rates as specified in note 32 on the outstanding amounts due to these related parties.
- (vii) During the year ended 31 December 2018, the Company acquired 50% of the total equity interests in the Port of Newcastle from CMU and its subsidiary, including the interest-bearing shareholder's loan from CMU to the Port of Newcastle, for a total cash consideration of HK\$3,488 million. Further details are set out in note 22.
- (viii) During the year ended 31 December 2018, the Company disposed of its entire interest in Shenzhen Chiwan Group to certain subsidiaries of CMG for an aggregate cash consideration of HK\$5,410 million. Further details are set out in note 37.
- (ix) During the year ended 31 December 2017, the Company disposed of its entire interest in Soares to a subsidiary of CMG for a cash consideration of HK\$8,739 million. Further details are set in note 37.
- (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) 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 2018 amounting to HK\$17 million (2017: HK\$17 million) was also accounted for as a prepayment for purchase of non-current assets set out in note 24.
- (xii) As at 31 December 2018, the Group placed deposits of HK\$963 million (2017: HK\$1,111 million) with China Merchants Bank Co., Ltd. ("CMB"), an associate of CMG.
During the year, interest income from CMB amounted to HK\$40 million (2017: HK\$31 million).
During the year ended 31 December 2018, interest expense paid and payable to CMB amounted to HK\$1 million (2017: HK\$7 million).
As at 31 December 2017, the Group borrowed loans, including the outstanding balance of accrued interest, of HK\$48 million from CMB. No borrowing from CMB as at 31 December 2018.

The balances with entities within CMG Group as at 31 December 2018 and 31 December 2017 are disclosed in notes 23, 26, 32 and 35.

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:

	2018 HK\$'million	2017 HK\$'million
Interest expense paid (Note)	20	21

Note: Interest expense was charged at interest rate as set out in note 32 on the outstanding loans from non-controlling equity holders of subsidiaries.

The balances with non-controlling equity holders of subsidiaries as at 31 December 2018 and 2017 are disclosed in note 32.

(d) Key management compensation

	2018 HK\$'million	2017 HK\$'million
Salaries and other short-term employee benefits	20	19

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.

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42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

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		
			2018	2017	2018	2017	
			%	%	%	%	
China Merchants Container Services Limited	Hong Kong	HK\$500,000	—	—	100.00	100.00	Provision of container terminal services and ports transportation
China Merchants Holding (International) Information on Technology Co., Ltd. (Note (b))	PRC	RMB50,000,000	76.84	76.84	—	10.57	Provision of computer network services
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 logistics business
China Merchants Bonded Logistics Co., Limited (Note (b))	PRC	RMB700,000,000	—	—	60.00	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
Guangdong Yide Port Limited (Note (b))	PRC	RMB216,000,000	—	—	51.00	51.00	Port operations

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		
			2018	2017	2018	2017	
			%	%	%	%	
Hambantota International Port Group (Private) Limited	Republic of Sri Lanka	US\$794,000,000	—	—	85.00	85.00	Port development, management and operation
Hambantota International Port Services Company (Private) Limited (Note (d))	Republic of Sri Lanka	US\$606,000,000	—	—	49.30	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.	PRC	RMB125,000,000	—	—	60.00	60.00	Port operations
Shekou Container Terminals Ltd. (Note (a))	PRC	HK\$618,201,150	—	—	80.00	80.00	Operation of berths 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 berths 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 berths No. 5 to 9 in Shekou, PRC
Shenzhen China Merchants Qianhaiwan Property Company Limited	PRC	RMB200,000,000	—	—	100.00	100.00	Property holding

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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		
			2018	2017	2018	2017	
			%	%	%	%	
Shenzhen Chiwan Wharf Holdings Limited (A Shares, B Shares listed in Mainland China) (Notes (b) and (f))	PRC	RMB1,793,412,378	N/A	—	N/A	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 Jinyu Rongtai Investment Development Company Limited	PRC	RMB800,000,000	—	—	100.00	100.00	Property holding
Shenzhen Mawan Port Service Co., Ltd. (Note (b))	PRC	RMB200,000,000	—	—	70.00	83.70	Operation of berth No. 5 in Mawan, Shenzhen, PRC
Shenzhen Mawan Terminals Co., Ltd. (Note (b))	PRC	RMB335,000,000	—	—	70.00	83.70	Operation of berths No. 6 & No. 7 in Mawan, Shenzhen, PRC
Shenzhen Mawan Wharf Co., Ltd. (Note (b))	PRC	RMB200,000,000	—	—	70.00	83.70	Operation of berth No. 0 in Mawan, Shenzhen, PRC
TCP Participações S.A. (Note (e))	Federative Republic of Brazil	Brazilian Real 68,851,561	—	N/A	90.00	N/A	Port operations
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

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		
			2018 %	2017 %	2018 %	2017 %	
Zhangzhou China Merchants Port Co., Ltd. (Note (b))	PRC	RMB1,000,000,000	—	—	60.00	60.00	Operation of berths No. 3 to 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
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

Notes:

- (a) Foreign investment enterprises
- (b) Sino-foreign joint ventures
- (c) This entity is considered to be a subsidiary of the Company despite that the Group holds effective equity interest of 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 that 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 directors' and shareholders' meetings of the respective entities by virtue of agreements with other investors
- (e) Acquired during the year
- (f) Disposed during the year

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

43. PARTICULARS OF PRINCIPAL ASSOCIATES

Name of associate	Place of incorporation/ registration and operation	Proportion of effective ownership interest indirectly held by the Company		Principal activities
		2018 %	2017 %	
Asia Airfreight Terminal Company Limited	Hong Kong	20.00	20.00	Airfreight services
China Nanshan Development (Group) Incorporation (Note (a))	PRC	37.01	37.01	Investment holding
Chiwan Container Terminal Co., Ltd. (Note (a) and (b))	PRC	14.16	N/A	Ports and container terminal business
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 logistics services
Modern Terminals Limited	Hong Kong	27.01	27.01	Provision of container terminal services and warehouse services
Port de Djibouti S.A.	Republic of Djibouti	23.50	23.50	Operations of seaports and terminals and port related business in Djibouti
Shanghai International Port (Group) Co., Ltd. (A shares listed on the Shanghai Stock Exchange) (Note (a))	PRC	26.77	26.45	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 associates

(b) Upon completion of the Disposal, this entity previously accounted for as a subsidiary of the Company has been reclassified as interest in an associate since the Group ceased to control thereof.

44. PARTICULARS OF PRINCIPAL JOINT VENTURES

Name of joint venture	Issued capital/ registered capital	Proportion of effective ownership interest held by the Company indirectly		Principal activities
		2018 %	2017 %	
Euro-Asia Oceangate S.ar.l.	US\$940,141,587.60	40.00	40.00	Ports and container terminal business
Ningbo Daxie China Merchants International Terminals Co., Ltd (Note (a))	RMB1,209,090,000	45.00	45.00	Ports and container terminal business
PONI Corporate Trust Group (Note (b))	AUD118,087,000	50.00	N/A	Management of port operation and port development
PONI Property Trust Group (Note (b))	AUD550,103,000	50.00	N/A	Provision of finance for port operation and property investment
Qingdao Port Dongjiakou Ore Terminal Co., Ltd (Note (a))	RMB1,400,000,000	25.00	25.00	Ports and bulk cargo 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
Zhanjiang Port (Group) Co., Ltd. (Note (a))	RMB4,020,690,955	40.29	40.29	Ports and container terminal business

Notes:

(a) Sino-foreign joint ventures

(b) Acquired during the year

Under the relevant shareholders' agreement, decisions of relevant activities of the entities above require unanimous consent from relevant joint venture partner(s). Accordingly, neither the Group nor the other venture partners(s) has the ability to control the relevant entities unilaterally and each of the entity above is considered as jointly controlled by the Group and the relevant joint venture partner(s).

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018 HK\$'million	2017 HK\$'million
ASSETS		
Non-current assets		
Property, plant and equipment	433	448
Interests in subsidiaries	67,110	52,723
Interests in associates	131	—
Other financial assets	97	97
Prepayment	6	6
	67,777	53,274
Current assets		
Debtors, deposits and prepayments	1,190	1,190
Advances to subsidiaries	2,296	2,701
Advances to an associate	68	—
Cash and bank balances	1,441	2,821
	4,995	6,712
Total assets	72,772	59,986
EQUITY		
Capital and reserves attributable to equity holders of the Company		
Share capital	39,070	38,207
Reserves (Note)	3,044	4,494
Proposed dividend (Note)	2,431	1,934
Total equity	44,545	44,635

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

	2018 HK\$'million	2017 HK\$'million
LIABILITIES		
Non-current liabilities		
Advances from subsidiaries	20,949	9,323
Bank and other borrowings	4,207	2,991
	25,156	12,314
Current liabilities		
Advances from subsidiaries	932	2,835
Creditors and accruals	386	202
Bank and other borrowings	1,753	—
	3,071	3,037
Total liabilities	28,227	15,351
Total equity and liabilities	72,772	59,986
Net current assets	1,924	3,675
Total assets less current liabilities	69,701	56,949

The statement of financial position of the Company was approved and authorised for issue by the Board of Directors on 29 March 2019 and are signed on its behalf by:

Mr. Fu Gangfeng
DIRECTOR

Mr. Bai Jingtao
DIRECTOR

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

45. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note: The reserves of the Company at 31 December 2018 and 2017 are as follows:

	Capital reserve HK\$'million (Note (i))	Retained earnings HK\$'million	Total HK\$'million
As at 1 January 2018	2,340	4,088	6,428
Profit and total comprehensive income for the year	—	1,712	1,712
Dividends (Note (ii))	—	(2,665)	(2,665)
As at 31 December 2018	2,340	3,135	5,475
Retained earnings as at 31 December 2018 representing:			
Reserves		704	
Proposed dividend		2,431	
		3,135	
As at 1 January 2017	2,340	3,257	5,597
Profit and total comprehensive income for the year	—	7,822	7,822
Dividends (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	

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 recognised as distribution in the years are as follows:

	2018 HK\$'million	2017 HK\$'million
Interim 22 HK cents (2017: 22 HK cents) per ordinary share	731	698
2017 Special interim dividend of 135 HK cents per ordinary share (2018: Nil)	—	4,282
2017 final of 59 HK cents (2017: 2016 final of 65 HK cents) per ordinary share	1,934	1,707
	2,665	6,687

46. EVENT AFTER THE REPORTING PERIOD

Disposal of certain land parcels in Qianhai

An ordinary resolution at the extraordinary general meeting of the shareholders of the Company held on 25 February 2019 was passed approving various transactions to effect the Group's participation in the development of the Qianhai-Shekou Free Trade Zone. These involve, among others:

- (a) disposal of certain land parcels held by two subsidiaries of the Group in Qianhai, Shenzhen, the PRC, to Shenzhen Qianhai Shenzhen-Hong Kong Modern Services Commission ("QHSH"), an authority established by the government of the PRC. The consideration for the disposal includes cash of approximately RMB5,693 million (equivalent to approximately HK\$6,499 million) and another piece of land located in Dachan Bay Port Phase II (大鵬灣港區二期);
- (b) the establishment of a joint venture company (the "Joint Venture Company") by a company in which the Group holds 14% equity interest (with the other 86% equity interest being held by certain members of the CMG Group) and a subsidiary of QHSH; and
- (c) the injection into the Joint Venture Company of certain land parcels and cash of up to RMB2,100 million (equivalent to approximately HK\$2,400 million).

Other parties' participation in the Qianhai-Shekou Free Trade Zone include, among others:

- (a) the injection into the Joint Venture Company of certain land parcels and cash of up to RMB12,900 million (equivalent to approximately HK\$15,000 million) by certain members of the CMG Group; and
- (b) the injection into the Joint Venture Company of certain land parcels by QHSH.

Further details of the above are set out in the circular of the Company dated 1 February 2019.

Up to issuance of these consolidated financial statements, the disposal 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*)

(resigned on 30 November 2018)

Mr. Wang Hong

(resigned on 4 June 2018)

Mr. Su Jian

Mr. Xiong Xianliang

(appointed on 4 June 2018)

Mr. Bai Jingtao (*Managing Director*)

Mr. Wang Zhixian

Mr. Zheng Shaoping

Ms. Shi Wei

(resigned on 4 June 2018)

Mr. Kut Ying Hay*

Mr. Lee Yip Wah Peter*

Mr. Li Kwok Heem John*

Mr. Li Ka Fai David*

Mr. Bong Shu Ying Francis*

* independent non-executive director

REGISTERED OFFICE

38th Floor, China Merchants Tower

Shun Tak Centre

168-200 Connaught Road Central

Hong Kong

COMPANY SECRETARY

Mr. Leung Chong Shun, Practising Solicitor

PRINCIPAL BANKERS

China Development Bank

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 Monday, 3 June 2019 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 2018 together with the Report of the Directors and the Independent Auditor’s Report.
- 2** To declare a final dividend of 73 HK cents per share for the year ended 31 December 2018 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. Wang Zhixian as a Director;
 - (b) To re-elect Mr. Zheng Shaoping as a Director;
 - (c) To re-elect Mr. Lee Yip Wah Peter as a Director; and
 - (d) To re-elect Mr. Bong Shu Ying Francis as a Director;B. To authorise the board of Directors (the “**Board**”) to fix the remuneration of the Directors.
- 4** To re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company and to authorise the Board to fix its remuneration.

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

Ordinary Resolutions

A. “**THAT:**

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

- (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.”

Notice of Annual 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

Fu Gangfeng

Chairman

Hong Kong, 29 April 2019

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 27 May 2019 to 3 June 2019, both days inclusive, during which period no transfer of shares will be effected. In order to qualify to attend and vote at the meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrars, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Friday, 24 May 2019.

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 Tuesday, 11 June 2019. 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 Tuesday, 11 June 2019.
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. Su Jian, Mr. Xiong Xianliang, Mr. Bai Jingtao, Mr. Wang Zhixian and Mr. Zheng Shaoping as executive directors; and Mr. Kut Ying Hay, Mr. Lee Yip Wah Peter, Mr. Li Kwok Heem John, Mr. Li Ka Fai David and Mr. Bong Shu Ying Francis as independent non-executive directors.

**CHINA MERCHANTS PORT
HOLDINGS COMPANY LIMITED**

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