招商局國際有限公司
CHINA MERCHANTS HOLDINGS (INTERNATIONAL) COMPANY LIMITED
(Incorporated in Hong Kong with limited liability under the Companies Ordinance)
(Stock Code: 00144)

- **Profit attributable to equity holders of the Company increased by 102.5% to HK$3,906 million (2010: HK$1,929 million)**
- **Basic earnings per share increased by 100.4% to 158.85 HK cents (2010: 79.25 HK cents)**
- **Throughput of containers handled rose 10.8% to 27.61 million TEUs (2010: 24.93 million TEUs)**
- **Throughput of bulk cargoes handled rose 18.5% to 160.51 million tons (2010: 135.39 million tons)**

2011 INTERIM RESULTS ANNOUNCEMENT

The Board of Directors (the "Board") of China Merchants Holdings (International) Company Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2011 together with the comparative figures for the corresponding period in 2010 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2011

		Unaudited	
	Note	**2011** *HK$'million*	**2010** *HK$'million*
Revenue	2	4,196	1,999
Cost of sales	5	(2,312)	(1,013)
Gross profit		1,884	986
Other gains, net	4	1,856	167
Other income	4	54	78
Distribution costs	5	(20)	—
Administrative expenses	5	(487)	(173)
Operating profit		3,287	1,058
Finance income	6	62	16
Finance costs	6	(427)	(322)
Finance costs - net	6	(365)	(306)
Share of profits less losses of			
Associates		1,983	1,400
Jointly controlled entities		162	125
Profit before taxation		5,067	2,277
Taxation	7	(576)	(184)
Profit for the period		4,491	2,093

	Note	Unaudited 2011 HK$'million	2010 HK$'million
Attributable to:			
Equity holders of the Company		3,906	1,929
Non-controlling interests		585	164
Profit for the period		4,491	2,093
Dividends	8	741	610
Earnings per share for profit attributable to equity holders of the Company	9		
- basic (HK cents)		158.85	79.25
- diluted (HK cents)		158.25	79.06

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Unaudited	
	2011	**2010**
	HK$'million	*HK$'million*
Profit for the period	4,491	2,093
Other comprehensive income:		
Share of investment revaluation reserves of associates	1	(175)
Share of other reserves of associates	(15)	—
Exchange differences from retranslation of investments in subsidiaries, associates and jointly controlled entities	1,008	231
Increase/(decrease) in fair value of available-for-sale financial assets, net of deferred taxation	53	(511)
Total other comprehensive income/(loss) for the period, net of tax	1,047	(455)
Total comprehensive income for the period	5,538	1,638
Total comprehensive income attributable to:		
- equity holders of the Company	4,722	1,443
- non-controlling interests	816	195
	5,538	1,638

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2011

	Note	**Unaudited 30 June 2011** *HK$'million*	**Audited 31 December 2010** *HK$'million*
ASSETS			
Non-current assets			
Intangible assets		3,407	3,389
Property, plant and equipment		17,316	16,835
Investment properties		4,207	3,662
Land use rights		9,846	9,683
Interests in associates		26,038	23,701
Interests in jointly controlled entities		4,756	4,589
Other financial assets		2,478	2,418
Prepayments		296	342
Deferred tax assets		112	114
		68,456	64,733
Current assets			
Inventories		212	159
Properties under development and held for sale		3,311	2,241
Other financial assets		390	382
Debtors, deposits and prepayments	10	4,392	4,484
Cash and cash equivalents		6,841	6,352
		15,146	13,618
Total assets		83,602	78,351

	Note	Unaudited 30 June 2011 HK$'million	Audited 31 December 2010 HK$'million
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		246	246
Reserves		40,856	36,878
Proposed dividend		741	1,918
		41,843	39,042
Non-controlling interests		11,120	10,329
Total equity		52,963	49,371
LIABILITIES			
Non-current liabilities			
Loans from the ultimate holding company		960	938
Loans from an intermediate holding company		60	587
Other financial liabilities		13,848	14,144
Deferred tax liabilities		2,344	2,065
		17,212	17,734
Current liabilities			
Creditors and accruals	11	6,741	4,382
Loans from the ultimate holding company		1,657	1,748
Loans from an intermediate holding company		554	—
Other financial liabilities		4,181	4,855
Taxation payable		294	261
		13,427	11,246
Total liabilities		30,639	28,980
Total equity and liabilities		83,602	78,351
Net current assets		1,719	2,372
Total assets less current liabilities		70,175	67,105

NOTES:

1 Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2011 has been prepared in accordance with Hong Kong Accounting Standard 34 "Interim financial reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2010, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2010, as described therein.

(i) Amendments to standards adopted by the Group

The following amendments to standards are mandatory for the first time for the financial year beginning 1 January 2011.

- Amendment to HKAS 34 'Interim financial reporting' is effective for annual period beginning on or after 1 January 2011. It emphasises the existing disclosure principles in HKAS 34 and adds further guidance to illustrate how to apply these principles. Greater emphasis has been placed on the disclosure principles for significant events and transactions. Additional requirements cover disclosure of changes to fair value measurement (if significant), and the need to update relevant information from the most recent annual report. The change in accounting policy only results in additional disclosures.

- Third improvements to HKFRSs (2010) issued in May 2010 by the Hong Kong Institute of Certified Public Accountants are effective for the financial year beginning 1 January 2011.

  — HKFRS 3 (Revised) "Business combinations"

  — HKFRS 7 "Financial instruments: Disclosures"

  — HKAS 1 "Presentation of financial statements"

  — HKAS 27 "Consolidated and separate financial statements"

2 **Revenue**

The principal activities of the Group comprise ports operation, bonded logistics and cold chain operations, port-related manufacturing operations and property development and investment. Revenue consists of turnover recognised under the following business activities during the period.

	Six months ended 30 June	
	2011	**2010**
	HK$'million	*HK$'million*
Ports service, transportation income, container service and container yard management income	3,092	1,893
Logistics services income (including rental income)	633	90
Sales of properties and goods	452	—
Gross rental income from investment properties	19	16
	4,196	1,999

3 **Segment information**

The key management team of the Company has been regarded as the Chief Operation Decision-Maker ("CODM"). CODM reviews the Group's internal reports in order to assess performance, allocate resources and determine the operating segments.

The CODM considers the Group's operations from both a business and geographic perspective.

From a business perspective, management assesses the performance of business operations including ports operation, bonded logistics and cold chain operations, port-related manufacturing operations and other operations. Ports operation is further evaluated on a geographic basis. Upon the extension of its ports operation in various areas, the geographic performance assessment on ports operation had been amended to be based on Pearl River Delta excluding Hong Kong ("PRD excluding HK"), Hong Kong, Yangtze River Delta and other locations. The segment information presented in the prior period has been restated accordingly.

Ports operation includes container terminal operation, bulk and general cargo terminal operation operated by the Group and the Group's associates and jointly controlled entities. Bonded logistics and cold chain operations include logistic park operation, ports transportation, cold storage and logistics operation and airport cargo handling operated by the Group and the Group's associates. Port-related manufacturing operations includes construction of modular housing and container manufacturing operated by the Group and the Group's associates. Other operations include property development and investment and corporate functions.

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

Over 90% of its non-current assets are located in Mainland China and over 90% of its revenue is derived in Mainland China. There is no single customer who accounted over 10% of the Group's total revenue.

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

	For the six months ended 30 June 2011								
	Ports operation					Bonded logistics & cold chain operations	Port-related manufacturing operations	Other operations	Total
	PRD excluding HK	Hong Kong	Yangtze River Delta	Other locations	Sub-total			Property development and investment	
	HK$' million	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*
Revenue									
Company and subsidiaries	2,743	113	—	236	3,092	633	109	362	4,196
Share of associates	81	481	2,515	197	3,274	237	11,641	299	15,451
Share of jointly controlled entities	—	10	137	714	861	—	—	351	1,212
Total	2,824	604	2,652	1,147	7,227	870	11,750	1,012	20,859

	For the six months ended 30 June 2010								
	Ports operation					Bonded logistics & cold chain operations	Port-related manufacturing operations	Other operations	Total
	PRD excluding HK	Hong Kong	Yangtze River Delta	Other locations	Sub-total			Property development and investment	
	HK$' million	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*
Revenue									
Company and subsidiaries	1,625	98	—	170	1,893	90	—	16	1,999
Share of associates	880	415	2,105	—	3,400	85	6,020	—	9,505
Share of jointly controlled entities	16	—	121	501	638	—	—	—	638
Total	2,521	513	2,226	671	5,931	175	6,020	16	12,142

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

	For the six months ended 30 June 2011										
	Ports operation					Bonded logistics & cold chain operations	Port-related manufacturing operations	Other operations			Total
	PRD excluding HK	Hong Kong	Yangtze River Delta	Other locations	Sub-total			Property development and investment	Corporate function	Sub-total	
	HK$'million	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*
Operating profit/(loss), net of gain on deemed disposal of interest in an associate	1,307	18	23	56	1,404	308	(20)	286	(58)	228	1,920
Share of profits less losses of											
- Associates	33	143	761	79	1,016	35	885	47	—	47	1,983
- Jointly controlled entities	—	—	44	112	156	—	—	6	—	6	162
	1,340	161	828	247	2,576	343	865	339	(58)	281	4,065
Gain on deemed disposal of interest in an associate											1,367
Finance costs - net	(44)	—	—	(36)	(80)	(65)	(8)	20	(232)	(212)	(365)
Taxation	(243)	(3)	(198)	(10)	(454)	(44)	(43)	(35)	—	(35)	(576)
Profit/(loss) for the period	1,053	158	630	201	2,042	234	814	324	(290)	34	4,491
Non-controlling interests	(373)	—	—	(39)	(412)	(144)	(13)	(16)	—	(16)	(585)
Profit/(loss) attributable to equity holders of the Company	680	158	630	162	1,630	90	801	308	(290)	18	3,906
Other information:											
Depreciation and amortisation	436	4	—	93	533	92	19	10	3	13	657
Capital expenditure	459	1	—	86	546	255	42	74	2	76	919

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

For the six months ended 30 June 2010

	Ports operation					Bonded logistics & cold chain operations	Port-related manufacturing operations	Other operations			Total
	PRD excluding HK	Hong Kong	Yangtze River Delta	Other locations	Sub-total			Property development and investment	Corporate function	Sub-total	
	HK$' million	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*
Operating profit/(loss)	901	10	46	96	1,053	13	—	67	(75)	(8)	1,058
Share of profits less losses of											
- Associates	272	146	701	—	1,119	21	260	—	—	—	1,400
- Jointly controlled entities	3	—	34	88	125	—	—	—	—	—	125
	1,176	156	781	184	2,297	34	260	67	(75)	(8)	2,583
Finance costs - net	(14)	—	—	(34)	(48)	(26)	—	—	(232)	(232)	(306)
Taxation	(110)	(2)	(41)	(5)	(158)	—	(22)	(4)	—	(4)	(184)
Profit/(loss) for the period	1,052	154	740	145	2,091	8	238	63	(307)	(244)	2,093
Non-controlling interests	(147)	—	—	(4)	(151)	(13)	—	—	—	—	(164)
Profit/(loss) attributable to equity holders of the Company	905	154	740	141	1,940	(5)	238	63	(307)	(244)	1,929
Other information:											
Depreciation and amortisation	285	4	—	51	340	34	—	—	3	3	377
Capital expenditure	134	6	—	24	164	35	—	—	—	—	199

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

	As at 30 June 2011										
	Ports operation					Bonded logistics & cold chain operations	Port-related manufacturing operations	Other operations			Total
	PRD excluding HK	Hong Kong	Yangtze River Delta	Other locations	Sub-total			Property development and investment	Corporate function	Sub-total	
	HK$' million	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*
Segment assets (excluding interests in associates and jointly controlled entities)	23,472	184	2,991	4,113	30,760	8,036	827	10,644	2,429	13,073	52,696
Interests in associates	1,086	1,684	13,004	1,232	17,006	828	7,460	744	—	744	26,038
Interests in jointly controlled entities	—	4	790	3,783	4,577	—	—	179	—	179	4,756
Total segment assets	24,558	1,872	16,785	9,128	52,343	8,864	8,287	11,567	2,429	13,996	83,490
Deferred tax assets											112
Total assets											83,602
Segment liabilities	(5,359)	(38)	(55)	(2,357)	(7,809)	(3,395)	(494)	(5,391)	(10,912)	(16,303)	(28,001)
Taxation payable											(294)
Deferred tax liabilities											(2,344)
Total liabilities											(30,639)

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

	As at 31 December 2010										
	Ports operation					Bonded logistics & cold chain operations	Port-related manufacturing operations	Other operations			Total
	PRD excluding HK	Hong Kong	Yangtze River Delta	Other locations	Sub-total			Property development and investment	Corporate function	Sub-total	
	HK$' million	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*
Segment assets (excluding interests in associates and jointly controlled entities)	22,998	103	2,140	4,426	29,667	7,131	690	10,326	2,133	12,459	49,947
Interests in associates	899	1,988	11,322	1,194	15,403	815	6,702	781	—	781	23,701
Interests in jointly controlled entities	88	4	729	3,682	4,503	—	—	86	—	86	4,589
Total segment assets	23,985	2,095	14,191	9,302	49,573	7,946	7,392	11,193	2,133	13,326	78,237
Deferred tax assets											114
Total assets											78,351
Segment liabilities	(5,443)	(38)	(54)	(2,069)	(7,604)	(3,290)	(449)	(5,480)	(9,831)	(15,311)	(26,654)
Taxation payable											(261)
Deferred tax liabilities											(2,065)
Total liabilities											(28,980)

4 Other gains, net and other income

	Six months ended 30 June	
	2011	**2010**
	HK$'million	*HK$'million*
Other gains, net		
Increase in fair value of investment properties	416	55
Increase in fair value of financial asset at fair value through profit or loss	8	—
Reversal of provision for terminal construction cost	—	58
Gain on deemed disposal of interest in an associate	1,367	—
Gain on disposal of land use rights and property, plant and equipment	4	61
Net exchange gains/(losses)	61	(7)
	1,856	167
Other income		
Dividend income from available-for-sale financial assets		
- Listed equity investments	21	19
- Unlisted equity investments	15	55
Dividend income from financial asset at fair value through profit or loss	10	—
Others	8	4
	54	78

5 Expenses by nature

	Six months ended 30 June	
	2011	**2010**
	HK$'million	*HK$'million*
Cost of inventories	322	—
Staff costs (including Directors' emoluments)	611	253
Depreciation of property, plant and equipment	560	313
Amortisation of intangible assets and land use rights	97	64
Fuel and utilities	256	124
Sub-contracting fees	358	205
Operating lease rentals in respect of		
- land and buildings	52	47
- plant and machinery	24	14
Transportation and delivery	163	—
Other expenses	376	166
Total cost of sales, distribution costs and administrative expenses	2,819	1,186

6 Finance income and costs

	Six months ended 30 June	
	2011	**2010**
	HK$'million	*HK$'million*
Finance income — interest income from bank deposits	62	16
Interest expense on:		
Bank borrowings		
- wholly repayable within five years	(169)	(23)
- not wholly repayable within five years	(40)	(2)
Listed notes payable		
- wholly repayable within five years	(179)	(179)
- not wholly repayable within five years	(56)	(56)
Loans from the ultimate holding company	(51)	(48)
Loans from an intermediate holding company	(13)	(17)
Total borrowing costs incurred	(508)	(325)
Less: amount capitalised on qualifying assets *(Note)*	81	3
Finance costs	(427)	(322)
Finance costs - net	(365)	(306)

Note:

Capitalisation rate of 5.18% per annum (2010: 4.39% per annum) was used, representing the weighted average rate of the costs of borrowings used to finance the qualifying assets.

7 Taxation

Hong Kong profits tax has been provided for at the rate of 16.5% (2010: 16.5%) on the estimated assessable profit for the period.

The Group's operations in Mainland China are subject to PRC corporate income tax law of the People's Republic of China ("PRC corporate income tax"). The standard PRC corporate income tax rate is 25%. For foreign invested enterprises established in the PRC before 1 January 2008 previously taxed at preferential rate of 15%, PRC corporate income tax rate is 22% and 24% in 2010 and 2011 respectively whereas 25% standard rate will be applied from year 2012 onwards. Certain of the Group's subsidiaries were exempted from the PRC corporate income tax in the first five profit making years and followed by a 50% reduction in the PRC corporate income tax for the next five years thereafter, commencing from the earlier of the first profitable year after offsetting all unexpired tax losses carried forward from the previous years or 1 January 2008. Further, 10% withholding income tax is generally imposed on dividends relating to any profits earned commencing from 2008 to foreign investors, while for some investments held by companies incorporated in certain places, including Hong Kong and Singapore, preferential rate of 5% will be applied.

Taxation outside Hong Kong and Mainland China has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the condensed consolidated income statement represents:

	Six months ended 30 June	
	2011	**2010**
	HK$'million	*HK$'million*
Hong Kong profits tax	3	2
PRC corporate income tax	247	65
PRC withholding income tax	91	119
Deferred taxation	91	(2)
Deferred taxation arising from change in tax rate *(Note)*	144	—
	576	184

Note:

Upon deemed disposal of interest in an associate, the Group is no longer entitled to 5% preferential rate on its dividends and accordingly an additional HK$144 million deferred taxation is provided for this investment.

8 Interim dividend

	Six months ended 30 June	
	2011	**2010**
	HK$'million	*HK$'million*
Interim dividend of 30 HK cents (2010: 25 HK cents) per share	741	610

At a meeting held on 30 August 2011, the Board of Directors proposed an interim dividend of 30 HK cents which will be satisfied by allotment of full paid new shares of the Company, credited as fully paid, by way of scrip dividend, with an alternative to equity holders to elect to receive such interim dividend (or part thereof) in cash in lieu of such allotment. This proposed dividend is not reflected as a dividend payable in this condensed consolidated interim financial information but will be reflected as an appropriation of retained earnings for the year ending 31 December 2011.

The amount of interim dividend for 2011 was based on 2,471,421,683 (2010: 2,439,883,297) shares in issue as at 30 August 2011.

9 Earnings per share

Basic earnings per share is calculated by dividing the Group's profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

Basic	**Total**
For the six months ended 30 June 2011	
Profit attributable to equity holders of the Company (HK$'million)	3,906
Weighted average number of ordinary shares in issue	2,458,976,103
Basic earnings per share (HK cents)	158.85
For the six months ended 30 June 2010	
Profit attributable to equity holders of the Company (HK$'million)	1,929
Weighted average number of ordinary shares in issue	2,433,156,101
Basic earnings per share (HK cents)	79.25

Diluted earnings per share is calculated by adjusting weighted average number of ordinary shares outstanding to assume conversion of all outstanding share options. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average interim market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

Diluted	**Total**
For the six months ended 30 June 2011	
Profit attributable to equity holders of the Company (HK$'million)	3,906
Weighted average number of ordinary shares in issue	2,458,976,103
Adjustment for share options	9,241,666
Weighted average number of ordinary shares for diluted earnings per share	2,468,217,769
Diluted earnings per share (HK cents)	158.25
For the six months ended 30 June 2010	
Profit attributable to equity holders of the Company (HK$'million)	1,929
Weighted average number of ordinary shares in issue	2,433,156,101
Adjustment for share options	5,680,704
Weighted average number of ordinary shares for diluted earnings per share	2,438,836,805
Diluted earnings per share (HK cents)	79.06

10 Debtors, deposits and prepayments

Debtors, deposits and prepayments balance includes trade debtors of HK$1,221 million (31 December 2010: HK$970 million).

The Group has a credit policy of allowing an average credit period of 90 days to its trade customers. The ageing analysis of trade debtors is as follows:

	30 June 2011	**31 December 2010**
	HK$'million	*HK$'million*
Not yet due	605	558
1 - 90 days	518	330
91 - 180 days	53	45
181 - 365 days	30	21
Over 365 days	15	16
	1,221	970

11 Creditors and accruals

Creditors and accruals balance includes trade creditors of HK$289 million (31 December 2010: HK$418 million). The ageing analysis of trade creditors is as follows:

	30 June 2011	**31 December 2010**
	HK$'million	*HK$'million*
Not yet due	53	12
1 - 90 days	197	287
91 - 180 days	12	41
181 - 365 days	11	38
Over 365 days	16	40
	289	418

INTERIM DIVIDEND AND SCRIP DIVIDEND SCHEME

In order to reward investors' continuous support of the Group, the Board has declared an interim dividend of 30 HK cents per share (2010: 25 HK cents) in scrip form for the period, represents a dividend payout of 19.0%. The interim dividend will be paid on or around 30 November 2011 to the shareholders whose names appear on the Register of Members of the Company on 7 October 2011, with an alternative to the shareholders to elect to receive such interim dividend (or part thereof) in cash in lieu of such allotment (the "Scrip Dividend Scheme").

A circular containing details of the Scrip Dividend Scheme together with the relevant election form will be sent to shareholders on or around 21 October 2011. The Scrip Dividend Scheme is conditional upon the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") of the listing of and permission to deal in the new shares to be issued pursuant thereto. It is expected that certificates for the new shares will be despatched to shareholders on or around 30 November 2011.

CLOSURE OF REGISTER

The Register of Members will be closed from 3 October 2011 to 7 October 2011 (both days inclusive), during which no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers and the relevant share certificates must be lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 30 September 2011. The interim dividend will be paid on or around 30 November 2011 to shareholders whose names appear on the register of members of the Company on 7 October 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The rapid rebound in the international maritime industry evidenced in 2010 was faced with renewed pressure in the first half of 2011, caused by the weaker-than-expected recovery in developed economies, inflation risks mounting, sovereign debt crises worsening as well as geopolitic risks intensifying. Although China's imports and exports continue to see double-digit growth, rising production costs and an appreciating Renminbi have adversely impacted the amount of containerised foreign trade passing in and out of China, resulting in the year-on-year growth rate in container through-put volume being significantly lowered as compared to the last corresponding period.

Available data indicates that, in the first half of 2011, Mainland China's ports of significance handled in total 77,700,000 TEUs, up 12.9% year-on-year but a considerable 9.4 percentage point below the corresponding growth rate for the same period last year. Of the major coastal ports in Mainland China, the volume growth rate for those in Southern China lagged behind those in the Yangtze River Delta and in the Bohai Rim. Based on the above comparison the negative effect on ports in Southern China induced by cost increases on the region's productivity is apparent. Unfavourable macro-economic factors and external environment combined have inevitably dampened the through-put of the Group's ports in the Southern China, as a result. Nevertheless, benefitted from growth in its ports' business in the Yangtze River Delta and the Bohai Rim and in its container manufacturing activities, the Group still achieved significant improvement in its overall operating performance for the first half of 2011, delivering record-high profit attributable to the Company's equity holders and recurrent operating profits.

For the period ended 30 June 2011, profit attributable to equity holders of the Company amounted to HK$3,906 million, representing a significant increase of 102.5% year-on-year. Of this amount, recurrent profit was HK$2,375 million, an increase of 26.5% year-on-year. The Group's ports operation recorded an EBITDA[Note 1] of HK$4,057 million, representing an increase of 15.5% year-on-year and accounting for 63.3% of the total EBITDA of the Group.

In the first half of 2011, the Group recorded revenue of HK$4,196 million, representing an increase of 109.9% year-on-year. Of this amount, revenue derived from the Group's ports operation amounted to HK$3,092 million, an increase of 63.3%.

Ports operation

During the first half of the year, EBIT[Note 2] derived from the Group's ports operation amounted to HK$3,003 million, representing an increase of 10.3% year-on-year and accounting for 60.3% of the total EBIT of the Group, down from 84.6% in the same period last year.

During the period under review, the Group's ports handled a total of 27,610,000 TEUs, up 10.8% year-on-year. Of this total, the volume handled by the Group's ports in Mainland China reached 24,380,000 TEUs, an increase of 11.2% over those for the corresponding period. During the first half of 2011, container volume handled by the Group's ports in Mainland China grew slightly less than that of the national average due mainly to the slight decline in the through-put handled by the Group's Shenzhen ports. During the same period, the Group's ports in Hong Kong and outside of China handled a total of 3,230,000 TEUs, an increase of 7.0% year-on-year.

Note 1 Earnings before net interest expenses, taxation, depreciation and amortisation, unallocated income less expenses and non-controlling interests ("Defined Earnings") for the Company and its subsidiaries, and its share of Defined Earnings of associates and jointly controlled entities

Note 2 Earnings before net interest expenses, taxation, unallocated income less expenses and non-controlling interests ("Adjusted Earnings") for the Company and its subsidiaries, and its share of Adjusted Earnings of associates and jointly controlled entities

During the period under review, excepting those for Shenzhen and Xiamen, the container through-put of all the Group's ports has maintained its growth momentum. Qingdao Qianwan United Container Terminal Co., Ltd. ("QQCTU") and Tianjin Five Continents International Container Terminal Co., Ltd. handled 930,000 TEUs and 980,000 TEUs respectivetly, with the QQCTU doubled its through-put year-on-year. The Group's ports in the Yangtze River Delta continued to perform satisfactorily, with Ningbo Daxie China Merchants International Terminals Co., Ltd. and Shanghai International Port (Group) Co., Ltd. maintaining double-digit percentage growth of 13.9% and 10.5% respectively. Zhangzhou China Merchants Port Co., Ltd and Zhanjiang Port (Group) Co., Ltd. handled a total of 360,000 TEUs, achieving approximately the same growth rate as that for the same period last year. Chu Kong River Trade Terminal Company Limited ("CKRTT") and Tin-Can Island Container Terminal Limited ("TICT") in Nigeria, stakes in which the Group acquired in 2011 and 2010 respectively, contributed a total of 580,000 TEUs. TICT, in addition, achieved a significant volume increase of 42% when compared to that of the corresponding period (before the Group acquired the stake).

Excluding those of CKRTT and TICT, container volume handled by the Group's ports during the first half of 2011 grew 8.5% over that for the corresponding period last year.

The Group handled 160,510,000 tonnes in bulk cargo volume in the first half of 2011, up 18.5% year-on-year. Except for ports in Pearl River Delta which recorded a volume drop of 7.9% compared to that of the corresponding period due to shifts in cargo product mix, volumes of bulk cargoes handled in other regions have all shown a satisfactory double-digit percentage growth.

The worsening sovereign debt crises that have greatly disturbed the speed at which global economy recovers and combined with continuing geopolitical disputes have seen global economic growth during the first half of 2011 progress slower than expected and global trade growth is anticipated to retract from 2010's historical high. Slowing trade growth, rising operating costs and excessive carrying capacity from new vessel launches have collectively caused the international maritime industry to rapidly set back, resulting in some carriers again incurring financial losses and hence subjecting the operating environment for ports to tension again. Compounding such market condition with escalating tax rates applicable to some of the Group's ports has added considerable pressure to the Group's ports business.

In response to challenges and pressure, the Group's priorities for business promotion during the first half of 2011 were to accelerate its efforts to improve the connectivity of regional feeder networks, and to explore investment opportunities, or to pursue further cooperation, with other localised port companies. As regards internal operational improvements, through continuing control measures to refine operational procedures, reduce wear and tear on equipment, enhance labour productivity enhance operational cost structures and expand control on sub-contractors management, the Group has effectively mitigated a great deal of turbulence caused by the market's abrupt downturn and rapid cost escalation that could lead to the Group's business declining significantly.

The Group sees the nurturing of a comprehensively-connected shuttle barge network in the Pearl River Delta as essential to substantiate the competitiveness of its Shenzhen ports. Leveraging on the geographical advantage of the Shenzhen Western Port Zone and its proximity to the river network, the Group has continued to fortify its influence over freight-sourcing from the Pearl River Delta by bolstering waterway linkages between cargo owners and sources in the Pan Pearl River Delta and the Shenzhen Western Port Zone. In the first half of the year, the total container volume handled by the Group's South China shuttle barge services rose 7% year-on-year. On 1 February 2011, the Group completed the acquisition of a 20% stake in CKRTT, thus further forging the co-operation relation with CKRTT and its controlling shareholder, Chu Kong Shipping Development Company Limited. The opening of direct barge service lines between the Group's Shenzhen ports and the CKRTT ports will streamline cargo transport and supplement the joint business development of the two companies in the Pearl River Delta. During the period under review, contribution of CKRTT's container through-put to the Group's Shenzhen ports grew more than 50% over that of the corresponding period last year. The Group is actively seeking new areas of cooperation and business development towards enhancing its feeder networks in the Pearl River Delta, from which to draw additional business support to its Shenzhen ports.

Stemmed from joint ventures established with Qingdao Port (Group) Co. Ltd. ("QPG") in container terminal operations in 2009 and in bulk cargo terminal operations in 2010, during the first half of 2011 the Group further strengthened its ties with QPG through another joint venture established and 70% owned by QQCTU for the purpose of operating and managing 2 berths at QQCTU, so as to service business channeled mainly from APL Co. Pte Ltd. and SITC Container Lines Company Limited. These joint efforts with QPG have not only elevated the competitiveness of the Group's ports in the Bohai Rim, but also allowed the Group to benefit from the organic growth in the Bohai Rim market. In the first half of this year, the Group's container volume in Qingdao more than doubled and its bulk cargo volumes grew nearly 2 times, as compared to those of last year. Volume for the Group's ports in this region is expected to grow substantially in the second half of the year.

The Group's cost control and internal operational improvements efforts in recent years have formed a strong foundation. In the first half of the year, focusing on production and operations management, customer service management and financial control, the Group began implementing a systematic and standardized benchmarking control mechanism (including the use of a financial control model) that aims to further refine operational procedures, enhance risk control and elevate potential efficiencies. Through such efforts, the Group also adopts innovative ideas for productivity efficiency with simultaneous addresses to energy conservation and emission-reduction as a means to actively responding to calls for corporate social responsibility and environment-friendly in social-minded schemes, thus ensuring the continued establishment of "green and cost-effective port" status. The Group has developed and initiated energy-saving and technologically innovative projects such as the "diesel to electricity" campaign to convert RTGs from using diesel to using electricity, using LNG fuel for tow-trucks, light emissions control in depots using LED systems, solar power utilization, Alternative Maritime Power (AMP) and electric-powered inspection vehicles. The Group strongly believes that technological innovation and application is the future direction for port development and considers, therefore, adopting and implementing all the above projects will help to initiate new key milestones for the Group's ports operation.

During the period under review, the Group's overseas businesses have shown steady development progress, with TICT in Nigeria delivering strong container volume growth as well as satisfactory financial performance. Negotiation on terms relating to the BOT agreement for the Colombo South Terminal project in Sri Lanka for which the consortium (of whom Group is part) tendered has completed, and the agreement was formally signed in August 2011 with construction expected to begin by the end of the year at the earliest. The Group is also tracking and studying other overseas target projects, for some of which the Group has completed preliminary risk evaluation and assessment on investment return. The Group is of the view that globalization has mobilised labour division at an international scale as well as accelerated capital flow, and called for relocation of productivity activities. This, in particular, has provided emerging economies and developing regions with attractive cross-border investment opportunities alongside further industrialisation of these economies and/or regions. In its attempts to seek overseas ports investment opportunities, therefore, the Group will focus on regions that stand to potentially support the expanding flow of global trade.

Bonded logistics and cold chain operations

In the first half of 2011, the Group's bonded logistics and cold chain operations achieved a revenue of HK$633 million, up 603.3% year-on-year. EBIT derived from bonded logistics and cold chain operations amounted to HK$345 million, up 784.6% year-on-year.

Notwithstanding the weakened economic performances in North America and Europe during the first half of 2011, policy incentives granted by the Chinese Government to the Group's bonded logistics parks have rendered these parks increasingly attractive to the market , as evident in the fast growing number of new commercial enterprises moving into these parks from which to provide a sustainable source of port-cargo-park collaborated cargo handling business for the Group's bonded logistics parks. For the first half of the year, all of the Group's bonded logistics operations in Shenzhen, Qingdao and Tianjin have turned profitable. As the Group's bonded logistics business is still at its early stage of development, there remains in these parks very sufficient space available for further construction and development. Looking forward, therefore, other than continuing to supplement the Group's ports operation as a source of container volume growth, the Group's bonded logistics operation on a stand-alone basis will also offer enormous potential in generating operating results.

Last year, the Group and the world's largest cold chain logistics service-provider Americold Realty Trust ("Americold") jointly established two ventures, China Merchants Americold Holdings Company Limited and China Merchants Americold Logistics Company Limited (collectively known as "CMAC") to develop the cold chain logistics market in Mainland China. After a year of operation, CMAC is widely recognized by the industry participants and also has gained its reputation and captured brand awareness in China. Currently, not only has CMAC already had operating presence in eight cities in Mainland China, the establisment of CMAC was ranked fourth among China's top ten important events in the cold chain logistics industry in 2010. The Group believes that along with the need for accelerating the shift in China's economic growth pattern, growth in domestic demand is expected to gradually become a key driver for China's economy. Cold chain logistics service will, in addition to servicing China's import-export demand for temperature-controlled produce, also capture the demand of the vast domestic consumption market. The Group expects its cold chain logistics operation, under the present nurturing, to become its new earnings driver under the Group's ports-led logistics businesses.

In the first half of this year, Asia Airfreight Terminal Company Limited in which the Group is interested handled a total of 340,000 tonnes of cargo, up 3.3% year-on-year. The lower level of year-on-year cargo through-put growth is mainly ascribed to declines in imports into the European and US economies. As a major international air cargo transhipment hub with a high density of routes called, Hong Kong offers the competitive advantage, over those in the neighbouring proximity, in the fast turnaround and transhipment of high value-added and seasonal cargoes. The Group believes that along with economic recovery and value-chain enhancement of Chinese exports the Group's air cargo handling business will continue to enjoy good growth potential in the long term.

Port-related manufacturing operations

Due to the recovered performance of China International Marine Containers (Group) Co., Ltd. ("CIMC Group"), EBIT derived from the Group's port-related manufacturing operations amounted to HK$1,272 million, an increase of 226.9% year-on-year.

In the first half of 2011, driven by the delivery of new container vessels globally, CIMC Group's container sales rose 1.3 times to reach 1,070,000 TEUs, along with favourable sales prices achieved. As a result, growth for container-manufacturing revenue exceeded that for sales volume by 176.0%. For the same period, it sold 89,000 units of specialised road vehicles, up 11% year-on-year compared with an increase of 6.1% in sales revenue. Supported and driven by the above core businesses, net profit attributable to CIMC Group was RMB2,810 million, representing an increase of 207.9% year-on-year.

Future Prospects

In the first half of 2011, debt crises of respectively the European Union ("EU") and the US have dampened the market's confidence in global economic recovery and significantly handicapped the consumer sentiment in the developed countries. Currently, while worries of US debt default seem to have somewhat eased which has, to some extent, mitigated further pressure on its economy, any such easing is likely to be temporary when the unemployment rate remains high and the needed momentum to rebounce the economy is lacking. In addition, the long drawn-out European debt crisis has hindered Europe's economic growth whilst causing the Euro to depreciate against the US dollar. As the EU has become China's largest export market, a weakening Euro coupled with a strengthening RMB (both vs US$) will inevitably impact on China's exports to Europe and the US. At the present, an immediate solution to the sovereign debt crises does not seem likely and the Group anticipates, as a consequence, China's containerized exports will likely remain under pressure in the second half of 2011.

The above-mentioned market uncertainties have led the Group to take a cautious approach towards China's foreign trade for the second half of 2011. However, the Group is also of the view that the impact of the economic downturn on daily consumable goods is relatively limited, and expects China's export volume to pick up in the traditional high season in the second half of 2011. The Group, therefore, forecasts Mainland China's container through-put volume in the second half of 2011 to outperform that of the first half but unlikely to see strong growth on account of the still-sluggish global economy. Container volume in the second half versus first half of this year is expected to grow less than the corresponding comparisons for 2010.

Notwithstanding the impact on China's exports due to the fragile global consumer demand, Chinese productivity elevating up the value-chain and escalating production costs in China, the Group notices that Chinese export products, mainly daily consumable goods and necessities, still take up a significant share of the global market. The Group further believes that continuing improvements in China's manufacturing supply chain with sufficient ancillary support, adequate skilled technical staff and abundant labour workforce with which to support massive production needs, and integrated logistics support facilitating efficient flows of respectively commodities, capital and information will, together, continue to anchor China's position as the world's largest state for manufacturing in the foreseeable future.

The Group is aware of that, for the first half of 2011, ASEAN nations have replaced Japan to become China's third largest trade partner, behind the EU and the US. The establishment of the China-ASEAN Free Trade Area has provided a favourable environment to facilitate trades between China and the ASEAN nations. At the October 2010 ASEAN-China summit, Chinese Premier Wen Jiabao announced a Sino-ASEAN bilateral trade goal of US$500 billion by 2015. Given the low proportion of bulk cargo in Sino-ASEAN bilateral trade, expanding trade will bring development opportunities for container port businesses in the region.

The Group is of the view that, although growth in China's container through-put volume, relative to the compound average growth rate for the past 20 years, is likely to descend from its historical peak level to a more modest growth rate in the long term, business operation for ports in China will continue to prevail and will unlikely stagnate.

For the second half of 2011, the Group will adhere to the business strategies already laid down. In the area of external market development, it will continue to enhance its hinterland potential through expanding the catchment area by further integrating feeder networks between hub and spoke ports; enhance the services of integrated logistics operation through the development of additional water-land connectivity points; and build its international profile through intensifying its strategic cooperation. As regards internal operational management, the Group will continue to intensify refined management and control for effective implementation, ensure effective utilisation of resources along with operational synergies among business units. Where it relates to enhancing the "homebase" capabilities at Shenzhen West Port Zone, with the establishment led by the Group, by stage, of a function coordinating business development and operation activities of various players in the region, the Group has with a better communication channel created among ports, focusing on the integration of various ports in West Shenzhen aiming to ultimately improve the competitiveness of ports in West Shenzhen. Furthermore, the Group will closely monitor the development trends and changes relating to the ports industry whilst actively following policy studies by related government departments with a view to improving and enhancing the operating environment for the ports and ports-related logistics facilities.

A prolonged European and US debt crises will likely delay the global economic recovery and defer the sustainable and rapid development progress of the ports and maritime industry. However, not only is the trend of "joint cooperation and development" incapable of being reversed, ports and ports-related sectors also lend a platform with which for globalisation to further develop that the Group believes that the value of ports and port-related sectors is irreplaceable. The Group will continue to base its foothold from its home operation in China, from which to steadily expand its overseas portfolio based on the economic momentum and potential of the selected locations and, in turn, to align the Group's business with the steps of globalisation and capture the sustainable business prospects.

Liquidity and treasury policies

As at 30 June 2011, the Group had approximately HK$6,841 million in cash, 24.9% of which was denominated in Hong Kong dollars, 7.2% in United States dollars, 67.5% in Renminbi and 0.4% in other currencies.

The Group mainly derived its funding sources from both its operating activities related to ports operation, bonded logistic and cold chain operations, port-related manufacturing operations, property development and investment, and investment returns from associates and jointly controlled entities, which together contributed HK$2,308 million in total.

During the period, the Group's capital expenditure amounted to HK$919 million while the Group continues to adhere to a prudent financial policy and to maintain a sound financial position by holding an appropriate level of cash to meet its operating requirements. In addition, as a significant portion of the Group's bank loans were medium- to long-term borrowings, the Group supported by adequate undrawn bilateral facilities does not anticipate any difficulty in refinancing its short-term loans while the pressure for repaying the short-term loans is limited.

Share capital and financial resources

As at 30 June 2011, the Company had 2,459,438,459 shares in issue. During the period, the Company issued 1,411,000 new shares upon the exercise of share options and received approximately HK$30 million as a result. On 25 July 2011, the Company issued 11,983,224 shares under the Company's scrip dividend scheme.

As at 30 June 2011, the Group's net gearing ratio (net interest-bearing debts divided by net assets attributable to the Company's equity holders) was approximately 34.4%.

Considering the currency mix of its assets and liabilities and that significant depreciation of Renminbi is not expected, the Group has not entered into any specific hedging arrangements for its foreign currency investments during the period.

As at 30 June 2011, the Group's outstanding interest-bearing debts were analyzed as below:

	30 June 2011 *HK$'million*	**31 December 2010** *HK$'million*
Floating-rate bank borrowings which are repayable *(Note)*:		
Within 1 year	4,141	4,827
Between 1 and 2 years	2,085	2,182
Between 2 and 5 years	2,578	2,813
Not wholly repayable within 5 years	1,443	1,410
	10,247	11,232
Fixed-rate listed notes payables are repayable:		
In 2013	2,326	2,324
In 2015	3,879	3,879
In 2018	1,537	1,536
	7,742	7,739
Loans from the ultimate holding company		
Within 1 year	1,657	1,748
Between 2 and 5 years	960	938
	2,617	2,686
Loans from an intermediate holding company		
Within 1 year	554	—
Between 2 and 5 years	60	587
	614	587
Loan from a non-controlling equity holder of a subsidiary	12	—

Note: all bank borrowings are unsecured except for HK$130 million (31 December 2010: HK$451 million).

The interest bearing debts are denominated in the following currencies:

	30 June 2011					
	Bank borrowings	Listed notes payable	Loans from an intermediate holding company	Loans from the ultimate holding company	Loan from a non-controlling equity holder of a subsidiary	Total
	HK$' million	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*
HKD & USD	3,987	7,742	—	—	—	11,729
RMB	6,260	—	614	2,617	12	9,503
	10,247	7,742	614	2,617	12	21,232

	31 December 2010					
	Bank borrowings	Listed notes payable	Loans from an intermediate holding company	Loans from the ultimate holding company	Loan from a non-controlling equity holder of a subsidiary	Total
	HK$' million	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*
HKD & USD	4,972	7,739	—	—	—	12,711
RMB	6,260	—	587	2,686	—	9,533
	11,232	7,739	587	2,686	—	22,244

Assets charge

As at 30 June 2011, the Company did not have any charge over its assets. The bank loans of HK$38 million borrowed by subsidiaries are secured by its property, plant and equipment with net book value HK$44 million.

As at 31 December 2010 , the Company did not have any charge over its assets. The bank loans of HK$68 million and HK$294 million borrowed by subsidiaries are respectively secured by its property, plant and equipment with net book value HK$71 million and land use right with net book value HK$558 million.

Employees and remuneration

As at 30 June 2011, the Group employed 7,977 full time staff, of which 256 worked in Hong Kong, and the remaining 7,721 were in the PRC. The remuneration paid for the period amounted to HK$611 million, representing 21.7% of the total operating expenses of the Group. The remuneration policy of the Group is reviewed every year and appropriate adjustments are made to staff's remuneration with reference to their performance, the conditions of the human resources market and the general economy.

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

CORPORATE GOVERNANCE

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

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

In November 2004, the Stock Exchange promulgated the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 to the Listing Rules which sets out the corporate governance principles and the code provisions ("Code Provisions") with which the listed issuers are expected to follow and comply. In the opinion of the Directors, the Company has complied with the Code Provisions set out in the CG Code throughout the six months ended 30 June 2011.

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

AUDIT COMMITTEE

The Audit Committee of the Company comprises all of the five independent non-executive directors. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financing reporting matters including the review of the unaudited interim results for the six months ended 30 June 2011.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period.

PUBLICATION OF INTERIM REPORT ON THE WEBSITE OF THE STOCK EXCHANGE

The 2011 Interim Report will be despatched to shareholders and published on the designated website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.cmhi.com.hk) in due course.

By order of the Board
China Merchants Holdings (International) Company Limited
Fu Yuning
Chairman

Hong Kong, 30 August 2011

As at the date of this announcement, the board comprises Dr. Fu Yuning, Mr. Li Jianhong, Mr. Li Yinquan, Mr. Hu Zheng, Mr. Meng Xi, Mr. Su Xingang, Mr. Yu Liming, Mr. Hu Jianhua, Mr. Wang Hong and Mr. Liu Yunshu 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.