2014 Interim Results Press Release

Container Volume Rose by 18.1% on Overseas Contribution; Interim Recurrent Profit Attributable to Shareholders for CMHI Grew by 15.7%

- Container throughput handled rose 18.1% year-on-year to 38.52 million TEUs (1H 2013: 32.63 million TEUs);
- Total bulk cargo volume handled was 181 million tonnes (1H 2013: 177 million tonnes), a year-on-year increase of 2.6%;
- Profit attributable to equity holders of the Company totaled HK$2,149 million (1H 2013: HKArticleContent,935 million), up 11.1% year-on-year;
- Recurrent profit attributable to equity holders of the Company amounted to HK$2,106 million (1H 2013: HKArticleContent,820 million), a year-on-year increase of 15.7%;
- Profit derived from the Group∗s core segment of ports operation was HK$2,185 million (1H 2013: HKArticleContent,906 million), up 14.6% year-on-year;
- Ports operations recorded an EBITDA of HK$5,221 million (1H 2013: HK$4,776 million), an increase of 9.3% year-on-year;
- Basic earnings per share was 83.46 HK cents (1H 2013: 77.67 HK cents), up 7.5% year-on-year;
- Proposed interim dividend was 22 HK cents (1H 2013: 22 HK cents), implying payout ratio of 26.1%.

The Board of Directors (the ※Board§) of China Merchants Holdings (International) Company Limited (the ※Company§, HKSE Code: 0144) is pleased to announce the interim results of the Company and its subsidiaries (the ※Group§) for the period ended 30 June 2014.

Mr. Li Jianhong, Chairman of the Board, said, ※Driven by contributions from the overseas projects, total container volume handled by the Group reached 38.52 million TEUs, translating to a growth of 18.1% on a year-on-year basis. Notwithstanding the presence of a slower-than-expected growth in global trade, as well as the slowing foreign trade growth in China, the Group has, backed by its continuous efforts to further refine the operational processes, to facilitate the creation of synergies across its businesses and to encourage innovation, along with factors including the increase in investment income brought by the overseas projects, delivered a stable growth in the profit in its core port operations. Profit attributable to equity holders of the Company amounted to HK$2,149 million for the six months ended 30 June 2014, an increase of 11.1% over the same period of last year, while recurrent profit attributable to equity holders of the Company grew 15.7% year-on-year to HK$2,106 million. Basic earnings per share increased by 7.5% year-on-year to 83.46 HK cents, while profit derived from the Group∗s core ports operation increased by 14.6% year-on-year to HK$2,185 million.§

Revenue (Note 1) generated from the Group∗s core ports operation amounted to HK$10,268 million, up 7.3% year-on-year. Ports operation recorded an EBITDA (Note 2) totaling HK$5,221 million, and an EBIT (Note 3) of HK$3,849 million, representing a year-on-year increase of 9.3% and 9.3%, respectively.

Port-related manufacturing operations of the Group has demonstrated a stable performance overall. China International Marine Containers (Group) Co., Ltd. (※CIMC§) sold a total of 0.70 million TEUs of containers in the first half of 2014, or an increase of 0.7% comparing to that of the same period last year. Thanks to the profit growth of its other businesses, CIMC contributed to the Group with an EBIT totaled to HK$485 million, up 13.1% year-on-year.

To reward shareholders for their continuous support, the Board proposed an interim dividend of 22 HK cents per share (interim dividend for 2013: 22 HK cents), translating into a dividend payout ratio of 26.1%. Shareholders may elect to receive the interim dividend in cash or by way of scrip dividend.

Container volume grew more than 18%

During the first half of the year, the Group handled 38.52 million TEUs, with a year-on-year growth of 18.1%. Container throughput handled by the Group∗s ports in Mainland China ports and in Hong Kong and Taiwan were 28.53 million TEUs (or 74.1% of the Group∗s total container volume) and 3.73 million TEUs (or 9.7% of the Group∗s total container volume), respectively; while overseas projects in aggregate delivered a container volume of 6.26 million TEUs, contributing to 16.3% of the Group∗s total container throughput, or 12 percentage points higher than that of same period last year. Performance of the Group∗s key ports is shown in the table below.

The Group handled 181 million tonnes of bulk cargo volume during the period, an increase of 2.6% year-on-year.

Table: Throughput Volume of Major CMHI's Ports in 1H 2014

Region	Name of Port	1H 2014 Throughput	Year-on-year change (%)

		(million TEUs)	
Mainland China	West Shenzhen	5.2	-7.4%
	Chu Kong River Trade Terminal	0.58	3.5%
	SIPG	17.26	5.7%
	Ningbo Daxie	1.21	16.4%
	Tianjin Five Continents	1.26	8.3%
	Qingdao	2.58	-6.1%
	Zhanjiang Port Group	0.24	49.2%
	Zhangzhou	0.21	-25.3%
	CMHI Total in Mainland China	28.53	2.3%
Hong Kong And Taiwan	Hong Kong	3.11	12.8%
	KMCT, Kaohsiung	0.61	13.8%
	CMHI Total in Hong Kong and Taiwan	3.73	12.9%
Overseas	Nigeria	0.21	-1.6%
	Djibouti	0.43	30.7%
	Terminal Link	534	-
	Sri Lanka	0.28	-
	CMHI Total in Overseas	6.26	More Than Tripled
CMHI Total		38.52	18.1%

Overseas projects, in aggregate, contributed to more than 16% of the Group∗s total container volume

With the acquisition of equity stakes in Port de Djibouti S.A. in Djibouti, East Africa, and in Terminal Link SAS completed in the first half of 2013, together with the commencement of operations of Colombo International Container Terminals Limited (※CICT§) in July 2013, throughput handled by the Group∗s overseas projects more than tripled from the same period of last year, recording 6.26 million TEUs during the period.

Concerning overseas expansion, ongoing progress has been made as planned during the first half 2014. An implementation agreement was signed in January with the Government of the United Republic of Tanzania regarding the Bagamoyo Project, signifying a milestone of the project, while the construction for Lom谷 Container Terminal in West Africa has been progressing as scheduled, with completion expected by the end of this year. Elsewhere, having commenced its first phase of operation in July 2013 and completed the construction of the entire project during the period, CICT, the Group∗s first ever overseas greenfield project, delivered an operational performance that was in line with expectation, contributing container throughput of 0.28 million TEUs during the period under review, thus allowing the Group to gain extensive experience in development and operation of overseas projects.

Steadily grow the profit through further refining operational management processes, facilitating the creation of synergies and encouraging innovation

Global trade was growing at a slower than expected pace during the first half of 2014. Conforming to the industry development trends and the urbanization process in the region, the Group has been actively seeking to transform and upgrade the West Shenzhen Port Zone, with an aim of optimizing resources allocations and enhancing asset efficiency.

The South China Container Terminal ("SCCT"), a management unit overseeing the container handling ports in the West Shenzhen Port Zone, continued to dedicate its efforts in consolidating the ports within the region, an example of which is the integration of the ports under SCCT's management with Jetty Two West currently operated by China Merchants Port Services (Shenzhen) Co., Ltd., a subsidiary of the Group, which is of significant importance to the Group in terms of synchronization of resources, the creation of synergies and the elevation of overall competitiveness of the West Shenzhen Port Zone. The Group∗s self-developed container terminal operation system went live successfully in Shekou Container Terminals Limited during the period, symbolizing a noticeable progress made towards the adoption of a terminal operating system developed by a subsidiary of the Group, China Merchants Holdings (International) Information Technology Company Limited, by all terminals in the West Shenzhen Port Zone. Besides, whilst expansion of the Qianhaiwan Free Trade Port Area has been agreed by the Shenzhen Government in principle, the refinement of road network around the port area in Shenzhen was progressing as planned, and expeditious business growth has also been delivered by the inland ports located in the Pearl River Delta region and sea-rail inter-modal connection.

As regards the Group∗s China operation outside of the West Shenzhen Port Zone, having completed the equity injection in Qingdao Port Dongjiakou Ore Terminal Co., Ltd. in March, the Group has also become the second largest shareholder of Qingdao Port International Co., Ltd. by acquiring its equity stake as its promoter when it was listed on the main board of the Stock Exchange of Hong Kong Limited in June, which would further strengthen and deepen the already-established long-term partnership between, and thus bringing mutual benefits to, the parties involved.

As for the managing of ports operation, the Group has continued to work on not only the initiation of a standardized system for container handling operation, but also the design and development of an operational refinement platform, with a goal to comprehensively enhance operational management quality. The operational refinement platform was put into trial run during the period, allowing the Group to maintain a unified corporate database, through which the Group will be able to establish sets of quantitative performance evaluation mechanism with the aid of advanced information technologies, thereby applying the concept of refining operational management in practical ways, and in turn elevating the efficiency on decision-making and quality on operational management.

In order to adapt to the ever-changing market and development trends of the industry, the Group has also been actively promoting innovative management by encouraging innovation from the aspects of technology and technical process, management and business model, all in all with an aim of not only to bring the Group's innovation management to a higher level, but also to broaden the revenue sources and to reduce expenditure in a longer run.

Revenue derived from bonded logistics and cold chain operations segment exhibited steady growth

For the six months ended 30 June 2014, the Group∗s bonded logistics and cold chain operations recorded a revenue of HK$421 million, up 1.0% year-on-year.

During the first half of 2014, the Group∗s bonded logistics operation continued to show rapid growth. China Merchants Bonded Logistics Co., Ltd., a subsidiary of the Group, has successfully launched the tax return service for the ※last mile§ cross-border e-commerce exports during the period, signifying the extension of the cross-border e-commerce export business to the entire supply chain, putting the Group in a favourable position in promoting business, exploring potential markets, as well as nurturing new profit growth driver. Under the philosophy of ※business model and service innovation, and efficiency enhancement§, China Merchants International Terminal (Qingdao) Co., Ltd., which operates bonded logistics business in the Qingdao Logistics Park, has dedicated its efforts in developing the consolidation and deconsolidation business for international transshipment cargoes, expanding service capabilities, and integrating traditional with new business models, thus achieving noticeable growth in its operational results during the period. Leveraging on the incentive policies available at the Dongjiang Bonded Port Zone in Tianjin, Tianjin Haitian Bonded Logistics Company Limited, an associate of the Group, continued its penetration efforts towards the import of automobile (in whole) with a view to building up its unique competitive edge.

China Merchants Americold Holdings Company Limited and China Merchants Americold Logistics Company Limited, the Group∗s cold chain logistics operation platform, managed 13 cold storage warehouses with a gross floor area of approximately 150 thousand square meters in China during the period, with a stable business scale and relatively solid market reputation and brand appreciation.

During the period under review, the total volume of cargoes handled at the three major air cargo terminals in Hong Kong was 1.85 million tonnes, representing an increase of 9.0% year- on-year, whereas Asia Airfreight Terminal Company Limited, in which the Group is interested, handled a total of 0.30 million tonnes of cargoes, down 19.0% year-on-year.

Successful completion of MCS issue contributing to an upgrade in CMHI's credit ratings

In March 2014, the Group proposed to issue the mandatory convertible securities (※MCS§) in the principal amount of not less than HK$15.3 billion by way of an open offer to all shareholders, with an aim of improving the Group∗s credit profile and enhancing its borrowing capabilities.

The issuance of MCS was completed in June 2014, with China Merchants Union (BVI) Limited, which is 50% beneficially owned by the ultimate holding company of the Company, China Merchants Group Limited, fully underwriting the issue, thereby resulting in a significant decrease in the Group∗s net gearing ratio, and consequently bringing the Group's capital structure to a healthier level and contributing to the upgrade of the Company∗s credit rating.

Remained to be cautiously optimistic towards the outlook for second-half

In its latest ※Global Economic Prospects§ report, the World Bank revised downward its expectations for 2014∗s global economic growth by forecasting that global economy will grow at 2.8% in 2014, lowered from the forecast of a 3.2% growth made in January. In its report published in July, the IMF also further lowered its growth forecast for the global economy for 2014, which is now expected to grow at 3.4%, down 0.3 percentage point from an earlier forecast made in its report in April. Global trade volume was expected to grow by 4.0%, representing a year-on-year increase of 0.9 percentage point but down 0.3 percentage point from its forecast made earlier this year. China∗s GDP growth declined to 7.4% during the first half of the year, along with a noticeable slowdown in its foreign trade growth.

With global trade regaining its growth momentum, the performance of the global ports industry in the second half is likely to outperform that of the first half. However, amid the trend of further allying among the major shippers and with more mega vessels being deployed, port industry will surely be presented with both market opportunities and considerable challenges. Those market challenges are primarily derived not only from the uneven distribution of ports resources that impact the operational behavior of the ports at the region, but also from the allying of shipping liners and deployment of mega vessels which necessitate the upgrading and restructuring of port infrastructure and facilities. Furthermore, the increase of operational costs, in particular the labour cost, will possibly add pressure to the growth of profit going forward. Hence, the Group remains to be cautiously optimistic towards the outlook for second half.

As Mr. Li Jianhong indicated, ※Global economy has been steadily recovering during the first half of the year, though at a slower-than-expected pace. Looking forward to the second half of the year, uncertainties surrounding global economic growth, along with the intensifying consolidation and competitions in the international maritime industry, as well as the rationalisation in alliance formation and deployment of more mega vessels, the Group∗s ports operation is expected to new opportunities as well as challenges. We are confident that, through clearly visualising the conditions prevailing, endeavouring to steadily progress, dedicating efforts in enhancing the capital structure, facilitating the creation and development of synergies between the domestic and international operations, balancing short-term benefits and longer-term sustainable growth, and maintaining its sound financial policy, we would be able to navigate the Group∗s business sustainably forward, to and, in turn, deliver better investment return for shareholders.§

Note 1⊔ Including revenues of the Company and its subsidiaries, and its share of revenues of associates and joint ventures.

Note 2⊔ 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 joint ventures.

Note 3⊔ 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 joint ventures.


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