招商局國際有限公司
CHINA MERCHANTS HOLDINGS (INTERNATIONAL) CO., LTD.

Stock Code 股份代號 : 00144

INTERIM REPORT 中期報告 2012

2012
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Key Operations of China Merchants Holdings (International) Company Limited
招商局國際有限公司之主要業務

Ports 碼頭業務　Logistics 綜合物流業務

Bohai Coastal Area
環渤海地區

Ports:
- Tianjin Five Continents International Container Terminals 天津五洲國際集裝箱碼頭
- Qingdao Qianwan United Container Terminal 青島前灣聯合集裝箱碼頭
- Qingdao Qianwan West Port United Terminal 青島前灣西港聯合碼頭

Logistics:
- China Merchants International Terminal (Qingdao) 招商局國際碼頭（青島）
- KXL Qingdao 康新 青島
- Tianjin Haitian Bonded Logistics 天津海天保税物流
- KXL Tianjin 康新 天津
- KXL Beijing 康新 北京
- KXL Harbin 康新 哈爾濱

Yangtze River Delta
長三角地區

Ports:
- Shanghai International Port (Group) 上海國際港務(集團)
- Ningbo Daxie China Merchants International Terminals 寧波大榭招商國際碼頭
- Ningbo Port 寧波港

Logistics:
- KXL Suzhou 康新 蘇州
- KXL Shanghai 康新 上海

Xiamen Bay Economic Zone
廈門灣經濟區

Ports:
- Zhangzhou China Merchants Port 漳州招商局碼頭

Pearl River Delta
珠三角地區

Ports:
- Mega SCT 蛇口集裝箱碼頭
- China Merchants Port Services 招商港務
- Chiwan Container Terminal 赤灣集裝箱碼頭
- Shenzhen Mawan Project 深圳媽灣項目
- Shenzhen Chiwan Wharf 赤灣港航
- Shenzhen Haixing 深圳海星碼頭
- China Merchants Container Services 招商局貨櫃服務
- Modern Terminals 現代貨箱碼頭

Logistics:
- China Merchants Bonded Logistics 招商局保税物流
- China Merchants International Cold Chain 招商局國際冷鏈
- KXL Guangzhou 康新 廣州
- CMAC Hong Kong 招商美冷 香港

South-West Area
西南地區

Ports:
- Zhanjiang Port 湛江港

Logistics:
- KXL Chengdu 康新 成都

Greater Ho Chi Minh Area, Vietnam
越南，大胡志明區

Ports:
- Vung Tau International Container Port 頭頓國際集裝箱港口

Colombo, Sri Lanka
斯里蘭卡，科倫坡

Ports:
- Colombo International Container Terminals

Africa
非洲

Ports:
- Tin-Can Island Container Terminal
- Lomé Container Terminal

Corporate Information

BOARD OF DIRECTORS

Dr. Fu Yuning *(Chairman)*
Mr. Li Jianhong *(Vice Chairman)*
Mr. Li Yinquan
Mr. Hu Zheng
Mr. Meng Xi
Mr. Su Xingang
Mr. Yu Liming
Mr. Hu Jianhua *(Managing Director)*
Mr. Wang Hong
Mr. Liu Yunshu (resigned on 10 February 2012)
Mr. Zheng Shaoping (appointed on 10 February 2012)
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 Construction Bank
Industrial and Commercial Bank of China
China Merchants Bank
Bank of China

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISER

Linklaters
Mayer Brown JSM
Vincent T. K. Cheung, Yap & Co.

STOCK CODE

00144

REGISTRARS

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WEBSITE

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Financial Highlights

	For the six months ended 30 June		
	2012 **HK$'million**	2011 HK$'million (as restated)	Changes
Consolidated income statement highlights			
Revenue[1]	**20,610**	20,859	(1.2%)
Profit attributable to equity holders of the Company	**1,756**	3,924	(55.2%)
Non-recurrent gains, net of tax[2]	**(147)**	(1,549)	(90.5%)
Recurrent profit	**1,609**	2,375	(32.3%)
Earnings per share (HK cents)			
Basic	**70.97**	159.59	(55.5%)
Diluted	**70.87**	158.99	(55.4%)
Dividend per share (HK cents)			
Interim dividend	**22.00**	30.00	(26.7%)
Consolidated statement of cash flows highlights			
Net cash generated from operating activities	**2,553**	2,308	10.6%

	30 June 2012 HK$'million	31 December 2011 HK$'million (as restated)	Changes
Consolidated statement of financial position highlights			
Total assets	**94,031**	87,086	8.0%
Capital and reserves attributable to equity holders of the Company	**43,414**	43,452	(0.1%)
Net interest bearing debts[3]	**15,290**	17,887	(14.5%)

	For the six months ended 30 June		
	2012	2011	Changes
	HK$'million	HK$'million (as restated)	
Revenue[1]			
Ports operation	**8,657**	7,227	19.8%
Bonded logistics and cold chain operations	**1,095**	870	25.9%
Port-related manufacturing operations	**9,563**	11,750	(18.6%)
Other operations	**1,295**	1,012	28.0%
Total	**20,610**	20,859	(1.2%)
EBITDA[4]			
Ports operation	**4,179**	4,057	3.0%
Bonded logistics and cold chain operations	**858**	453	89.4%
Port-related manufacturing operations	**843**	1,519	(44.5%)
Other operations	**160**	376	(57.4%)
EBITDA	**6,040**	6,405	(5.7%)
Unallocated net (expenses)/income[6]	**(82)**	1,314	(106.2%)
Net interest expenses[5]	**(856)**	(597)	43.4%
Taxation[5]	**(1,013)**	(1,187)	(14.7%)
Depreciation and amortisation[5]	**(1,570)**	(1,426)	10.1%
Profit for the period	**2,519**	4,509	(44.1%)
Non-controlling interests[5]	**(763)**	(585)	30.4%
Profit attributable to equity holders of the Company	**1,756**	3,924	(55.2%)

1. Include revenue of the Company, its subsidiaries and share of revenue of its associates and jointly controlled entities.
2. Include increase in fair value of investment properties, net of tax, of HK$111 million (2011: HK$318 million); increase in fair value of financial asset at fair value through profit or loss of HK$36 million (2011: HK$8 million), gain on deemed disposal of interest in an associate of HK$1,367 million and additional provision of HK$144 million deferred taxation upon deemed disposal in 2011.
3. Interest bearing debts less cash and bank balances.
4. 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.
5. Include the respective items of the Company and its subsidiaries, and its share of the respective sums of associates and jointly controlled entities.
6. Include expenses for corporate function and gain on deemed disposal of interest in an associate in 2011.

Management Discussion and Analysis

Business Review

The period under review has seen European debt crisis continue its ferment, developed economies such as US and Japan display little growth momentum and emerging economies continue to grow slower. In April and July 2012 the International Monetary Fund ("IMF") lowered its global economic growth forecast for 2012 and 2013, respectively. Data published by IMF in July 2012 further projected the global economic growth rate to grow a mere 3.5% in 2012, 0.3 percentage point below that for 2011. Of this global growth rate, that for developed economies was 1.4%, a drop of 0.2 percentage point year-on-year, and that for developing economies was 5.6%, a drop of 0.6 percentage point. The total global trade volume (goods and services) grew 3.8%, representing a decline in growth rate of 3.1 percentage points.

In the first half of 2012, along with a significant decline in China's GDP growth rate to below 8.0% was the continuing deceleration in the growth rate of its foreign trade. Between January and June, the total value of foreign import and export trade of China amounted to US$1,839.8 billion, reflecting on the one hand a year-on-year increase of 8.0% but also 17.8 percentage points below the growth rate for the same period of last year. Among the value of trade mentioned above, total export value was US$954.4 billion, a 9.2% increase over the same period last year, which is a 14.8 percentage points decrease in terms of the growth rate; while total import value was US$885.4 billion, an increase of 6.7% on a year-on-year basis, representing a decrease of 20.9 percentage points on growth over same period last year.

Impacted by a decelerated growth in the global economy and inadequate demand, the growth pace of the global port business has been slowing. Data published by the Ministry of Transport of the People's Republic of China ("Ministry of Transport") revealed that container throughput handled by Chinese ports of significant scale totaled 84.6 million TEUs during the period under review, having grown 8.8% year-on-year but still a considerable 4.0 percentage points below the corresponding rate for the same period last year. In addition, container throughput derived from foreign trade grew less than 6.0%.

In the first half of 2012, the Group's port projects handled a total container throughput of 29.2 million TEUs, an increase of 5.6% year-on-year, of which total container throughput handled by ports in Mainland China grew by 7.9%. Bulk cargo volume handled by the Group totaled 162.3 million tons, up 1.1% year-on-year. China International Marine Containers (Group) Co., Ltd. ("CIMC Group"), of which the Group is its single largest shareholder, has seen its business affected by the severe downturn of shipping market. Its container sales dropped during the period under review noticeably to 639,000 TEUs of dry cargo and reefer units (down 40.0%) and 33,000 TEUs of special-purposed units (down 22.5%).

For the six months ended 30 June 2012, the Group recorded revenue of HK$4,793 million, up 14.2% over that for the same period last year. Revenue derived from the Group's core segment of ports operation amounted to HK$3,268 million, an increase of 5.7% year-on-year. Profit attributable to the equity holders of the Company amounted to HK$1,756 million, down 55.2% when compared to that for the same period last year. Of this amount, recurrent profit totaled HK$1,609 million, a decrease of 32.3% year-on-year. The Group's core segment of ports operation recorded an EBITDA [note 1] of HK$4,179 million, representing an increase of 3.0% year-on-year. The EBITDA contributions from the core segment of ports operation accounted for 69.2% of the Group's total EBITDA.

When compared to that for the corresponding period last year, notwithstanding the increase recorded in the Group's revenue by 14.2%, its profit has actually declined by 55.2% mainly due to a drop in the share of profits of associates and jointly controlled entities by 31.4% and the one-off gain of HK$1,367 million for the deemed disposal of interest in an associate in the same period last year is not occurring this year. Furthermore, finance costs which went up by 47.1% year on year mainly due to the medium- and long- term bonds issued by the Group during the period also reduced the Group's profitability.

Ports operation

For the period under review, EBIT [note 2] derived from the Group's ports operation amounted to HK$3,013 million, representing an increase of 0.3% over that of last year and accounting for 67.4% of the overall EBIT of the Group, up from 60.3% last year.

During the first half of 2012, the Group's port projects in Mainland China handled a total container throughput of 26.3 million TEUs, up 7.9% year-on-year. This growth rate is higher by 2.0 percentage points than the overall growth rate of foreign-trade-derived container throughput of all the ports in China, thus sustaining the Group's leading position among domestic port operators. The Group's port projects in Hong Kong recorded a total container throughput of 2.7 million TEUs, down 12.5% when compared to the corresponding period last year. As regards overseas projects, Tin-Can Island Container Terminal Limited ("TICT") in Nigeria handled 193,042 TEUs, representing an increase of 15.8% year-on-year.

Among port projects, terminals at different locations have exhibited considerable variance in growth trends. In the Pearl River Delta region, terminals at Western Shenzhen reversed the declining trend in throughput performance last year and handled 5.7 million TEUs in the first half of this year, up 2.8% year-on-year — a growth rate that is higher by 1.7 percentage points than the aggregate total of Shenzhen ports alongside an increase in its market share. Chu Kong River Trade Terminal Co., Ltd. ("CKRTT"), in which the Group acquired an equity interest last year, handled 506,008 TEUs in the first half of the year, an increase of 22.8% year-on-year. Modern Terminals Limited and China Merchants Container Services Limited in Hong Kong handled 2.3 million TEUs and 346,377 TEUs respectively, down respectively 12.7% and 11.5% year-on-year. In the south-eastern coastal area, Zhangzhou China Merchants Port Co., Ltd. ("ZCMP") handled a throughput volume of 209,161 TEUs in the first half of the year (down 3.5% year-on-year) along with an effort to effectively improve cargo mix. As regards the Yangtze River Delta region, Shanghai International Port (Group) Co., Ltd ("SIPG") recorded a throughput volume of 15.9 million TEUs, up 3.6% year-on-year. Ningbo Daxie China Merchants International Terminals Co., Ltd. handled 940,717 TEUs or an increase of 9.4% year-on-year, a growth trend similar to that of Ningbo ports. In Bohai Rim region, Qingdao Qianwan United Container Terminal Co., Ltd. ("QQCTU"), the Group's container terminal project in Qingdao, has continued its joint efforts with Qingdao Port (Group) Co., Ltd in attracting new container volumes and has seen its container volume jump 104.4% to 1.9 million TEUs. Tianjin Five Continents International Container Terminals Co., Ltd handled 1.1 million TEUs with a year-on-year growth of 7.3%.

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 first half of 2012, the Group's bulk cargo volume handled rose slightly by 1.1% year-on-year reaching 162.3 million tons, with mixed performances revealed by different terminals when compared to those for the same period last year. Shenzhen Western Port Zone handled 16.0 million tons, same as those for the corresponding period of last year. SIPG handled 92.1 million tons, up 4.7% year-on-year. On the other hand, ZCMP, Qingdao Qianwan West Port United Terminal Co., Ltd and Zhanjiang Port (Group) Co., Ltd ("Zhanjiang Port Group") handled respectively 4.2 million tons, 14.3 million tons and 33.5 million tons, representing respective decrease of 3.2%, 1.3% and 7.3% year-on-year. Throughput handled by Dongguan Machong Terminal of Dongguan Chiwan Wharf Co., Ltd, reached 2.0 million tons in the first half of the year, up 48.3% year-on-year mainly due to enhanced operating capacity.

Despite the adverse external operating environment, during the period under review, the Group has been adhering to the concept of "Solidifying our base to maintain stability during challenging times, seeking innovation and facilitating development among the opportunities." On the one hand, the Group has continued to further refine its operational management process, promoted technology innovation, achieved cost-reduction and improvement on effectiveness to increase the assets' efficiency. On the other hand, the Group has continued to actively explore investment opportunities overseas whilst enhancing its positioning within China, with a view to forging the strategy of extending the value chain of its port operation so as to bring in new forces to drive the sustainable development of the Group.

During the first half of 2012, the Group's self-developed container terminal operational management system (CMPORT) commenced operation successfully in the Shenzhen Western Port Zone. The system, pioneering among similar systems in the aspect of design, process, performance, interface and expansion, has established a foundation from which to enhance the Group's operational efficiency. In the first half of the year, the Group collaborated with well-known international consulting firms to complete the first phase of construction of the port business standardization system and to establish an operational management indicator system that was "based on standard indicators, focused on management improvement, targeted at enhancement of performance", which would elevate detailed management in the aspects of value creation, management innovation, risk management and control to a new level.

In respect of endeavours towards business development during the period under review, Mega Shekou Container Terminals Limited reflected a strong performance in a weak environment delivering a 13.1% container throughput growth whereas QQCTU's container volume growth leaped. Whilst the respective bulk cargo handling business at ZCMP and Zhanjiang Port Group has somewhat declined, their respective revenues have demonstrated growths relatively better than their throughput volume trends due to effective adjustments in cargo mix and in average unit price. Indeed, ZCMP delivered a record-high performance for the period under review.

As regards developments overseas, construction of Colombo Port South Container Terminal in Sri Lanka by Colombo International Container Terminals Limited has been progressing on schedule with its first phase expected to complete and commence operation by mid 2013. TICT in Nigeria has during the first half of 2012 continued to record rapid growth in business and performance. Positive and progressive development has been also made for other overseas projects.

In addition, in August 2012, the Group invested Euro 150 million for 50% stake in Thesar Maritime Limited ("TML"). TML, pursuant to the Concession Agreement granted by the Togolese Government in December 2011, owns a 35-year concession right, extendable for another 10 years, to develop and operate the Lomé Container Terminal ("LCT"), a 4-berth terminal situated in Lomé, the capital of Togo in West Africa with a planned maximum annual capacity of 2.2 million TEUs. The Concession Agreement also stipulates that construction of LCT will be in phases with the first 400m of quayline to be ready for operation by December 2013.

Mediterranean Shipping Company ("MSC"), under a terminal service agreement signed, has agreed to use LCT's service for 15 years from the latter's inauguration. The vendor, Terminal Investment Limited, a global terminal investor and operator which enjoys a commercial relationship with MSC, remains as a 50% shareholder in TML and has committed to put forth its best efforts to assist LCT's container volume growth in support of LCT's future business development.

With regard to ports in the Mainland, the Group has been in active liaison with major port groups along coastal China with a view to seeking new investments and cooperation opportunities from which to pursue improvements, integration and collaborations.

In order to capture opportunities derived from relocation of industries from coastal China into the inland, the Group has initiated an "inland port" design which aims to extend the hinterland coverage in the pan-Pearl River Delta region by the homebase ports in Western Shenzhen. The design endeavours to facilitate the sourcing of inland cargoes through the build-up of an extensive network that "anchors from the Group's homebase ports in Western Shenzhen, is connected by sea-rail inter-modal links and using inland ports as outlets". In June 2012, "Hunan Xianing Inland Port Co., Ltd." (湖南霞凝內陸港有限公司) in which the Western Shenzhen ports invest was officially established in Changsha, signifying a ground-breaking step towards the rolling out of this "inland port" network by the homebase ports in Western Shenzhen.

On-going expansion of the Group's barge network along the Pearl River Delta remains an important measure for the Group to enhance the competitiveness of its homebase ports in Western Shenzhen. During the first half of 2012, the Group has continued to capitalize advantages it possesses as a terminal operator in asset resources, shipping routes, business, services and geographical position to actively encourage the strategic collaborations between its home-base ports in Western Shenzhen and the barge terminals along the River. For the period under review, the container volume sourced from South China Shuttle Alliance grew by 8.6% when compared to the same period last year. The collaborated container volume handled between CKRTT, in which the Group acquired an equity stake in early 2011, and Shenzhen Western Port Zone rose 23.4% year-on-year to 74,098 TEUs, thus reflecting the synergy so realized from the collaboration. The Group remains focused on strategic investment and positioning opportunities along the River with a view to further strengthening the reach-out of its homebase ports in Western Shenzhen through the on-going refinement of its river connectivity network cabled via, as appropriate, share equity linkages.

Bonded logistics and cold chain operations

For the period under review, the Group's bonded logistics and cold chain operations achieved a revenue of HK$831 million, increased by 31.3% over the same period last year. EBIT for this segment reached HK$748 million, up 116.8% year-on-year.

In the first half of the year, the Group's bonded logistics operations continued its high growth trend from last year. China Merchants Bonded Logistics Co., Ltd. ("CMBL"), the Group's bonded logistics service unit located at Qianhai Bonded Port Zone of Shenzhen, has recorded significant growth in its net profit when compared to that of the same period last year along with remarkable year-on-year increases in pertinent benchmarks such as warehouse area in operation, gross profit per unit of area, value-added services, labor efficiency, port-collaborated cargo volume handled. CMBL has strived to create its core competences through sales and marketing, operation efficiency, and innovation so as to enhance brand reputation and influence within the industry, while customer demand has continued to grow at a fast pace. The Group's Tianjin Haitian Logistics Park has leveraged on the incentive policies offered by Dongjiang Bonded Port Zone (東疆保稅港區) towards automobile imports, simultaneous as it raised its rental level, which has led to significant increase in both its revenue and net profit for the period under review. During this first half of the year, Qingdao Logistics Park, aimed towards establishing itself into a unique, port-integrated, logistics service provider, has succeeded in adjusting its business structure and functions, which has led to increases in freight volume and, in turn, 16% increase in its net profit. Notwithstanding the backdrop of a slower macroeconomic growth, the business demand and economic benefits generated by the Group's bonded logistics parks have displayed a fast rising trend, which illustrated the fruitful result of the Group's adherence to the strategies of "extending the value chain of ports, developing bonded logistics and promoting port-logistics park collaborated operations".

China Merchants Americold Holdings Company Limited and China Merchants Americold Logistics Company Limited (collectively known as "CMAC"), being the Group's cold chain logistics operation platform, has achieved satisfactory progress towards network roll-out, scale expansion, structure optimization, and new business development. During the first half of 2012, CMAC has added to its network two new cold storage operations, respectively in Shanghai and Hong Kong, while the utilization rate of its cold storage space increased by 5 percentage points to 65.7%. Customer development efforts in relation to core commercial names such as Tesco, Yum! Brand, etc. have been remarkable, leading to 100% increase in the percentage share of regional/urban delivery services alongside decreases in the percentage share of production customers, thus optimization in the business structure was achieved. New services such as purchasing and distribution have grown rapidly, thus expanding the existing modes of business and profit. These, combined, will facilitate the penetration of cold chain logistics operations into upstream and downstream sectors, thereby enhancing CMAC to become an integrated supply chain solutions provider in the future.

In the first half of 2012, the total volume of cargoes handled at the two major air cargo terminals in Hong Kong has remained level year-on-year. That handled by Asia Airfrieght Terminal Company Limited, in which the Group is interested, totaled 340,884 tons, which was in line with the same period last year with its market share remained unchanged.

Port-related manufacturing operations

In the first half of 2012, EBIT generated by the Group's port-related manufacturing operations amounted to HK$574 million, decreased by 54.9% as compared to the same period last year.

A weakened global economy coupled with fragile international maritime market has resulted in the obvious shrinkage in the volumes of all types of container orders of the CIMC Group during the first half year when compared to that for the same period last year. For the period under review, total sales of dry-cargo and reefer containers amounted to 639,000 TEUs, down 40.0% year-on-year. Along with drops in the selling prices, the decrease in container sales revenue was significantly larger than that in container sale volume. In addition, the sales of special purpose transportation vehicles were 53,500 units, down 39.7% year-on-year. For the first half of the year, the CIMC Group realized a net profit of RMB 934 million, decreased by 66.8% as compared to the same period last year.

Corporate social responsibility

While striving to continuously improve its operating results and generating returns for shareholders, the Group also focused on the performance of its social responsibilities to employees, community and environment to drive the community to develop in a healthier and sustainable direction.

In the first half of the year, the Group was active in driving energy saving and emission reduction and the construction of green ports with a focus on various low-carbon technological reform projects. The Group combined the construction of low-carbon green ports with meticulous management and enhanced port competitiveness, which were effectively promoted in the aspects of management mechanism, energy consumption structure optimization and technological innovation.

In February 2012, Shekou Container Terminals Limited ("SCT") was officially recognized by the Ministry of Transport as one of the four low-carbon port demonstration units in China and would be the first to be developed into a national low-carbon demonstration port. In April 2012, the Ministry of Finance, the Ministry of Science and Technology and the National Energy Administration of China jointly included the photovoltaic power generation project developed by SCT in the 2012 "Golden Sun" demonstration project catalogue.

The Group has integrated its core values into community relations and actively conducted various community events to focus on subsidizing education, poverty alleviation, charitable donations and community services etc., fulfilling its corporate social responsibility of facilitating social harmony and sustainable development.

Liquidity and treasury policies

As at 30 June 2012, the Group had approximately HK$12.22 billion in cash, 9.7% of which was denominated in Hong Kong dollars, 31.3% in United States dollars, 58.7% in Renminbi and 0.3% in other currencies.

The Group mainly derived its funding sources from both its operating activities related to ports operation, bonded logistics 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$2,553 million in total.

During the period, the Group's capital expenditure amounted to HK$1,209 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 2012, the Company had 2,474,771,236 shares in issue. During the period, the Company issued 360,000 new shares upon the exercise of share options and received approximately HK$5 million as a result. On 20 July 2012, the Company issued 14,859,081 shares under the Company's scrip dividend scheme.

As at 30 June 2012, the Group's net gearing ratio (net interest-bearing debts divided by net assets attributable to the Company's equity holders) was approximately 35.2%.

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 2012, the Group's outstanding interest-bearing debts were analyzed as below:

	30 June 2012 HK$'million	31 December 2011 HK$'million
Floating-rate bank borrowings which are repayable (Note):		
Within 1 year	**5,039**	5,239
Between 1 and 2 years	**1,048**	2,099
Between 2 and 5 years	**2,987**	3,204
Not wholly repayable within 5 years	**124**	106
	9,198	10,648
Fixed-rate listed notes payables are repayable:		
In 2013	**2,323**	2,325
In 2015	**3,871**	3,877
In 2018	**1,534**	1,536
In 2022	**3,815**	—
	11,543	7,738
Fixed-rate unlisted notes payables are repayable:		
In 2016	**3,066**	3,084
In 2017	**1,100**	—
	4,166	3,084
Loans from the ultimate holding company		
Within 1 year	**1,010**	1,615
Between 1 and 2 years	**979**	985
	1,989	2,600
Loans from an intermediate holding company		
Within 1 year	—	616
Between 2 and 5 years	**614**	—
	614	616
Loan from a non-controlling equity holder of a subsidiary	—	12

Note: All bank borrowings are unsecured except for HK$237 million (31 December 2011: HK$291 million).

The interest bearing debts are denominated in the following currencies:

	30 June 2012						
	Bank borrowings HK$'million	Listed notes payable HK$'million	Unlisted notes payable HK$'million	Loans from an intermediate holding company HK$'million	Loans from the ultimate holding company HK$'million	Loan from a non-controlling equity holder of a subsidiary HK$'million	Total HK$'million
HKD & USD	**3,443**	**11,543**	—	—	—	—	**14,986**
RMB	**5,755**	—	**4,166**	**614**	**1,989**	—	**12,524**
	9,198	**11,543**	**4,166**	**614**	**1,989**	—	**27,510**

	31 December 2011						
	Bank borrowings HK$'million	Listed notes payable HK$'million	Unlisted notes payable HK$'million	Loans from an intermediate holding company HK$'million	Loans from the ultimate holding company HK$'million	Loan from a non-controlling equity holder of a subsidiary HK$'million	Total HK$'million
HKD & USD	4,123	7,738	–	–	100	–	11,961
RMB	6,525	–	3,084	616	2,500	12	12,737
	10,648	7,738	3,084	616	2,600	12	24,698

Assets charge

As at 30 June 2012, the Company did not have any charge over its assets. The bank loans of HK$237 million borrowed by subsidiaries are secured by their property, plant and equipment with carrying value HK$201 million, investment properties with carrying value HK$107 million, land use right with carrying value HK$2 million and HK$10 million bank balance.

As at 31 December 2011, the Company did not have any charge over its assets. The bank loans of HK$212 million borrowed by subsidiaries were secured by their property, plant and equipment with carrying value HK$190 million and investment properties with carrying value HK$102 million.

Employees and remuneration

As at 30 June 2012, the Group employed 7,946 full time staff, of which 263 worked in Hong Kong, 28 worked in overseas and the remaining 7,655 were in the PRC. The remuneration paid for the period amounted to HK$700 million, representing 21.0% 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.

Future prospects

The Group is of the view that global economic growth for the second half of 2012 will inevitably remain daunted by numerous uncertain factors. Forecast for full year 2012 by the IMF suggests that downward growth pressure to the global economy and trade will continue to prevail. The international maritime market is expected to encounter, for a prolonged period of time, operational difficulties as demand continues to drop, capacity remains excessive and tariffs continue to be under pressure. China's economy is also expected to experience growth pressures when export growth slows down, investments decline and demand remains inadequate. "Structural adjustment to expand domestic demand and to sustain growth" is an arduous task China's economy is currently facing.

Affected by the current macro-economic and trade environment, the port industry is also expected to encounter pressure of growth deceleration in the second half of the year. Barring any unforeseen unfavourable factors that may suddenly erupt to drag down the global economy, the Group will, by leveraging its increasingly established management capability, endeavor to deliver in the second half of 2012 performance better than that for the first half.

In the second half year, the Group will continue to adhere to its established development strategy for ports of "exploring overseas markets while optimizing its port asset positioning in China" to actively drive the development of overseas projects and, in turn, foster new space for growth, thereby laying a solid foundation for the sustainable development of the Group.

In terms of operations, the Group expects to continue to increase the resource efficiency and asset effectiveness of its homebase ports in Western Shenzhen through on-going integration of its operations and management capabilities. The Group will also endeavour to streamline, on on-going basis, the inter-modal linkage networks for its ports operation through active driving of key initiatives such as further refinement of its PRD barge network, establishment of inland ports in conjunction with sea-rail link, river terminal positioning and collaboration, upgrade of berths and improvements in channel capabilities. The Group will also endeavour to improve customs-inspection environment while attempting to fully leverage the advantage of smooth interaction between ports and bonded port zones. It will actively explore the opportunity of facilitating the extended development of the ports-related industries.

As regards operational management, the Group will continue to seek to refine its operational management abilities through the establishment and on-going refinement of a port-oriented management information platform and an advanced operational management system from which to further align the managing of ports at different locations and of different business-types. At the same time, the Group will encourage technological reforms and process optimization for efficiency improvements on an on-going basis and will actively drive the vertical improvement in ports' capabilities through the development of energy-saving and emission-reduction and green ports.

Looking forward, notwithstanding the uncertain global economic conditions prevailing, with the network of its port assets through which cargo traffic, is the Group believes, sustainable, its quality management capabilities coupled with a continuing drive to excel, and well-thought-of investment strategies to capture business potential availed in China and globally for long-term sustainability, the Group has no doubt that it is able to navigate through the rough waters currently prevailing and is fully confident about its future prospects.

Interim dividend

In order to reward investors' continuous support of the Group, the Board has declared an interim dividend of 22 HK cents per share (2011: 30 HK cents) in scrip form for the period, representing a dividend payout of 31.2%. The interim dividend will be paid on or around 28 November 2012 to shareholders whose names appear on the register of members of the Company on 5 October 2012, 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 19 October 2012. 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 28 November 2012.

Closure of register

The register of members will be closed from 27 September 2012 to 5 October 2012 (both days inclusive), during which period 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 26 September 2012. The interim dividend will be paid on or around 28 November 2012 to shareholders whose names appear on the register of members of the Company on 5 October 2012.

Directors' interests in securities

As at 30 June 2012, 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 (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 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 share capital of the Company as at 30 June 2012
Dr. Fu Yuning	Beneficial owner	Personal interest	565,569	400,000	0.0390%
Mr. Li Yinquan	Beneficial owner	Personal interest	—	400,000	0.0162%
Mr. Hu Zheng	Beneficial owner	Personal interest	—	700,000	0.0283%
Mr. Meng Xi	Beneficial owner	Personal interest	—	200,000	0.0081%
Mr. Su Xingang	Beneficial owner	Personal interest	—	350,000	0.0141%
Mr. Yu Liming	Beneficial owner	Personal interest	372,024	500,000	0.0352%
Mr. Wang Hong	Beneficial owner	Personal interest	513,731	150,000	0.0268%
Mr. Zheng Shaoping	Beneficial owner	Personal interest	—	300,000	0.0121%
Mr. Lee Yip Wah Peter	Beneficial owner	Personal interest	158,946	—	0.0064%
Mr. Li Kwok Heem John	Interest of spouse	Family interest	1,572,287	—	0.0635%
			3,182,557	3,000,000	0.2497%

Save as disclosed above and based on the register maintained by the Company under section 352 of the SFO, as at 30 June 2012, 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 debenture 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 for Securities Transactions by Directors of Listed Issuers (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"), to be notified to the Company and the Stock Exchange.

Apart from the share option scheme disclosed below, at no time during the current period was any of the Company, its subsidiaries, its fellow subsidiaries or its holding companies a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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 their 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 options outstanding as at 30 June 2012 which have been granted under the Share Option Scheme are as follows:

Name	Date of grant	Exercise price HK$	Options held as at 1 January 2012	Options granted during the period	Options exercised during the period	Options lapsed/ cancelled during the period	Other changes during the period	Options held as at 30 June 2012
Directors								
Dr. Fu Yuning	25 May 2006	23.03	400,000	—	—	—	—	400,000
Mr. Li Yinquan	25 May 2006	23.03	400,000	—	—	—	—	400,000
Mr. Hu Zheng	27 October 2004	11.08	300,000	—	—	—	—	300,000
	25 May 2006	23.03	400,000	—	—	—	—	400,000
Mr. Meng Xi	25 May 2006	23.03	200,000	—	—	—	—	200,000
Mr. Su Xingang	25 May 2006	23.03	350,000	—	—	—	—	350,000
Mr. Yu Liming	25 May 2006	23.03	500,000	—	—	—	—	500,000
Mr. Wang Hong	25 May 2006	23.03	150,000	—	—	—	—	150,000
Mr. Liu Yunshu	25 May 2006	23.03	300,000	—	—	—	(300,000)	—
Mr. Zheng Shaoping	25 May 2006	23.03	—	—	—	—	300,000	300,000
			3,000,000	—	—	—	—	3,000,000
Continuous contract employees								
(I) The Group	27 October 2004	11.08	1,030,000	—	(280,000)	—	—	750,000
	25 May 2006	23.03	11,723,000	—	—	—	—	11,723,000
	21 June 2006	20.91	150,000	—	—	—	—	150,000
(II) The CMHK	27 October 2004	11.08	1,000,000	—	—	—	—	1,000,000
Group	25 May 2006	23.03	10,254,000	—	(80,000)	—	—	10,174,000
			24,157,000	—	(360,000)	—	—	23,797,000
			27,157,000	—	(360,000)	—	—	26,797,000

Notes:

1. The above outstanding share options can be exercised at any time during a period of 10 years commencing on the date of grant of the options.
2. The weighted average closing market price per share immediately before the dates on which the share options were exercised was HK$23.864.
3. No share options were granted under the Share Option Scheme during the period.

Substantial shareholders

As at 30 June 2012, 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	Nature of interest	Ordinary Shares held	Percentage of total issued Shares
China Merchants Group Limited	Interest of Controlled Corporation	1,352,647,266 [1,2,3]	54.66%
China Merchants Steam Navigation Company Limited	Interest of Controlled Corporation	1,349,647,266 [2]	54.54%
China Merchants Holdings (Hong Kong) Company Limited	Interest of Controlled Corporation	1,349,647,266 [2]	54.54%
China Merchants Union (BVI) Limited	Beneficial Owner	1,332,525,504 [2]	53.84%
Davis Selected Advisers, L.P. (d/b/a: Davis Advisors)	Investment Manager	145,910,554	5.90%

Notes:

1. Each of China Merchants Steam Navigation Company Limited and China Merchants Shekou Industrial Zone Company Limited is wholly-owned by China Merchants Group Limited ("CMG"). CMG is deemed to be interested in 1,352,647,266 shares, which represents the aggregate of 1,349,647,266 shares deemed to be interested by China Merchants Steam Navigation Company Limited (see Note 2 below) and 3,000,000 shares deemed to be interested by China Merchants Shekou Industrial Zone Company Limited (see Note 3 below).
2. China Merchants Holdings (Hong Kong) Company Limited ("CMHK") is wholly-owned by China Merchants Steam Navigation Company Limited. Each of China Merchants Union (BVI) Limited and China Merchants International Finance Company Limited is in turn wholly-owned by CMHK.
   China Merchants Steam Navigation Company Limited is deemed to be interested in 1,349,647,266 shares which are deemed to be interested by CMHK. Such shares represent the aggregate of 1,332,525,504 shares beneficially held by China Merchants Union (BVI) Limited and 17,121,762 shares beneficially held by Best Winner Investment Limited.
   As Best Winner Investment Limited is wholly-owned by China Merchants International Finance Company Limited, China Merchants International Finance Company Limited is deemed to be interested in the 17,121,762 shares beneficially held by Best Winner Investment Limited.
3. Top Chief Company Limited is wholly-owned by China Merchants Shekou Industrial Zone Company Limited and Orienture Holdings Company Limited is in turn wholly-owned by Top Chief Company Limited. China Merchants Shekou Industrial Zone Company Limited is deemed to be interested in the 3,000,000 shares which are deemed to be interested by Top Chief Company Limited. Such shares represent the 3,000,000 shares beneficially held by Orienture Holdings Company Limited.

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.

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 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 (the "Old Code") contained in Appendix 14 to the Listing Rules which sets out the corporate governance principles and the code provisions with which the listed issuers are expected to follow and comply. The Old Code was subsequently revised and renamed as the Corporate Governance Code (the "New Code") with effect from 1 April 2012. In the opinion of the Directors, the Company has complied with the code provisions set out in the Old Code (effective until 31 March 2012) and the New Code (newly effective from 1 April 2012) as contained in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2012, except the following:

In respect of Code Provision A.6.7 under the New Code, Mr. Kut Ying Hay, Mr. Li Kwok Heem John, Mr. Li Ka Fai David and Mr. Bong Shu Ying Francis, the independent non-executive directors, were unable to attend the annual general meeting of the Company held on 31 May 2012 due to other business engagement.

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 financial reporting matters including the review of the unaudited interim results for the six months ended 30 June 2012 and the 2012 Interim Report.

Update on Director's Biographical Details

Dr. Fu Yuning, Chairman of the Company, retired as an independent non-executive director of CapitaLand Limited with effect from 30 April 2012.

Mr. Su Xingang, Executive Director of the Company, was appointed as managing director of China Merchants Energy Shipping Co Ltd with effect from 21 June 2012.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

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.

By order of the Board
Dr. Fu Yuning
Chairman

Hong Kong, 30 August 2012

Condensed Consolidated Income Statement

For the six months ended 30 June 2012

	Note	Unaudited **2012** **HK$'million**	 2011 HK$'million (as restated)
Revenue	6	**4,793**	4,196
Cost of sales	9	**(2,737)**	(2,312)
Gross profit		**2,056**	1,884
Other gains, net	8	**503**	1,856
Other income	8	**90**	54
Distribution costs	9	**(31)**	(20)
Administrative expenses	9	**(568)**	(487)
Operating profit		**2,050**	3,287
Finance income	10	**73**	62
Finance costs	10	**(628)**	(427)
Finance costs, net	10	**(555)**	(365)
Share of profits less losses of			
Associates		**1,325**	1,983
Jointly controlled entities		**147**	162
Profit before taxation		**2,967**	5,067
Taxation	11	**(502)**	(558)
Profit for the period		**2,465**	4,509
Attributable to:			
Equity holders of the Company		**1,756**	3,924
Non-controlling interests		**709**	585
Profit for the period		**2,465**	4,509
Dividend	12	**548**	741
Earnings per share for profit attributable to equity holders of the Company	13		
Basic (HK cents)		**70.97**	159.59
Diluted (HK cents)		**70.87**	158.99

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012

	Unaudited 2012 HK$'million	2011 HK$'million (as restated)
Profit for the period	**2,465**	4,509
Other comprehensive (expense)/income		
Exchange differences from retranslation of investments in subsidiaries, associates and jointly controlled entities	**(264)**	1,008
Increase in fair value of available-for-sale financial assets, net of deferred taxation	**118**	53
Share of investment revaluation reserve of associates	—	1
Share of other reserves of associates and a jointly controlled entity	**(4)**	(15)
Share of net actuarial loss on a defined benefit plan of an associate	**(15)**	—
Other comprehensive (expense)/income for the period, net of tax	**(165)**	1,047
Total comprehensive income for the period	**2,300**	5,556
Total comprehensive income attributable to:		
Equity holders of the Company	**1,653**	4,740
Non-controlling interests	**647**	816
	2,300	5,556

Condensed Consolidated Statement of Financial Position

As at 30 June 2012

	Note	**Unaudited 30 June 2012 HK$'million**	Audited 31 December 2011 HK$'million (as restated)	Audited 1 January 2011 HK$'million (as restated)
ASSETS				
Non-current assets				
Goodwill	14	**3,333**	3,338	3,298
Intangible assets	14	**1,247**	1,253	91
Property, plant and equipment	14	**17,556**	18,269	16,835
Investment properties	14	**5,060**	4,340	3,662
Land use rights	14	**9,843**	9,883	9,683
Interests in associates	15	**26,720**	27,394	23,701
Interests in jointly controlled entities		**5,019**	5,038	4,589
Other financial assets		**2,050**	1,919	2,418
Prepayments		**403**	344	342
Deferred tax assets		**133**	136	114
		71,364	71,914	64,733
Current assets				
Inventories		**287**	240	159
Properties under development and held for sale		**4,691**	4,380	2,241
Other financial assets		**708**	963	382
Debtors, deposits and prepayments	16	**3,928**	2,776	4,484
Taxation recoverable		**2**	2	—
Cash and bank balances		**12,220**	6,811	6,352
		21,836	15,172	13,618
Non-current assets held for sale	17	**831**	—	—
		22,667	15,172	13,618
Total assets		**94,031**	87,086	78,351

As at 30 June 2012

	Note	**Unaudited 30 June 2012 HK$'million**	Audited 31 December 2011 HK$'million (as restated)	1 January 2011 HK$'million (as restated)
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Share capital	18	**247**	247	246
Reserves		**42,619**	41,522	36,905
Proposed dividend		**548**	1,683	1,918
		43,414	43,452	39,069
Non-controlling interests		**11,957**	11,355	10,329
Total equity		**55,371**	54,807	49,398
LIABILITIES				
Non-current liabilities				
Loans from the ultimate holding company	19	**979**	985	938
Loans from an intermediate holding company	19	**614**	—	587
Other financial liabilities	20	**17,545**	16,231	14,144
Other non-current liabilities		**1,073**	1,049	—
Deferred tax liabilities	21	**2,409**	2,304	2,038
		22,620	20,569	17,707
Current liabilities				
Creditors and accruals	22	**7,333**	3,888	4,382
Loans from the ultimate holding company	19	**1,010**	1,615	1,748
Loans from an intermediate holding company	19	**—**	616	—
Other financial liabilities	20	**7,390**	5,279	4,855
Taxation payable		**307**	312	261
		16,040	11,710	11,246
Total liabilities		**38,660**	32,279	28,953
Total equity and liabilities		**94,031**	87,086	78,351
Net current assets		**6,627**	3,462	2,372
Total assets less current liabilities		**77,991**	75,376	67,105

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012

	Unaudited					
	Attributable to equity holders of the Company				Non-controlling interests	Total
	Share capital HK$'million	Share premium HK$'million	Other reserves HK$'million	Retained earnings HK$'million	HK$'million	HK$'million
At 1 January 2012 (as previously stated)	247	15,526	7,744	19,888	11,355	54,760
Effects of adoption of amendments to HKAS 12	—	—	—	47	—	47
At 1 January 2012 (as restated)	247	15,526	7,744	19,935	11,355	54,807
COMPREHENSIVE INCOME						
Profit for the period	—	—	—	1,756	709	2,465
Other comprehensive income/(expense)						
Exchange differences from retranslation of investments in subsidiaries, associates and jointly controlled entities	—	—	(202)	—	(62)	(264)
Increase in fair value of available-for-sale financial assets, net of deferred taxation	—	—	118	—	—	118
Share of other reserves of associates and a jointly controlled entity	—	—	(4)	—	—	(4)
Share of net actuarial loss on a defined benefit plan of an associate	—	—	—	(15)	—	(15)
Other comprehensive expense for the period, net of tax	—	—	(88)	(15)	(62)	(165)
Total comprehensive income/(expense) for the period	—	—	(88)	1,741	647	2,300
TRANSACTIONS WITH OWNERS						
Issue of shares on exercise of share options, net of share issue expenses	—	5	—	—	—	5
Transfer to reserves	—	—	10	(10)	—	—
Purchase of additional interests in subsidiaries from non-controlling equity holders	—	—	(13)	—	(11)	(24)
Capital contribution to subsidiaries	—	—	—	—	132	132
Dividends	—	—	—	(1,683)	(152)	(1,835)
Repayment of capital contribution to non-controlling interests	—	—	—	—	(14)	(14)
Total transactions with owners for the period	—	5	(3)	(1,693)	(45)	(1,736)
At 30 June 2012	247	15,531	7,653	19,983	11,957	55,371

For the six months ended 30 June 2012

	Unaudited					
	Attributable to equity holders of the Company				Non-controlling interests	Total
	Share capital HK$'million	Share premium HK$'million	Other reserves HK$'million	Retained earnings HK$'million	HK$'million	HK$'million
At 1 January 2011 (as previously stated)	246	15,085	6,531	17,180	10,329	49,371
Effects of adoption of amendments to HKAS 12	—	—	—	27	—	27
At 1 January 2011 (as restated)	246	15,085	6,531	17,207	10,329	49,398
COMPREHENSIVE INCOME						
Profit for the period (as restated)	—	—	—	3,924	585	4,509
Other comprehensive income/(expense)						
Exchange differences from retranslation of investments in subsidiaries, associates and jointly controlled entities	—	—	777	—	231	1,008
Increase in fair value of available-for-sale financial assets, net of deferred taxation	—	—	53	—	—	53
Share of investment revaluation reserve of associates	—	—	1	—	—	1
Share of other reserves of associates	—	—	(15)	—	—	(15)
Other comprehensive income for the period, net of tax	—	—	816	—	231	1,047
Total comprehensive income for the period	—	—	816	3,924	816	5,556
TRANSACTIONS WITH OWNERS						
Issue of shares on exercise of share options, net of share issue expenses	—	30	—	—	—	30
Transfer to reserves	—	—	35	(35)	—	—
Purchase of additional interest in a subsidiary from a non-controlling equity holder	—	—	(39)	—	(80)	(119)
Capital contribution to a subsidiary	—	—	6	—	104	110
Dividends	—	—	—	(1,918)	(49)	(1,967)
Total transactions with owners for the period	—	30	2	(1,953)	(25)	(1,946)
At 30 June 2011 (as restated)	246	15,115	7,349	19,178	11,120	53,008

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2012

	Unaudited	
	2012	2011
	HK$'million	HK$'million
Net cash generated from operating activities	**2,553**	2,308
Net cash used in investing activities	**(469)**	(768)
Net cash generated from/(used in) financing activities	**2,469**	(1,145)
Net increase in cash and cash equivalents	**4,553**	395
Cash and cash equivalents at 1 January	**6,520**	6,352
Effect of foreign exchange rate changes	**(32)**	94
Cash and cash equivalents at 30 June	**11,041**	6,841

Notes to Condensed Consolidated Interim Financial Information

1. General Information

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

The Company is a limited liability company incorporated in Hong Kong and has its listing on The Stock Exchange of Hong Kong Limited. The address of its registered office is 38/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

This condensed consolidated interim financial information is presented in Hong Kong dollars, unless otherwise stated. This condensed consolidated interim financial information has been approved for issue on 30 August 2012. This condensed consolidated interim financial information has not been audited.

2. Basis of Preparation

The condensed consolidated interim financial information for the six months ended 30 June 2012 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2011, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

3. Principal Accounting Policies

The condensed consolidated interim financial information for the six months ended 30 June 2012 has been prepared under the historical cost convention, as modified by the revaluation of investment properties, available-for-sale financial assets and financial asset at fair value through profit or loss, which are carried at fair value.

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2011, as described therein.

3. Principal Accounting Policies (Continued)

Adoption of new and revised HKFRSs effective in the current period

In the current interim period, the Group has applied, for the first time, the following amendments to HKFRSs issued by the HKICPA:

- amendments to HKFRS 7 "Financial Instruments: Disclosures - Transfers of Financial Assets"; and
- amendments to HKAS 12 "Deferred Tax: Recovery of Underlying Assets".

Amendments to HKAS 12 "Deferred Tax: Recovery of Underlying Assets"

Under the amendments to HKAS 12 "Deferred Tax: Recovery of Underlying Assets", investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment Property" are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group measures its investment properties using the fair value model. As a result of the adoption of the amendments to HKAS 12, the Directors reviewed the Group's investment property portfolios and concluded that the Group's investment properties in Hong Kong are not held under a business model whose objective is to consume substantially all of the economic benefits embodies in the investment properties over time, and that the presumption set out in the amendments to HKAS 12 is not rebutted. As a result of the adoption of the amendments to HKAS 12, the Group does not recognise any deferred taxes on changes in fair value of its investment properties in Hong Kong as the Group is not subject to any major income taxes on disposal of its investment properties. Previously, the Group recognised deferred taxes on changes in fair value of its investment properties in Hong Kong on the basis that the entire carrying amounts of the properties were recovered through use. The amendments to HKAS 12 have been adopted retrospectively, resulting in the Group's deferred tax liabilities being decreased by HK$27 million and HK$47 million as at 1 January 2011 and 31 December 2011 respectively, with the corresponding adjustment being recognised in retained earnings.

In addition, the adoption of the amendments has resulted in the Group's income tax expense for the six months ended 30 June 2012 and 30 June 2011 being reduced by HK$3 million and HK$18 million, respectively, and hence resulted in the profit for the six months ended 30 June 2012 and 30 June 2011 being increased by HK$3 million and HK$18 million, respectively.

3. Principal Accounting Policies (Continued)

Adoption of new and revised HKFRSs effective in the current period (Continued)

Amendments to HKAS 12 "Deferred Tax: Recovery of Underlying Assets" (Continued)

The effects of the above changes in accounting policies on the financial positions of the Group as at 1 January 2011 and 31 December 2011 are summarised as follows:

	As at 1 January 2011 (as previously stated) HK$'million	Effects of adoption of amendments to HKAS 12 HK$'million	As at 1 January 2011 (as restated) HK$'million	As at 31 December 2011 (as previously stated) HK$'million	Effects of adoption of amendments to HKAS 12 HK$'million	As at 31 December 2011 (as restated) HK$'million
Deferred tax liabilities	(2,065)	27	(2,038)	(2,351)	47	(2,304)
Other assets and liabilities	51,436	—	51,436	57,111	—	57,111
Net assets	49,371	27	49,398	54,760	47	54,807
Share capital, share premium and other reserves	21,862	—	21,862	23,517	—	23,517
Retained earnings	17,180	27	17,207	19,888	47	19,935
Non-controlling interests	10,329	—	10,329	11,355	—	11,355
Total equity	49,371	27	49,398	54,760	47	54,807

The effects of the above changes in accounting policies on the basic and diluted earnings per share for the six months ended 30 June 2012 and 2011 are set out as follows:

	Six months ended 30 June **2012** **HK cents**	2011 HK cents
Increase in basic earnings per share	**0.11**	0.74
Increase in diluted earnings per share	**0.11**	0.74

The Group considers that its investment properties in Mainland China are to be consumed substantially all of the economic benefits embodied in the investment properties over time, rather than through sale, and that the presumption set out in the amendments to HKAS 12 is rebutted. The Group continues to recognise deferred taxes on changes in fair value of its investment properties in Mainland China on the basis that the entire carrying amounts of the properties were recovered through use and hence, the adoption of the amendments to HKAS 12 on the Group's investment properties in Mainland China has no effect on the amounts in this condensed consolidated interim financial information.

The adoption of the other new or revised HKFRSs above has had no material effect on the amounts in this condensed consolidated interim financial information or disclosures set out in this condensed consolidated interim financial information.

3. Principal Accounting Policies (Continued)

New and revised HKFRSs that are not yet effective

The Group has not early adopted the following new or revised standards, amendments and interpretation that have been issued but are not yet effective.

		Effective for annual periods beginning on or after
Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle	1 January 2013
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income	1 July 2012
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendment to HKFRS 7	Disclosures - Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to HKFRS 7 and HKFRS 9	Mandatory Effective Date of HKFRS 9 and Transition Disclosures	1 January 2015
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	1 January 2013
HKFRS 9	Financial Instruments	1 January 2013
HKFRS 10	Consolidated Financial Statements	1 January 2013
HKFRS 11	Joint Arrangements	1 January 2013
HKFRS 12	Disclosure of Interests in Other Entities	1 January 2013
HKFRS 13	Fair Value Measurement	1 January 2013
HKAS 19 (2011)	Employee Benefits	1 January 2013
HKAS 27 (2011)	Separate Financial Statements	1 January 2013
HKAS 28 (2011)	Investments in Associates and Joint Ventures	1 January 2013
HK(IFRIC) - Int 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

The Company is in the process to determining the potential impacts of the application of the new and revised HKFRSs issued but not yet effective on the results and the financial position of the Group. The Group will apply these new and revised HKFRSs when they become effective in the respective annual periods.

4. Estimates

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that were applied to the consolidated financial statements for the year ended 31 December 2011.

5. Financial Risk Management

(i) 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 condensed consolidated interim financial information do not include all financial risk management information and disclosures required in the annual financial statements, and hence should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2011.

There have been no significant changes in the risk management since last financial year end or in any risk management policies.

(ii) Liquidity risk

Compared to last financial year end, there was no material change in the contractual undiscounted cash outflows for the Group's financial liabilities.

5. Financial Risk Management (Continued)

(iii) Fair value estimation

The table below analyses the Group's financial instruments carried at fair value 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).

The following tables present the Group's assets that are measured at fair value at 30 June 2012 and 31 December 2011:

	30 June 2012			
	Level 1 HK$'million	**Level 2 HK$'million**	**Level 3 HK$'million**	**Total HK$'million**
Financial asset at fair value through profit or loss	—	—	**365**	**365**
Available-for-sale financial assets	**1,818**	—	**232**	**2,050**
	1,818	—	**597**	**2,415**

	31 December 2011			
	Level 1 HK$'million	Level 2 HK$'million	Level 3 HK$'million	Total HK$'million
Financial asset at fair value through profit or loss	—	—	329	329
Available-for-sale financial assets	1,727	—	192	1,919
	1,727	—	521	2,248

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 period.

6. 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	
	2012	2011
	HK$'million	HK$'million
Ports service, transportation income, container service and container yard management income	**3,268**	3,092
Logistics services income (including rental income)	**831**	633
Sales of properties and goods	**674**	452
Gross rental income from investment properties	**20**	19
	4,793	4,196

7. Segment Information

The key management team of the Company is 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, including the Pearl River Delta excluding Hong Kong ("PRD excluding HK"), Hong Kong, Yangtze River Delta and other locations.

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 include 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 function.

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

Over 90% of the Group's 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 for over 10% of the Group's total revenue.

7. Segment Information (Continued)

The amounts labelled as "Company and subsidiaries" below represent the Group's revenue. The amounts labelled as "Share of associates" and "Share of 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 2012								
	Ports operation					Bonded logistics and cold chain operations	Port-related manufacturing operations	Other operations	Total
	PRD excluding HK HK$'million	Hong Kong HK$'million	Yangtze River Delta HK$'million	Other locations HK$'million	Sub-total HK$'million	HK$'million	HK$'million	Property development and investment HK$'million	HK$'million
Company and subsidiaries	**2,862**	**117**	**—**	**289**	**3,268**	**831**	**314**	**380**	**4,793**
Share of associates	**80**	**444**	**3,638**	**237**	**4,399**	**264**	**9,249**	**570**	**14,482**
Share of jointly controlled entities	**—**	**9**	**143**	**838**	**990**	**—**	**—**	**345**	**1,335**
Total	**2,942**	**570**	**3,781**	**1,364**	**8,657**	**1,095**	**9,563**	**1,295**	**20,610**

	For the six months ended 30 June 2011								
	Ports operation					Bonded logistics and cold chain operations	Port-related manufacturing operations	Other operations	Total
	PRD excluding HK HK$'million	Hong Kong HK$'million	Yangtze River Delta HK$'million	Other locations HK$'million	Sub-total HK$'million	HK$'million	HK$'million	Property development and investment HK$'million	HK$'million
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

7. Segment Information (Continued)

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 2012										
	Ports operation					Bonded logistics and cold chain operations	Port-related manufacturing operations	Other operations			Total
	PRD excluding HK HK$'million	Hong Kong HK$'million	Yangtze River Delta HK$'million	Other locations HK$'million	Sub-total HK$'million	HK$'million	HK$'million	Property development and investment HK$'million	Corporate function HK$'million	Sub-total HK$'million	HK$'million
Operating profit/(loss)	1,316	15	46	54	1,431	690	15	(4)	(82)	(86)	2,050
Share of profits less losses of											
– Associates	22	101	673	86	882	52	288	103	–	103	1,325
– Jointly controlled entities	–	–	37	121	158	–	–	(11)	–	(11)	147
	1,338	116	756	261	2,471	742	303	88	(82)	6	3,522
Finance costs, net	(54)	–	–	(38)	(92)	(46)	(12)	(140)	(265)	(405)	(555)
Taxation	(254)	(2)	(68)	(18)	(342)	(124)	(17)	(19)	–	(19)	(502)
Profit/(loss) for the period	1,030	114	688	205	2,037	572	274	(71)	(347)	(418)	2,465
Non-controlling interests	(335)	–	–	(47)	(382)	(372)	3	42	–	42	(709)
Profit/(loss) attributable to equity holders of the Company	695	114	688	158	1,655	200	277	(29)	(347)	(376)	1,756
Other information:											
Depreciation and amortisation	429	4	–	93	526	98	12	25	3	28	664
Capital expenditure	290	4	–	499	793	384	21	10	1	11	1,209

7. Segment Information (Continued)

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

	For the six months ended 30 June 2011 (as restated)										
	Ports operation					Bonded logistics and cold chain operations	Port-related manufacturing operations	Other operations			Total
	PRD excluding HK HK$'million	Hong Kong HK$'million	Yangtze River Delta HK$'million	Other locations HK$'million	Sub-total HK$'million	HK$'million	HK$'million	Property development and investment HK$'million	Corporate function HK$'million	Sub-total HK$'million	HK$'million
Operating profit/(loss) (excluding 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 (note 15(a))											1,367
Finance costs, net	(44)	—	—	(36)	(80)	(65)	(8)	20	(232)	(212)	(365)
Taxation	(243)	(3)	(198)	(10)	(454)	(44)	(43)	(17)	—	(17)	(558)
Profit/(loss) for the period	1,053	158	630	201	2,042	234	814	342	(290)	52	4,509
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	326	(290)	36	3,924
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

7. Segment Information (Continued)

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

	As at 30 June 2012										
	Ports operation					Bonded logistics and cold chain operations	Port-related manufacturing operations	Other operations			Total
	PRD excluding HK HK$'million	Hong Kong HK$'million	Yangtze River Delta HK$'million	Other locations HK$'million	Sub-total HK$'million	HK$'million	HK$'million	Property development and investment HK$'million	Corporate function HK$'million	Sub-total HK$'million	HK$'million
ASSETS											
Segment assets (excluding interests in associates and jointly controlled entities)	23,585	196	2,741	5,117	31,639	10,959	1,402	12,659	4,667	17,326	61,326
Interests in associates	1,152	1,623	13,715	1,103	17,593	832	7,685	610	–	610	26,720
Interests in jointly controlled entities	2	4	788	4,045	4,839	–	–	180	–	180	5,019
	24,739	1,823	17,244	10,265	54,071	11,791	9,087	13,449	4,667	18,116	93,065
Non-current assets held for sale	–	–	–	831	831	–	–	–	–	–	831
Total segment assets	24,739	1,823	17,244	11,096	54,902	11,791	9,087	13,449	4,667	18,116	93,896
Taxation recoverable											2
Deferred tax assets											133
Total assets											94,031
LIABILITIES											
Segment liabilities	(5,094)	(47)	–	(3,861)	(9,002)	(4,754)	(724)	(7,105)	(14,359)	(21,464)	(35,944)
Taxation payable											(307)
Deferred tax liabilities											(2,409)
Total liabilities											(38,660)

7. Segment Information (Continued)

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

	As at 31 December 2011 (as restated)										
	Ports operation					Bonded logistics and cold chain operations	Port-related manufacturing operations	Other operations			Total
	PRD excluding HK HK$'million	Hong Kong HK$'million	Yangtze River Delta HK$'million	Other locations HK$'million	Sub-total HK$'million	HK$'million	HK$'million	Property development and investment HK$'million	Corporate function HK$'million	Sub-total HK$'million	HK$'million
ASSETS											
Segment assets (excluding interests in associates and jointly controlled entities)	22,932	199	1,719	5,275	30,125	9,646	1,029	12,173	1,543	13,716	54,516
Interests in associates	1,137	1,755	13,967	1,128	17,987	824	7,836	747	—	747	27,394
Interests in jointly controlled entities	—	4	833	4,010	4,847	—	—	191	—	191	5,038
Total segment assets	24,069	1,958	16,519	10,413	52,959	10,470	8,865	13,111	1,543	14,654	86,948
Taxation recoverable											2
Deferred tax assets											136
Total assets											87,086
LIABILITIES											
Segment liabilities	(4,882)	(40)	—	(3,450)	(8,372)	(4,345)	(744)	(6,825)	(9,377)	(16,202)	(29,663)
Taxation payable											(312)
Deferred tax liabilities											(2,304)
Total liabilities											(32,279)

8. Other Gains, Net and Other Income

	Six months ended 30 June 2012 HK$'million	2011 HK$'million
Other gains, net		
Increase in fair value of investment properties	**477**	416
Increase in fair value of financial asset at fair value through profit or loss	**36**	8
Gain on deemed disposal of interest in an associate (note 15(a))	—	1,367
Gain on disposal of property, plant and equipment	**2**	4
Net exchange (losses)/gains	**(12)**	61
	503	1,856
Other income		
Dividend income from available-for-sale financial assets		
- listed equity investments	**47**	21
- unlisted equity investments	**14**	15
Dividend income from financial asset at fair value through profit or loss	**10**	10
Others	**19**	8
	90	54

9. Expenses by Nature

	Six months ended 30 June 2012 HK$'million	2011 HK$'million
Cost of inventories	**390**	322
Staff costs (including Directors' emoluments)	**700**	611
Depreciation of property, plant and equipment	**562**	560
Amortisation of intangible assets and land use rights	**102**	97
Fuel and utilities	**341**	256
Sub-contracting fees	**512**	358
Operating lease rentals in respect of		
- land and buildings	**65**	52
- plant and machinery	**40**	24
Transportation and delivery	**72**	47
Other expenses	**552**	492
Total cost of sales, distribution costs and administrative expenses	**3,336**	2,819

10. Finance Income and Costs

	Six months ended 30 June	
	2012	2011
	HK$'million	HK$'million
Finance income - interest income from bank deposits	**73**	62
Interest expense on:		
Bank borrowings		
- wholly repayable within five years	**(222)**	(169)
- not wholly repayable within five years	**(9)**	(40)
Listed notes payable		
- wholly repayable within five years	**(179)**	(179)
- not wholly repayable within five years	**(89)**	(56)
Unlisted notes wholly repayable within five years	**(109)**	—
Loans from the ultimate holding company (note 19(a))	**(61)**	(51)
Loans from an intermediate holding company (note 19(b))	**(14)**	(13)
Loan from a non-controlling equity holder of a subsidiary (note 20(c))	**(1)**	—
Total borrowing costs incurred	**(684)**	(508)
Less: amount capitalised on qualifying assets (Note)	**56**	81
Finance costs	**(628)**	(427)
Finance costs, net	**(555)**	(365)

Note:

Capitalisation rate of 5.13% per annum (2011: 5.18% per annum) was used, representing the weighted average rate of the costs of borrowings used to finance the qualifying assets.

11. Taxation

Hong Kong profits tax has been provided for at the rate of 16.5% (2011: 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 People's Republic of China ("PRC corporate income tax"). The standard PRC corporate income tax rate is 25%. For foreign invested enterprises established in PRC before 1 January 2008 previously taxed at a preferential tax rate of 15%, PRC corporate income tax rate was 24% in 2011 whereas 25% standard rate is applied from year 2012 onwards. Certain of the Group's subsidiaries were exempted from PRC corporate income tax in the first five profit-making years and followed by a 50% reduction in PRC corporate income tax for the next five years thereafter, commencing from the earlier of the first profitable year after offsetting all unexpired tax losses carried forward from the previous years or 1 January 2008. 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, a preferential tax rate of 5% is 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 condensed consolidated income statement represents:

	Six months ended 30 June	
	2012	2011
	HK$'million	HK$'million (as restated)
Hong Kong profits tax	**4**	3
PRC corporate income tax	**269**	247
PRC withholding income tax	**118**	91
Overseas withholding income tax	**4**	—
Deferred taxation	**107**	73
Deferred taxation on PRC withholding income tax arising from change in tax rate (Note)	**—**	144
	502	558

Note:

Upon deemed disposal of interest in an associate as disclosed in note 15(a), the Group is no longer entitled to 5% preferential tax rate on its dividend receivable from the associate and accordingly an additional amount of HK$144 million deferred taxation was provided in the last period for the unremitted earnings of this investment.

12. Dividend

	Six months ended 30 June 2012 HK$'million	2011 HK$'million
Interim dividend of 22 HK cents (2011: 30 HK cents) per share	**548**	741

At a meeting held on 30 August 2012, the Board of Directors proposed an interim dividend of 22 HK cents 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 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 2012.

The amount of interim dividend for 2012 was based on 2,489,630,317 (2011: 2,471,421,683) shares in issue as at 30 August 2012.

13. 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.

	Six months ended 30 June 2012	2011 (as restated)
Basic		
Profit attributable to equity holders of the Company (HK$'million)	**1,756**	3,924
Weighted average number of ordinary shares in issue	**2,474,548,639**	2,458,976,103
Basic earnings per share (HK cents)	**70.97**	159.59
Diluted		
Profit attributable to equity holders of the Company (HK$'million)	**1,756**	3,924
Weighted average number of ordinary shares in issue	**2,474,548,639**	2,458,976,103
Adjustment for share options (Note)	**3,306,564**	9,241,666
Weighted average number of ordinary shares for diluted earnings per share	**2,477,855,203**	2,468,217,769
Diluted earnings per share (HK cents)	**70.87**	158.99

Adjustment represents assumption of converting 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.

14. Goodwill, Intangible Assets, Property, Plant and Equipment, Investment Properties and Land Use Rights

	Goodwill HK$'million	Intangible assets HK$'million	Property, plant and equipment HK$'million	Investment properties HK$'million	Land use rights HK$'million
Six months ended 30 June 2012					
Net book value as at 1 January 2012	**3,338**	**1,253**	**18,269**	**4,340**	**9,883**
Exchange adjustments	**(5)**	**(2)**	**(80)**	**(19)**	**(49)**
Additions	—	—	**1,028**	—	**107**
Increase in fair value	—	—	—	**477**	—
Disposals	—	—	**(19)**	—	—
Transfers	—	—	**(1,080)**	**262**	—
Depreciation and amortisation	—	**(4)**	**(562)**	—	**(98)**
Net book value as at 30 June 2012	**3,333**	**1,247**	**17,556**	**5,060**	**9,843**
Year ended 31 December 2011					
Net book value as at 1 January 2011	3,298	91	16,835	3,662	9,683
Exchange adjustments	40	31	649	134	374
Additions	—	1,138	2,004	93	—
Increase in fair value	—	—	—	445	—
Disposals	—	—	(56)	—	—
Transfers	—	—	(6)	6	76
Depreciation and amortisation	—	(7)	(1,155)	—	(250)
Impairment	—	—	(2)	—	—
Net book value as at 31 December 2011	3,338	1,253	18,269	4,340	9,883

15. Interests in Associates

For the six months ended 30 June 2011

(a) Deemed disposal of interest in Shanghai International Port (Group) Co., Ltd.

On 27 October 2010, Shanghai International Port (Group) Co., Ltd. ("SIPG"), an associate of the Group, entered into certain agreements to acquire the entire equity interests of 上海同盛洋東港資產管理有限公司(Shanghai Tongsheng Yangdong Asset Management Co., Ltd., being an unofficial English name) and 上海同盛洋西港資產管理有限公司 (Shanghai Tongsheng Yangxi Asset Management Co., Ltd., being an unofficial English name), which held the ports assets in Yangshan Ports Phase II and Phase III respectively, from 上海同盛投資(集團)有限公司 (Shanghai Tongsheng Investment (Group) Co., Ltd., being an unofficial English name) at a consideration of approximately HK$9,310 million. This consideration was satisfied by the issuance of 1,764,379,518 ordinary shares of SIPG on 8 April 2011. Consequentially, the Group's interest in SIPG had been diluted from 26.539% to 24.48%, resulting in a gain on deemed disposal of HK$1,367 million (note 8).

(b) Acquisition of 20% equity interest in Chu Kong River Trade Terminal Co., Limited

On 1 February 2011, the Group acquired 20% equity interest in Chu Kong River Trade Terminal Co., Limited ("CKRTT") for a cash consideration of HK$131 million. The principal activity of CKRTT is shuttle-barge ports operations in the Pearl River Delta region. The fair value of the underlying assets less assumed liabilities as at 1 February 2011 was HK$112 million and a goodwill of HK$19 million has been recognised. The Group accounted for its investment in CKRTT as an interest in an associate as the Directors consider the Group has significant influence over CKRTT.

16. Debtors, Deposits and Prepayments

	30 June 2012 HK$'million	31 December 2011 HK$'million
Trade debtors, net (Note (a))	**1,334**	1,204
Dividend receivables from associates, a jointly controlled entity and available-for-sale financial assets	**1,145**	102
Amounts due from fellow subsidiaries (Note (b))	**9**	5
Amounts due from associates (Note (b))	**157**	206
Amounts due from jointly controlled entities (Note (b))	**586**	649
Other debtors, deposits and prepayments	**697**	610
	3,928	2,776

Notes:

(a) Bill receivables of HK$38 million (31 December 2011: HK$35 million) are included in trade debtors at 30 June 2012.

The Group has a credit policy of allowing an average credit period of 90 days (2011: 90 days) to its trade customers. The ageing analysis of trade debtors is as follows:

	30 June 2012 HK$'million	31 December 2011 HK$'million
Not yet due	**507**	266
Days overdue		
- 1 - 90 days	**765**	733
- 91 - 180 days	**30**	44
- 181 - 365 days	**20**	140
- Over 365 days	**12**	21
	1,334	1,204

(b) The amounts due from fellow subsidiaries, associates and jointly controlled entities are unsecured, interest free and repayable on demand.

17. Non-Current Assets Held for Sale

On 12 April 2012, the Group entered into an asset transfer agreement with Qingdao Qianwan United Container Terminal Co., Ltd. ("QQCTU"), a company established in PRC and being held 50% as a jointly controlled entity of the Group, pursuant to which the Group agrees to dispose of, and QQCTU agrees to acquire, certain facilities, equipment and other assets, all of which were included in the property, plant and equipment in the condensed consolidated statement of financial position previously, from the Group at an aggregate consideration of HK$1,096 million, which has been received from QQCTU during the period and is accounted for as receipt in advance for the transaction (included in creditors and accruals) in the condensed consolidated statement of financial position.

The sale proceeds are expected to exceed the net carrying amount of the relevant assets and liabilities and, accordingly, no impairment loss has been recognised.

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

18. Share Capital

	Number of shares		**Share capital**	
	Six months ended 30 June		**Six months ended 30 June**	
	2012	2011	**2012**	2011
			HK$'million	HK$'million
Ordinary shares of HK$0.1 each				
Authorised:				
At 1 January and 30 June	**5,000,000,000**	5,000,000,000	**500**	500
Issued and fully paid:				
At 1 January	**2,474,411,236**	2,458,027,459	**247**	246
Issue of shares on exercise of share options (Note (a))	**360,000**	1,411,000	—	—
At 30 June	**2,474,771,236**	2,459,438,459	**247**	246

Notes:

(a) During the period, 360,000 (2011: 1,411,000) shares were issued on exercise of share options, with proceeds of HK$5 million (2011: HK$30 million).

The weighted average share price at the time of exercise was HK$23.95 (2011: HK$34.29) per share. The related transaction costs have been deducted from the proceeds received.

During the period, no ordinary shares were repurchased.

(b) During the period from 1 July 2012 to the date of approval of this condensed consolidated interim financial information, 14,859,081 ordinary shares of HK$0.1 each were issued to satisfy the payment of the 2011 final dividend of HK$334 million and no ordinary shares were issued by way of exercise of share options.

18. Share Capital (Continued)

Notes: (Continued)

(c) Share options

The share option scheme approved by the shareholders of the Company on 20 December 2001 (the "Old Scheme") expired on 9 December 2011. The Board considered that it is in its best interests to adopt a new share option scheme in place of the Old Scheme, and therefore proposed that the Old Scheme be terminated and a new scheme be adopted (the "New Scheme") in 2011. 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.

No share options have been granted under the New Scheme since its adoption.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

			Six months ended 30 June					
			2012			2011		
Date of grant	**Exercise price** HK$	**Exercisable period**	**Outstanding at 1 January 2012**	**Exercised during the period**	**Outstanding at 30 June 2012**	Outstanding at 1 January 2011	Exercised during the period	Outstanding at 30 June 2011
Old Scheme								
27.10.2004	11.08	27.10.2004 - 26.10.2014	**2,330,000**	**(280,000)**	**2,050,000**	2,610,000	(250,000)	2,360,000
25.5.2006	23.03	25.5.2006 - 24.5.2016	**24,677,000**	**(80,000)**	**24,597,000**	25,838,000	(1,161,000)	24,677,000
21.6.2006	20.91	21.6.2006 - 20.6.2016	**150,000**	—	**150,000**	150,000	—	150,000
			27,157,000	**(360,000)**	**26,797,000**	28,598,000	(1,411,000)	27,187,000
Exercisable at the end of the period			**27,157,000**		**26,797,000**	28,598,000		27,187,000
Weighted average exercise price (HK$)			**21.99**	**13.74**	**22.10**	21.93	20.91	21.98

19. Loans From the Ultimate Holding Company/an Intermediate Holding Company

(a) *Loans from the ultimate holding company*

The loans from the ultimate holding company are unsecured, interest bearing at annual rates of 2.92% to 5.20% (31 December 2011: 2.72% to 5.20%) and are denominated in the following currencies:

	30 June 2012 HK$'million	31 December 2011 HK$'million
Hong Kong dollar	—	100
Renminbi	**1,989**	2,500
	1,989	2,600

The loans from the ultimate holding company are repayable as follows:

	30 June 2012 HK$'million	31 December 2011 HK$'million
Within 1 year	**1,010**	1,615
Between 1 to 2 years	**979**	985
	1,989	2,600

(b) *Loans from an intermediate holding company*

The loans from an intermediate holding company are unsecured, interest bearing at annual rate of 4.35% (31 December 2011: 4.35%). The loans are denominated in Renminbi.

The loans from an intermediate holding company are repayable as follows:

	30 June 2012 HK$'million	31 December 2011 HK$'million
Within 1 year	—	616
Between 2 to 5 years	**614**	—
	614	616

20. Other Financial Liabilities

	30 June 2012 HK$'million	31 December 2011 HK$'million
Short-term bank loans		
– unsecured	**2,266**	3,200
– secured (Note (a))	**37**	79
Long-term bank loans, wholly repayable within five years		
– unsecured	**6,666**	7,157
– secured (Note (a))	**105**	106
Long-term bank loans, not wholly repayable within five years		
– unsecured	**29**	—
– secured (Note (a))	**95**	106
	9,198	10,648
Loans from non-controlling equity holders of subsidiaries (Note (c))	**28**	40
Notes payable (Note (d))		
– US$300 million, 6.125% guaranteed listed notes maturing in 2013	**2,323**	2,325
– US$500 million, 5.375% guaranteed listed notes maturing in 2015	**3,871**	3,877
– US$200 million, 7.125% guaranteed listed notes maturing in 2018	**1,534**	1,536
– US$500 million, 5% guaranteed listed notes maturing in 2022	**3,815**	—
– RMB1,800 million, 6.65% unlisted notes maturing in 2016	**2,207**	2,220
– RMB700 million, 6.13% unlisted notes maturing in 2016	**859**	864
– RMB400 million, 6% unlisted notes maturing in 2017	**491**	—
– RMB500 million, 5.28% unlisted notes maturing in 2017	**609**	—
Total	**24,935**	21,510
Less: amounts due within one year included under current liabilities	**(7,390)**	(5,279)
Non-current portion	**17,545**	16,231

20. Other Financial Liabilities (Continued)

Notes:

(a) As at 30 June 2012, the Group's bank loans are secured by the following assets:

	30 June 2012 HK$'million	31 December 2011 HK$'million
Property, plant and equipment	**201**	190
Investment properties	**107**	102
Land use right	**2**	—
Bank balance	**10**	—
	320	292

(b) Bank borrowings drawn and listed notes issued by subsidiaries of the Group of HK$11,693 million (31 December 2011: HK$8,387 million) are secured by corporate guarantees provided by the Company.

(c) Loans from non-controlling equity holders of subsidiaries are unsecured, interest free and are repayable on demand except for a loan amount of HK$12 million as at 31 December 2011 which borne an interest at annual rate of 7.54% and was repaid during the period.

(d) Effective interest rates of the notes payable at the end of reporting period are as follows:

	30 June 2012	31 December 2011
US$300 million, 6.125% guaranteed listed notes maturing in 2013	**6.33%**	6.33%
US$500 million, 5.375% guaranteed listed notes maturing in 2015	**5.47%**	5.47%
US$200 million, 7.125% guaranteed listed notes maturing in 2018	**7.36%**	7.36%
US$500 million, 5% guaranteed listed notes maturing in 2022	**5.22%**	—
RMB1,800 million, 6.65% unlisted notes maturing in 2016	**6.76%**	6.76%
RMB700 million, 6.13% unlisted notes maturing in 2016	**6.19%**	6.19%
RMB400 million, 6% unlisted notes maturing in 2017	**6.00%**	—
RMB500 million, 5.28% unlisted notes maturing in 2017	**5.63%**	—

(e) As at 30 June 2012, the Group has undrawn bank loan facilities amounting to HK$14,552 million (31 December 2011: HK$26,285 million), of which HK$13,603 million (31 December 2011: HK$25,333 million) and HK$949 million (31 December 2011: HK$952 million) are committed and uncommitted credit facilities respectively.

20. Other Financial Liabilities (Continued)

Notes: (Continued)

(f) The other financial liabilities as at 30 June 2012 and 31 December 2011 are repayable as follows:

	Bank borrowings		Listed notes payable		Unlisted notes payable		Loans from non-controlling equity holders of subsidiaries		Total	
	30 June 2012 HK$'million	31 December 2011 HK$'million	**30 June 2012 HK$'million**	31 December 2011 HK$'million	**30 June 2012 HK$'million**	31 December 2011 HK$'million	**30 June 2012 HK$'million**	31 December 2011 HK$'million	**30 June 2012 HK$'million**	31 December 2011 HK$'million
Within 1 year	**5,039**	5,239	**2,323**	—	**—**	—	**28**	40	**7,390**	5,279
Between 1 and 2 years	**1,048**	2,099	**—**	2,325	**—**	—	**—**	—	**1,048**	4,424
Between 2 and 5 years	**2,987**	3,204	**3,871**	3,877	**4,166**	3,084	**—**	—	**11,024**	10,165
Wholly repayable within 5 years	**9,074**	10,542	**6,194**	6,202	**4,166**	3,084	**28**	40	**19,462**	19,868
Not wholly repayable within 5 years	**124**	106	**5,349**	1,536	**—**	—	**—**	—	**5,473**	1,642
	9,198	10,648	**11,543**	7,738	**4,166**	3,084	**28**	40	**24,935**	21,510

(g) The effective interest rates of bank borrowings were as follows:

	30 June 2012	31 December 2011
Hong Kong dollar	**0.92% to 5.86%**	0.73% to 7.20%
Renminbi	**4.86% to 7.87%**	4.86% to 7.76%

(h) The fair values of the long-term bank loans, the listed notes payable and the unlisted notes payable were HK$6,834 million (31 December 2011: HK$7,313 million), HK$12,353 million (31 December 2011: HK$8,246 million) and HK$4,079 million (31 December 2011: HK$3,031 million) respectively. The fair values of long-term bank loans and the unlisted notes payable were determined by discounting the future cash flows at the current market interest rate available to the Group and the fair value of the listed notes payable was determined with reference to quoted market price. Other than long-term bank loans and the listed and unlisted notes payable, the carrying amounts of the other financial liabilities approximated their fair values as at 30 June 2012.

21. Deferred Tax Liabilities

Deferred taxation is calculated in full on temporary differences under the liability method using taxation rates enacted or substantively enacted by the end of the reporting period in the respective jurisdictions. Upon the adoption of the amendments to HKAS 12, the balance of deferred tax liabilities as at 1 January 2011 and 31 December 2011 decreased by HK$27 million and HK$47 million, respectively. The details are set out in note 3.

22. Creditors and Accruals

	30 June 2012 HK$'million	31 December 2011 HK$'million
Trade creditors (Note(a))	**361**	318
Dividend payable to the equity holders of the Company	**1,683**	—
Amount due to an intermediate holding company (Note(b))	**5**	5
Amounts due to fellow subsidiaries (Note(b))	**84**	82
Amounts due to jointly controlled entities (Note(b))	**110**	—
Receipt in advance from sales of properties	**1,406**	823
Receipt in advance for disposal of non-current assets held for sale	**1,096**	—
Other payables and accruals	**2,588**	2,660
	7,333	3,888

Notes:

(a) The ageing analysis of trade creditors is as follows:

	30 June 2012 HK$'million	31 December 2011 HK$'million
Not yet due	**7**	63
Days overdue		
– 1 - 90 days	**258**	219
– 91 -180 days	**76**	5
– 181 - 365 days	**8**	14
– Over 365 days	**12**	17
	361	318

(b) The amounts are unsecured, interest free and repayable on demand.

23. Commitments

(a) Capital commitments for property, plant and equipment and land use rights

	30 June 2012 HK$'million	31 December 2011 HK$'million
Company and subsidiaries		
Authorised but not contracted		
– Property, plant and equipment	**840**	1,698
– Land use rights	**267**	4
	1,107	1,702
Contracted but not provided for		
– Property, plant and equipment	**4,847**	4,251
– Land use rights	**216**	206
	5,063	4,457
	6,170	6,159
The Group's share in jointly controlled entities		
Authorised but not contracted		
– Property, plant and equipment	**673**	199
Contracted but not provided for		
– Property, plant and equipment	**566**	1,277
	1,239	1,476
	7,409	7,635

(b) Capital commitments for investments

	30 June 2012 HK$'million	31 December 2011 HK$'million
Contracted but not provided for ports projects	**2,332**	594

23. Commitments (Continued)

(c) Commitments under operating leases

At 30 June 2012, the Group had future aggregate minimum lease payments under non-cancellable operating leases for land, buildings and property, plant and equipment as follows:

	30 June 2012 HK$'million	31 December 2011 HK$'million
Within one year	**122**	127
In the second to fifth year inclusive	**220**	179
After the fifth year	**52**	60
	394	366

(d) Future operating lease receivables

At 30 June 2012, the Group had future aggregate lease receivables under non-cancellable operating leases for land and buildings as follows:

	30 June 2012 HK$'million	31 December 2011 HK$'million
Within one year	**166**	190
In the second to fifth year inclusive	**171**	101
After the fifth year	**33**	4
	370	295

24. Material Changes in Ownership Interests in Subsidiaries Without Change of Control

For the six months ended 30 June 2012

(a) Acquisition of additional interest in a subsidiary

On 20 January 2012, the Group acquired 30% equity interest in Colombo International Container Terminals Limited ("CICT") at a consideration of HK$42 million. Upon the completion of the acquisition, the Group's effective interest held in CICT increased from 55% to 85% and the put options written by the Group to the non-controlling equity holder amounting to HK$30 million for the right to dispose of the said interest to the Group lapsed thereafter. The effect of change in the ownership interest of the Group on the equity attributable to equity holders of the Company during the current period ended 30 June 2012 is summarised as follows:

	HK$'million
Consideration paid to a non-controlling equity holder	**42**
Add: share of shareholder's deficit of non-controlling interests assumed	**1**
Less: derecognition of put options written by the Group	**(30)**
Excess of consideration paid recognised within equity	**13**

For the six months ended 30 June 2011

(b) Acquisition of additional interest in a subsidiary

On 28 April 2011, a partially-owned subsidiary of the Group acquired 20% equity interest in China Merchants Bonded Logistics Co., Limited ("CMBL") (formerly known as China Merchants Maritime & Logistics (Shenzhen) Ltd.) at a consideration of HK$119 million. Upon the completion of the acquisition, the Group's effective interest held in CMBL by the Group increased from 65.853% to 71.707%. The effect of change in the ownership interest of the Group on the equity attributable to equity holders of the Company during the period ended 30 June 2011 is summarised as follows:

	HK$'million
Consideration paid to a non-controlling equity holder	119
Less: carrying amount of non-controlling interests acquired	(80)
Excess of consideration paid recognised within equity	39

24. Material Changes in Ownership Interests in Subsidiaries Without Change of Control (Continued)

For the six months ended 30 June 2011 (Continued)

(c) Capital contribution in a subsidiary by a non-controlling equity holder

Upon the capital contribution by a non-controlling equity holder, the Group's effective interest held in Dongguan Chiwan Wharf Company Limited by the Group decreased from 29.267% to 24.877%. The effect of change in the ownership interest of the Group on the equity attributable to equity holders of the Company during the period ended 30 June 2011 is summarised as follows:

	HK$'million
Capital injection received from a non-controlling equity holder	110
Less: carrying amount of non-controlling interests disposed of	(81)
Gain on disposal within equity	29
Attributable to:	
Equity holders of the Company	6
Non-controlling interests	23
	29

25. Material Related Party Balances and Transactions

The Directors regard China Merchants Group Limited ("CMG"), a state-owned enterprise incorporated in PRC as being the Company's ultimate holding company.

Related parties are those parties that have the ability to control, jointly control or exercise significant influence over the other party in making financial or operational decisions. Parties are also considered to be related if they are both subject to control or joint control by the same entity. If one entity controls or jointly controls a second entity, and the first entity has significant influence over a third party, then the second and third entities are also related to each other. Conversely, if two entities are both subject to significant influence by the same entity, the two entities are not related to each other. Related parties may be individuals or entities.

In addition to the related party information and transactions disclosed elsewhere in this condensed consolidated interim financial information, the following is a summary of significant related party transactions entered into the ordinary course of business between the Group and its related parties.

25. Material Related Party Balances and Transactions (Continued)

(a) Balances and transactions with CMG, its subsidiaries, associate and jointly controlled entities (collectively referred to as the "CMG Group")

	Note	Six months ended 30 June 2012 HK$'million	2011 HK$'million
Rental income from	(i)		
– an intermediate holding company		**14**	13
– fellow subsidiaries		**6**	6
Rental expenses paid to fellow subsidiaries	(i)	**49**	42
Service income from	(ii)		
– fellow subsidiaries		**4**	5
– a jointly controlled entity		**79**	40
Service fee paid to fellow subsidiaries	(iii)	**11**	6
Interest expense paid to	(iv)		
– the ultimate holding company		**59**	51
– an intermediate holding company		**13**	13
Consideration paid to a fellow subsidiary for additional interest in a subsidiary	(v)	**—**	119

25. Material Related Party Balances and Transactions (Continued)

(a) *Balances and transactions with CMG, its subsidiaries, associate and jointly controlled entities (collectively referred to as the "CMG Group") (Continued)*

Notes:

(i) The Group rented certain vessels and properties from and leased office premises to the CMG Group. Rental income or expense were charged at a fixed amount per month in accordance with respective tenancy agreements.

(ii) The service fees were charged with reference to market rates.

(iii) The fellow subsidiaries provided barges to bring cargos into ports operated by the Group and provided cargo management and paint shipping services to the Group. The service fees were charged with reference to market rates.

(iv) Interest expenses were charged at interest rate as specified in note 19 to the condensed consolidated interim financial information on the outstanding amounts due to ultimate and an intermediate holding company.

(v) On 28 April 2011, a partially-owned subsidiary of the Group acquired 20% equity interest in CMBL, from a subsidiary of China Merchants Shekou Industrial Zone Company Limited, an indirect wholly-owned subsidiary of CMG, at a consideration of HK$119 million. The principal activity of CMBL is provision of container related logistics services.

(vi) As at 30 June 2012, the Group placed deposits of HK$2,797 million (31 December 2011: HK$2,087 million) with and drew bank loans of HK$1,681 million (31 December 2011: HK$2,475 million) from China Merchants Bank Co., Ltd., an associate of CMG Group. During the period, interest income from and interest expense paid and payable to China Merchants Bank Co., Ltd. amounted to HK$15 million (six months ended 30 June 2011: HK$13 million) and HK$27 million (six months ended 30 June 2011: HK$55 million) respectively.

The balances with entities within CMG Group as at 30 June 2012 are disclosed in notes 16, 19 and 22 to this condensed consolidated interim financial information.

(b) *Transactions with other state-controlled entities*

The Group has transactions with other state-controlled entities including but not limited to the purchases of assets, construction of ports and related facilities, bank deposits and borrowings.

(c) *Key management compensation*

	Six months ended 30 June	
	2012	2011
	HK$'million	HK$'million
Salaries and other short-term employee benefits	**12**	9

26. Event After the Reporting Period

On 29 August 2012, the Group invested Euro150 million (equivalent to HK$1,448 million) for 50% stake in Thesar Maritime Limited ("TML"). Lome Container Terminal S.A., the wholly owned subsidiary of TML, has signed a concession agreement with the government of Togolese Republic to develop and operate a container terminal in Lome, Togo of West Africa.

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