IMPORTANT NOTICE

NOT FOR DISTRIBUTION IN THE UNITED STATES

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the preliminary offering memorandum (the "**Offering Memorandum**") following this page, and you are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the Offering Memorandum. In accessing the Offering Memorandum, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES AND THE GUARANTEE OF THE SECURITIES DESCRIBED HEREIN HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES AND THE GUARANTEE OF THE SECURITIES DESCRIBED HEREIN MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. THIS OFFERING IS MADE SOLELY IN OFFSHORE TRANSACTIONS PURSUANT TO REGULATION S UNDER THE SECURITIES ACT.

THE OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY US ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE OFFERING MEMORANDUM IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

Confirmation of your representation:

In order to be eligible to view the Offering Memorandum or make an investment decision with respect to the securities, investors must be outside the United States in an offshore transaction in reliance on Regulation S under the Securities Act. The Offering Memorandum is being sent at your request and by accepting the e-mail and accessing the Offering Memorandum, you shall be deemed to have represented to CMHI Finance (BVI) Co., Ltd (the "**Issuer**"), China Merchants Port Holdings Company Limited (招商局港口控股有限公司) (the "**Guarantor**"), Bank of China (Hong Kong) Limited, DBS Bank Ltd., ING Bank N.V., Singapore Branch, MUFG Securities Asia Limited, UBS AG Hong Kong Branch, China International Capital Corporation Hong Kong Securities Limited, CMB International Capital Limited, The Hongkong and Shanghai Banking Corporation Limited, Merrill Lynch (Asia Pacific) Limited, Mizuho Securities Asia Limited, Natixis and SMBC Nikko Securities (Hong Kong) Limited (the "**Joint Lead Managers**") that the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States and that you consent to delivery of the Offering Memorandum by electronic transmission.

You are reminded that the Offering Memorandum is in preliminary form and has been delivered to you on the basis that you are a person into whose possession the Offering Memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver, circulate, forward or distribute the Offering Memorandum to any other person. You are reminded that the information in the Offering Memorandum is not complete and may be changed.

The materials relating to the offering of securities to which the Offering Memorandum relates do not constitute, and may not be used in connection with, an offer or solicitation by or on behalf of any of the Issuer or the Guarantor or the Joint Lead Managers in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licenced broker or dealer and the underwriters or any affiliate of the underwriters is a licenced broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer or the Guarantor in such jurisdiction.

The Offering Memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently neither the Joint Lead Managers nor any person who controls a Joint Lead Manager, nor any director, officer, employee nor agent of each of the Joint Lead Managers, or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Offering Memorandum distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

Actions that you may not take: If you receive this document by e-mail, you should not reply by e-mail to this document, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected.

SUBJECT TO COMPLETION
PRELIMINARY OFFERING MEMORANDUM DATED 24 MAY 2022 — STRICTLY CONFIDENTIAL

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

CMHI FINANCE (BVI) CO., LTD

(incorporated in the British Virgin Islands with limited liability)

US$[●] [●] per cent. Guaranteed Notes due [●]
unconditionally and irrevocably guaranteed by

CHINA MERCHANTS PORT HOLDINGS COMPANY LIMITED

(招商局港口控股有限公司)

(incorporated in Hong Kong with limited liability)

Issue Price: [●] per cent.

The US$[●] [●] per cent. guaranteed notes due [●] (the " **Notes**") will be issued by CMHI Finance (BVI) Co., Ltd (the "**Issuer**") and guaranteed pursuant to a deed of guarantee dated [●] 2022 (the "**Guarantee of the Notes**") by China Merchants Port Holdings Company Limited (招商局港口控股有限公司) (the "**Guarantor**" or "**Company**"). The Guarantor will unconditionally and irrevocably guarantee the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes. The Guarantor is a holding company, and accordingly, payments under the Guarantee of the Notes are effectively subordinated to all existing and future liabilities of each of the Guarantor's subsidiaries (other than the Issuer). See "*Risk Factors — Risks Relating to the Issuer and the Guarantor.*"

The Notes will bear interest from [●] 2022 at the rate of [●] per cent. per annum payable in equal instalments semi-annually in arrear on [●] and [●] in each year, commencing on [●].

Payments on the Notes will be made without deduction for or on account of taxes of the British Virgin Islands, the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**") or the People's Republic of China ("**PRC**", which solely for the purposes of this Offering Memorandum, excludes Hong Kong, Macau Special Administrative Region and Taiwan) to the extent described in "*Terms and Conditions of the Notes — Taxation*".

Unless previously redeemed, or purchased and cancelled as provided herein, the Issuer will redeem the Note at its principal amount on [●] (the "**Maturity Date**"). The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time on or after [●] (being the date that falls one month prior to the Maturity Date), on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their principal amount, together with interest accrued to, but excluding, the date fixed for redemption. The Notes are subject to redemption at the option of the Issuer in whole, but not in part, at any time, at their principal amount, together with accrued interest, in the event of certain changes affecting taxes of the British Virgin Islands, Hong Kong or the PRC. Not later than 30 days following a Change of Control Triggering Event (as defined in the Terms and Conditions of the Notes), the Issuer must make an offer to purchase all outstanding Notes at a purchase price equal to 101 per cent. of their principal amount, together with interest accrued to, but excluding, the Offer to Purchase Payment Date (as defined in the Terms and Conditions of the Notes). See "*Terms and Conditions of the Notes — Redemption and Purchase*".

Application will be made to The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") for listing of the Notes by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("**Professional Investors**") only. This document is for distribution to Professional Investors only. **Notice to Hong Kong investors**: The Issuer and the Guarantor confirm that the Notes are intended for purchase by Professional Investors only and will be listed on the Hong Kong Stock Exchange on that basis. Accordingly, the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The Hong Kong Stock Exchange has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Notes, the Issuer, the Guarantor and the Group or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

The Notes and the Guarantee of the Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and are subject to United States tax law requirements. The Notes are being offered outside the United States by the Joint Lead Managers (as defined in "Subscription and Sale") in accordance with Regulation S under the Securities Act ("**Regulation S**"), and may not be offered, sold or delivered within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Pursuant to the Circular on Promoting the Reform of the Filing and Registration System on the Issuance by Enterprises of Foreign Debt (Fa Gai Wai Zi [2015] No. 2044) (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知（發改外資[2015]2044號）) (the "**NDRC Circular**") issued by the National Development and Reform Commission of the PRC ("**NDRC**") on 14 September 2015 which came into effect on the same day, the NDRC has issued a certificate on 26 April 2022 evidencing the registration of the issuance of the Notes which remains in full force and effect. The Guarantor will be required to file or cause to be filed with the NDRC the requisite information on the issuance of the Notes to the NDRC within the prescribed timeframe after the Issue Date.

The Notes are expected to be rated "Baa1" by Moody's Investors Service, Inc. ("**Moody's**"). A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the relevant rating organisation. Prospective investors should evaluate each rating independently of any other rating of the Notes or other securities of the Issuer or the Guarantor.

See "***Risk Factors***" beginning on page 7 for a discussion of certain factors to be considered in connection with an investment in the Notes.

EU MiFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "**EU MiFID II**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to EU MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

Singapore Securities and Futures Act Product Classification — Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act 2001 of Singapore (the "**SFA**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Notes are "prescribed capital markets products" (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018).

The Notes will be issued in bearer form in the denomination of US$200,000 and integral multiples of US$1,000 in excess thereof. The Notes will initially be represented by a temporary global note (the "**Temporary Global Note**"), without interest coupons, which will be deposited with a common depositary on behalf of Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**") on or about [●] 2022 (the "**Issue Date**"). Each Temporary Global Note will be exchangeable in whole or in part not earlier than 40 days after the Issue Date for a interests in a permanent global note (the "**Permanent Global Note**"), without interest coupons, upon certification as to non-US beneficial ownership Each Permanent Global Note will be exchangeable in certain limited circumstances for definitive form of the Notes ("**Definitive Notes**") in bearer form in the denomination of US$200,000 and integral multiples of US$1,000 in excess thereof in the limited circumstances set out in it. See "*Summary of Provisions Relating to the Notes while in Global Form.*"

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

Bank of China (Hong Kong), DBS Bank Ltd., ING, MUFG, UBS

Joint Bookrunners and Joint Lead Managers

China International Capital Corporation, CMB International, HSBC, BofA Securities, Mizuho Securities, Natixis, SMBC Nikko

The date of this Offering Memorandum is [●] 2022

NOTICE TO INVESTORS

THIS OFFERING MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, ANY SECURITIES IN ANY JURISDICTION TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE THE OFFER OR SOLICITATION IN SUCH JURISDICTION. NEITHER THE DELIVERY OF THIS OFFERING MEMORANDUM NOR ANY SALE MADE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES IMPLY THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE ISSUER, THE GUARANTOR OR ANY OF THEIR RESPECTIVE SUBSIDIARIES OR THAT THE INFORMATION SET FORTH IN THIS OFFERING MEMORANDUM IS CORRECT AS OF ANY DATE SUBSEQUENT TO THE DATE HEREOF.

Each of the Issuer and the Guarantor, having made all reasonable enquiries, confirms that (i) this Offering Memorandum contains all information which is (in the context of the issue, offering and sale of the Notes and the giving of the Guarantee of the Notes) material; (ii) such information is true and accurate in all material respects and is not misleading in any material respect; (iii) any opinions, expectations or intentions expressed in this Offering Memorandum are honestly held or made, are not misleading in any material respect and have been reached after due and careful consideration and are based on reasonable assumptions; (iv) this Offering Memorandum does not omit to state any fact necessary to make such information, opinions, expectations or intentions (in the context of the issue, offering and sale of Notes and the giving of the Guarantee of the Notes) not misleading in any material respect; and (v) all reasonable enquiries have been made to ascertain or verify the accuracy of the foregoing. Each of the Issuer and the Guarantor accepts full responsibility for the information contained in this Offering Memorandum.

This Offering Memorandum has been prepared by the Issuer and the Guarantor solely for use in connection with the proposed offering of the Notes described in this Offering Memorandum. The distribution of this Offering Memorandum and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Memorandum comes are required by the Issuer, the Guarantor, the Joint Lead Managers and the Agents (as defined in the "*Terms and Conditions of the Notes*") to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Notes or the possession or distribution of this Offering Memorandum or any offering or publicity material relating to the Notes in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Notes, the Guarantor giving the Guarantee of the Notes and the circulation of documents relating thereto, in certain jurisdictions and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Notes and the distribution of this Offering Memorandum, see "*Subscription and Sale*." This Offering Memorandum does not constitute an offer of, or an invitation to purchase, any of the Notes in any jurisdiction in which such offer or invitation would be unlawful. By purchasing the Notes, investors represent and agree to all of those provisions contained in that section of this Offering Memorandum.

This Offering Memorandum includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer, the Guarantor and their respective subsidiaries (the "**Group**"). The Issuer and the Guarantor accept full responsibility for the accuracy of the information contained in this document and confirm, having made all reasonable inquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this Offering Memorandum, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Memorandum.

No person has been or is authorised in connection with the issue, offer, sale or distribution of the Notes to give any information or to make any representation concerning the Issuer, the Guarantor, the Group, the Notes or the Guarantee of the Notes other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Guarantor, the Group, the Joint Lead Managers or the Agents or any of their respective affiliates. Neither the delivery of this Offering Memorandum nor any offering, sale or delivery made in connection with the issue of the Notes shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Issuer, the Guarantor or the Group, or any of them since the date hereof or create any implication that the information contained herein is correct as of any date subsequent to the date hereof. This Offering Memorandum does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor, the Group, the Joint Lead Managers or the Agents or any of their respective affiliates to subscribe for or purchase, any of the Notes and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.

This Offering Memorandum is being furnished by the Issuer and the Guarantor in connection with the offering of the Notes exempt from registration under the Securities Act solely for the purpose of enabling a prospective investor to consider purchasing the Notes. Investors must not use this Offering Memorandum for any other purpose, make copies of any part of this Offering Memorandum or give a copy of it to any other person, or disclose any information in this Offering Memorandum to any other person. The information contained in this Offering Memorandum has been provided by the Issuer, the Guarantor and other sources identified in this Offering Memorandum. Any reproduction or distribution of this Offering Memorandum, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Notes offered by this Offering Memorandum is prohibited. Each offeree of the Notes, by accepting delivery of this Offering Memorandum, agrees to the foregoing.

No representation or warranty, express or implied, is made or given by the Joint Lead Managers or the Agents or any of their respective directors, officers, employees, representatives, advisors or affiliates as to the accuracy, completeness or sufficiency of the information contained in this Offering Memorandum or any other information supplied in connection with the Notes, and nothing contained in this Offering Memorandum is, or shall be relied upon as, a promise, representation or warranty by Joint Lead Managers or the Agents or any of their respective directors, officers, employees, representatives, advisors or affiliates. The Joint Lead Managers and the Agents and their respective directors, officers, employees, representatives, advisors or affiliates have not independently verified any of the information contained in this Offering Memorandum and can give no assurance that this information is accurate, truthful or complete.

To the fullest extent permitted by law, none of the Joint Lead Managers, the Agents or any of their respective directors, officers, employees, representatives, advisors or affiliates accepts any responsibility for the contents of this Offering Memorandum or any statement made or purported to be made by any such person or on its behalf in connection with the Issuer, the Guarantor, the Group or the issue and offering of the Notes. Each of the Joint Lead Managers, the Agents and their respective directors, officers, employees, representatives, advisors or affiliates accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Memorandum or any such statement. None of the Joint Lead Managers, the Agents or any of their respective directors, officers, employees, representatives, advisors or affiliates undertakes to review the financial condition or affairs of the Issuer, the Guarantor or the Group for so long as the Notes remain outstanding nor to advise any investor or potential investor of the Notes of any information coming to the attention of any of the Joint Lead Managers, the Agents or their respective directors, officers, employees, representatives, advisors or affiliates.

This Offering Memorandum is not intended to provide the basis of any credit or other evaluation, nor should it be considered as a recommendation by the Issuer, the Guarantor, the Group, the Joint Lead

Managers or the Agents that any recipient of this Offering Memorandum should purchase the Notes. Each potential purchaser of the Notes should determine for itself the relevance of the information contained in this Offering Memorandum and its purchase of the Notes should be based upon such investigations with its own tax, legal and business advisers as it deems necessary. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

Investors are advised to read and understand the contents of this Offering Memorandum before investing. If in doubt, investors should consult his or her adviser.

IN CONNECTION WITH THE ISSUE OF THE NOTES, THE STABILISATION MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISATION MANAGER) MAY OVER-ALLOT THE NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION MAY NOT OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT SHALL BE CONDUCTED IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

Listing of the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the merits of the Issuer, the Guarantor, the Group or the Notes. In making an investment decision, investors must rely on their own examination of the Issuer, the Guarantor and the Group and the terms of the offering of the Notes, including the merits and risks involved. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Notes. The Issuer, the Guarantor, the Group, the Joint Lead Managers and the Agents and their respective affiliates are not making any representation to any purchaser of Notes regarding the legality of any investment in the Notes by such purchaser under any legal investment or similar laws or regulations. The contents of this Offering Memorandum should not be construed as providing legal, business, accounting or investment advice. Each person receiving this Offering Memorandum acknowledges that such person has not relied on the Joint Lead Managers, the Agents or any of their respective affiliates in connection with its investigation of the accuracy of such information or its investment decision.

Market data and certain industry forecasts and statistics in this Offering Memorandum have been obtained from both public and private sources, including market research, publicly available information and industry publications. Although the Issuer and the Guarantor believe this information to be reliable, it has not been independently verified by the Issuer, the Guarantor, the Joint Lead Managers or the Agents or their respective directors, officers, employees, representatives, advisors or affiliates, and none of the Issuer, the Guarantor, the Joint Lead Managers or the Agents or their respective directors, officers, employees, representatives, advisors or affiliates makes any representation as to the accuracy or completeness of that information. In addition, third party information providers may have obtained information from market participants and such information may not have been independently verified.

EU MiFID II product governance / Professional investors and ECPs only target market — Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "**EU MiFID II**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to EU MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

Singapore Securities and Futures Act Product Classification — Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the SFA, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Notes are "prescribed capital markets products" (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018).

PRESENTATION OF FINANCIAL INFORMATION

This Offering Memorandum contains the audited consolidated financial information of the Guarantor as at and for the years ended 31 December 2019, 2020 and 2021, which are extracted from the audited consolidated financial statements of the Guarantor as at and for the year ended 31 December 2020 (the "**Guarantor's 2020 Financial Statements**") and the audited consolidated financial statements of the Guarantor as at for the year ended 31 December 2021 (the "**Guarantor's 2021 Financial Statements**", and together with the Guarantor's 2020 Financial Statements, the "**Guarantor's Financial Statements**") respectively. The Guarantor's Financial Statements have been audited by Deloitte Touche Tohmatsu, Certified Public Accountants ("**Deloitte**"), the independent auditor of the Guarantor. The Guarantor's Financial Statements were prepared in accordance with the Hong Kong Financial Reporting Standards ("**HKFRS**") issued by the Hong Kong Institute of Certified Public Accountants.

Certain amounts and percentages included in this Offering Memorandum have been rounded. Accordingly, in certain instances, the sum of the numbers in a column may not exactly equal the total figure for that column.

PRESENTATION OF INDUSTRY AND MARKET DATA

Market data and certain industry forecasts and statistics in this Offering Memorandum have been obtained from both public and private sources, including market research, publicly available information and industry publications. Although this information is believed to be reliable, it has not been independently verified by the Issuer and the Guarantor, the Joint Lead Managers, the Agents or any of their respective directors, officers, employees, representatives, agents, advisers or affiliates, and neither the Issuer, the Guarantor, the Joint Lead Managers, the Agents or any of their respective directors, officers, employees, representatives, agents, advisers or affiliates make any representation as to the accuracy or completeness of that information. Such information may not be consistent with other information compiled within or outside the PRC. In addition, third party information providers may have obtained information from market participants and such information may not have been independently verified. In making an investment decision, each investor must rely on its own examination of the Issuer and the Guarantor and the terms of the Notes, the terms of the Guarantee of the Notes, the offering and the Notes, including the merits and risks involved.

FORWARD-LOOKING STATEMENTS

This Offering Memorandum includes "forward-looking statements." All statements other than statements of historical fact contained in this Offering Memorandum, including, without limitation, those regarding the Guarantor's and the Group's future financial position and results of operations, strategy, plans, objectives, goals and targets, future developments in the markets where the Guarantor or the Group participates or is seeking to participate, and any statements preceded by, followed by or that include the words "believe", "expect", "aim", "intend", "will", "may", "anticipate", "seek", "should", "estimate" or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond the Guarantor's and the Group's control, which may cause its actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding the Guarantor's and the Group's present and future business strategies and the environment in which the Guarantor or the Group will operate in the future. Important factors that could cause the Guarantor's or the Group's actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, the following:

- its business and operating strategies;
- its capital expenditure plans;
- various business opportunities that the Group may pursue;
- its operations and business prospects;
- its financial condition and results of operations;
- availability and charges of bank loans and other forms of financing;
- the industry outlook generally;
- changes in political, economic, legal, regulatory and social conditions in the PRC and elsewhere;
- changes in competitive conditions and its ability to compete under these conditions;
- changes in currency exchange rates; and
- other factors beyond its control.

Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed under "*Risk Factors*" and elsewhere in this Offering Memorandum. The Issuer and the Guarantor caution investors not to place undue reliance on these forward-looking statements which reflect their managements' view only as of the date of this Offering Memorandum. Neither the Issuer nor the Guarantor undertakes any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Offering Memorandum might not occur.

CERTAIN DEFINITIONS AND CONVENTIONS

All non-company specific statistics and data relating to the Issuer's industry and the Guarantor's or the economies of pertinent jurisdictions, such as the PRC, have been extracted or derived from publicly available information and various government sources. The Issuer and the Guarantor believe that the sources of this information are appropriate for such information and the Issuer and the Guarantor have taken reasonable care in extracting and reproducing such information. The Issuer and the Guarantor have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. However, such information has not been independently verified by the Issuer, the Guarantor the Joint Lead Managers or the Agents or by any of their respective directors, officers, employees, representatives, advisors and agents and none of the Issuer, the Guarantor, the Joint Lead Managers or the Agents or their respective directors, officers, employees, representatives, agents, affiliates or advisors makes any representation as to the correctness, accuracy or completeness of such information. In addition, third party information providers may have obtained information from market participants and such information may not have been independently verified. Accordingly, such information should not be unduly relied upon.

Unless otherwise specified or the context requires, references herein to "**US dollars**" and "**US$**" are to the lawful currency of the United States of America, references to "**Hong Kong dollars**", "**HK dollars**" and "**HK$**" are to the lawful currency of Hong Kong, references to "**CNY**" or "**RMB**" are to Renminbi, the lawful currency of the PRC and references to "**Euro**" are to the lawful currency of member states of the European Union ("**Member States**") that adopt the single currency introduced in accordance with the Treaty establishing the European Community, as amended from time to time. For convenience only and unless otherwise noted, all translations in this Offering Memorandum from HK$ into US$ were made at the rate of HK$7.7985 to US$1.00, being the average of the buying and selling rates of the opening indicative counter exchange rate published by the Hong Kong Association of Banks as at 31 December 2021. No representation is made that the HK dollar amounts referred to in this Offering Memorandum could have been or could be converted into US dollars at any particular rate or at all.

Unless the context otherwise requires, references in this Offering Memorandum to the "**Terms and Conditions of the Notes**" are to the terms and conditions governing the Notes, as respectively set out in "*Terms and Conditions of the Notes*".

In this Offering Memorandum, the Guarantor's interests in its project companies include interests held through its associates and joint ventures. In addition, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding. References to information in billions of units are to the equivalent of a thousand million units. References to "**Hong Kong**" are to the Hong Kong Special Administrative Region of the People's Republic of China, "**Macau**" are to the Macau Special Administrative Region of the People's Republic of China, references to "**Mainland China**", "**China**" and the "**PRC**" are to the People's Republic of China, excluding Hong Kong, Macau and Taiwan and references to "**US**" are to the United States of America.

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THE OFFERING

The following summary contains some basic information about the Notes and is qualified in its entirety by the remainder of this Offering Memorandum. Some of the terms described below are subject to important limitations and exceptions. Words and expressions defined in "Terms and Conditions of the Notes" shall have the same meanings in this summary. For a complete description of the terms and conditions of the Notes, see "Terms and Conditions of the Notes" in this Offering Memorandum.

Issuer	CMHI Finance (BVI) Co., Ltd
Guarantor	China Merchants Port Holdings Company Limited (招商局港口控股有限公司)
Notes	US$[●] [●] per cent. Guaranteed Notes due [●]
Issue Price	[●] per cent.
Issue Date	[●] 2022
Maturity Date	[●]
Interest	The Notes will bear interest at the rate of [●] per cent. per annum payable in equal instalments semi-annually in arrear on [●] and [●] in each year, commencing on [●]. See "*Terms and Conditions of the Notes — Interest*".
Status of the Notes and the Guarantee of the Notes	The Notes constitute direct, general, unsubordinated, unconditional and unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application. The Guarantee of the Notes constitutes direct, general, unsubordinated, unconditional and unsecured obligations of the Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured obligations of the Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application. The Guarantor is a holding company, and accordingly, payments under the Guarantee of the Notes are effectively subordinated to all existing and future liabilities of each of the Guarantor's subsidiaries (other than the Issuer). See "*Risk Factors — Risks Relating to the Issuer and the Guarantor.*"
Negative Pledge	The Notes contain a negative pledge provision as further described in Condition 3.1 of the Terms and Conditions of the Notes.
Use of Proceeds	The net proceeds of the issue of the Notes will be used for general corporate purposes by the Group, including the repayment of existing indebtedness. See "*Use of Proceeds.*"

Taxation	All payments of principal, premium (if any) and interest in respect of the Notes, the Coupons and the Guarantee of the Notes by or on behalf of the Issuer or the Guarantor shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied, collected, withheld or assessed by or on behalf of the British Virgin Islands, Hong Kong or the PRC or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Issuer or (as the case may be) the Guarantor shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, subject to certain exceptions. See "*Terms and Conditions of the Notes — Taxation*".
Redemption at the Option of the Issuer	The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time on or after [•] (being the date that falls one month prior to the Maturity Date), on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their principal amount, together with interest accrued to, but excluding, the date fixed for redemption.
Redemption for Tax Reasons	The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their principal amount, together with interest accrued to, but excluding, the date fixed for redemption, in the event that the Issuer or the Guarantor would be required to pay additional amounts as provided or referred to in Condition 7 in respect of the Notes as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands, Hong Kong or the PRC or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation thereof and such obligation cannot be avoided by the Issuer or the Guarantor taking reasonable measures available to it. See "*Terms and Conditions of the Notes — Redemption and Purchase — Redemption for Tax Reasons*".
Redemption of the Notes upon a Change of Control Triggering Event	Not later than 30 days following a Change of Control Triggering Event, the Issuer will make an offer to purchase all outstanding Notes at a purchase price equal to 101 per cent. of their principal amount, together with interest accrued to, but excluding, the Offer to Purchase Payment Date. See "*Terms and Conditions of the Notes — Redemption and Purchase — Redemption for Change of Control*".

Covenants	The terms and conditions governing the Notes will limit the ability of the Issuer and the Guarantor to, among other things, create security interests. These covenants and other restrictions are subject to important qualifications and exceptions described in the "*Terms and Conditions of the Notes*".
Event of Default	Upon the occurrence of certain events (such as cross-acceleration) as described in Condition 8 of the Terms and Conditions of the Notes, any Note may, by written notice addressed by the holder thereof to the Issuer and the Guarantor and delivered to the Issuer and the Guarantor or to the Specified Office (as defined in the Agency Agreement) of the Fiscal Agent, be declared immediately due and payable, whereupon it shall become immediately due and payable at its principal amount together with accrued interest without further action or formality. See "*Terms and Conditions of the Notes — Events of Default*".
Transfer Restrictions	The Notes will not be registered under the Securities Act or any state securities laws of the United States and will be subject to customary restrictions on transfer and resale. See "*Subscription and Sale*".
Form and Denomination	The Notes will be issued in bearer form in the denomination of US$200,000 and integral multiples of US$1,000 in excess thereof, with Coupons attached at the time of issue. The Notes will initially be represented by a Temporary Global Note, without coupons, which will be deposited with a common depositary on behalf of Euroclear and Clearstream. The Temporary Global Note will be exchangeable in whole or in part not earlier than 40 days after the Issue Date for a Permanent Global Note, without coupons, upon prior certification as to non-US beneficial ownership thereof or otherwise as required by US Treasury Regulations. Each purchase, sale and transfer of the Notes may only be effected through accounts at Euroclear and Clearstream. The Permanent Global Note will be exchangeable for Definitive Notes in bearer form in the limited circumstances set out in it. The securities codes for the Notes are as follows: Common Code: 247791884 ISIN: XS2477918846
Legal Entity Identifier	549300KTVUL1BXLNPZ11
Governing Law	English law
Ratings	The Notes are expected to be rated "Baa1" by Moody's. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or

	withdrawal at any time by the relevant rating organisation. Prospective investors should evaluate each rating independently of any other rating of the Notes or other securities of the Issuer or the Guarantor.
Further Issues	The Issuer may from time to time, without the consent of the Noteholders or the Couponholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest and the NDRC Post-issue Filing) so as to form a single series with the Notes. See "*Terms and Conditions of the Notes — Further Issues*".
Fiscal Agent and Paying Agent	The Hongkong and Shanghai Banking Corporation Limited
Listing	Application will be to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Notes by way of debt issues to Professional Investors only and such permission is expected to become effective on or about [●] 2022. A confirmation of the eligibility for the listing of the Notes has been received from the Hong Kong Stock Exchange.
Risk Factors	For a discussion of certain factors that should be considered in investing in the Notes, see "*Risk Factors*".
Substitution	The Issuer may at any time substitute, without the consent of the Noteholders or the Couponholders, an Affiliate of the Issuer to assume liability for the due and punctual payment of all payments and the performance of all the Issuer's other obligations under, or in respect of, the Notes then outstanding, **provided that** certain conditions as set out in Condition 14.1 of the Terms and Conditions of the Notes are satisfied. The Guarantor may at any time substitute, without the consent of the Noteholders or the Couponholders, any entity which, following an amalgamation, reconstruction or otherwise, has vested in or imposed on it all or substantially all of the undertakings, properties or assets of the Guarantor, including obligations and liabilities under the Guarantee of the Notes, to assume liability for the due and punctual payment of all payments and the performance of all the Guarantor's other obligations under the Guarantee of the Notes, **provided that** certain conditions as set out in Condition 14.2 of the Terms and Conditions of the Notes are satisfied. Not more than 30 nor less than 15 days prior to the effective date of the substitution by the New Issuer or the New Guarantor, the Issuer or the Guarantor shall procure the notification to the Noteholders of the substitution. See "*Terms and Conditions of the Notes — Substitution*".

SUMMARY CONSOLIDATED FINANCIAL INFORMATION OF THE GUARANTOR

The following tables set forth the summary consolidated financial information of the Guarantor as at the dates and for the periods indicated.

The selected historical financial information of the Guarantor as at and for the years ended 31 December 2019, 2020 and 2021, as set out below, are extracted from the Guarantor's 2020 Financial Statements and the Guarantor's 2021 Financial Statements. The Guarantor's Financial Statements have been audited by Deloitte, and are included elsewhere in this Offering Memorandum. The Guarantor's Financial Statements were prepared in accordance with HKFRS, which differ in certain respects from generally accepted accounting principles in certain other jurisdictions. Unless the context otherwise requires, financial information in this Offering Memorandum is presented on a consolidated basis.

The selected historical financial information of the Guarantor should be read in conjunction with the Guarantor's Financial Statements and the notes thereto.

Consolidated Statements of Profit or Loss

	Years ended 31 December		
	2019	2020	2021
	(HK$ million)		
Revenue	8,898	8,945	11,850
Cost of sales	(5,182)	(5,201)	(6,493)
Gross profit	3,716	3,744	5,357
Other income and other gains, net	6,948	1,852	981
Administrative expenses	(1,421)	(1,371)	(1,551)
Finance income	214	298	400
Finance costs	(1,996)	(1,822)	(1,815)
Finance costs, net	(1,782)	(1,524)	(1,415)
Share of profits less losses of			
Associates	3,764	4,117	7,103
Joint ventures	531	340	151
	4,295	4,457	7,254
Profit before taxation	11,756	7,158	10,626
Taxation	(2,518)	(1,077)	(1,241)
Profit for the year	9,238	6,081	9,385
Attributable to:			
— Equity holders of the Company	8,362	5,151	8,144
— Holders of perpetual capital securities	—	52	227
— Non-controlling interests	876	878	1,014
Profit for the year	9,238	6,081	9,385
Dividends	2,752	2,516	3,549
Earnings per share for profit attributable to equity holders of the Company			
— Basic (HK cents)	247.84	146.25	219.87

Consolidated Statements of Financial Position

	As at 31 December		
	2019	2020	2021
	(HK$ million)		
Assets			
Non-current assets			
Goodwill	6,931	5,759	5,641
Intangible assets	10,244	9,369	8,607
Property, plant and equipment	23,870	26,509	26,846
Right-of-use assets	15,435	16,553	17,650
Investment properties	8,246	8,918	9,034
Interests in associates	58,052	67,426	75,209
Interests in joint ventures	9,648	9,091	8,874
Other financial assets	2,668	7,258	10,516
Other non-current assets	1,218	1,305	203
Deferred tax assets	260	420	394
	136,572	152,608	162,974
Current assets			
Inventories	125	179	166
Other financial assets	905	81	3,016
Debtors, deposits and prepayments	3,435	5,493	2,134
Taxation recoverable	35	8	3
Cash and bank balances	7,800	11,290	9,980
	12,300	17,051	15,299
Non-current assets held for sale	210	405	417
	12,510	17,456	15,716
Total assets	149,082	170,064	178,690
Equity			
Capital and reserves attributable to equity holders of the Company			
Share capital	40,614	42,521	44,017
Reserves	37,169	43,501	51,519
Proposed dividend	2,000	1,867	2,726
	79,783	87,889	98,262
Perpetual capital securities	—	6,237	6,241
Non-controlling interests	14,351	19,509	20,295
Total equity	94,134	113,635	124,798
Liabilities			
Non-current liabilities			
Bank and other borrowings	29,419	30,240	22,231
Lease liabilities	918	886	886
Other non-current liabilities	5,421	5,229	4,735
Deferred tax liabilities	3,668	4,482	4,851
	39,426	40,837	32,703
Current liabilities			
Creditors and accruals	4,707	4,152	4,304
Bank and other borrowings	8,995	8,952	14,551
Lease liabilities	84	76	40
Taxation payable	1,736	2,412	2,294
	15,522	15,592	21,189
Total liabilities	54,948	56,429	53,892
Total equity and liabilities	149,082	170,064	178,690
Net current (liabilities)/assets	(3,012)	1,864	(5,473)
Total assets less current liabilities	133,560	154,472	157,501

RISK FACTORS

Prospective investors should consider carefully the risks set forth below and the other information contained in this Offering Memorandum prior to making any investment decision with respect to the Notes. Each of the risks highlighted below could have a material adverse effect on the business, operations, financial condition or prospects of the Group or the trading price of the Notes and, as a result, investors could lose some or all of their investment.

Prospective investors should note that the risks described below are not the only risks that the Group faces. The Group has described only those risks relating to its operations that it considers to be material. There may be additional risks that it currently considers not to be material or of which it is not currently aware which may also adversely affect its business, financial condition or results of operations. If any of the possible events described below occur, the Issuer's, the Guarantors or Group's business, financial condition or results of operations could be materially and adversely affected, the trading price of the Notes could decline and investors may lose all or part of their investment.

This Offering Memorandum also contains forward-looking statements that involve risks and uncertainties. The Issuer's, the Guarantor's or the Group's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the considerations described below and elsewhere in this Offering Memorandum.

RISK RELATING TO THE GROUP'S BUSINESS

The performance of the Group's ports and ports-related businesses is dependent on future economic growth in the PRC and globally and may be affected by regional and global economic, financial and political conditions

The growth of the Group's ports and ports-related businesses is largely dependent upon the continuation of economic development and growth in the PRC and globally, which the Guarantor expects will, in turn, increase demand for its ports and ports-related services. A sustained period of slower economic growth in the PRC generally or in the particular areas in which the Group's operations and investments are located could have a material adverse effect on the financial condition and operating results of the Group as well as on its prospects to identify, invest in and develop new projects and businesses.

The future performance of the PRC's economy is not only affected by the economic and monetary policies of the PRC government, but it is also exposed to material changes in global economic and political environments as well as the performance of certain major developed economies in the world, such as the United States and the European Union. The escalating recent military conflict between the Russian Federation and Ukraine is contributing to further increases in the prices of energy, oil and other commodities and to volatility in financial markets globally, as well as a new landscape in relation to international sanctions and export-control measures. Such geopolitical risks may have a material adverse impact on macroeconomic factors which affect the Group's business, financial condition and results of operations. Furthermore, in recent years, there have been heightened trade and geopolitical tensions among the United States and other nations, including the PRC. The continuing tensions between the PRC and the United States, including ongoing trade disputes and deterioration in diplomatic relations, have contributed to increased market volatility, weakened consumer confidence and diminished expectations for economic growth around the world. Some of these tensions have manifested themselves through actions taken and sanctions imposed by the governments of the United States and the PRC in 2020 and early 2021. The United States has imposed a range of sanctions and trade restrictions on Chinese persons and companies, focusing on entities the United States believes are involved in human rights violations, information technology and communications equipment and services and military activities, among others. In response, the PRC has announced a number of sanctions and trade restrictions that target or provide authority to target foreign officials and companies, including those in the United States. Heightened geopolitical tensions between the United States and the PRC continue to cause significant uncertainty in the global macroeconomy. The roadmap to the comprehensive resolution remains unclear, and the lasting impact such geopolitical tensions may have on China's economy and the shipping industry remains uncertain. The Group's revenue is particularly affected by the outlook for the global shipping industry, as any slowdown in imports and exports and reduction in shipping routes may affect the number of visits to the ports operated by the Group, which could have an adverse effect on the Group's business, financial condition and operating results.

In addition, global economic fluctuations have also had significant impacts on the global economy and on the Group. First, there remains a concern that the debt crisis in Europe will impinge upon the health of the global financial system. Second, the interplay of US fiscal and monetary policies, and aggressive quantitative easing programmes in Japan and Europe may lead to more volatile global capital flows, which could in turn impact global growth. Third, in the United Kingdom ("**UK**") a remain-or-leave referendum on its membership within the European Union ("**EU**") was held in June 2016, the result of which favoured the exit of the UK from the EU ("**Brexit**"). On 31 January 2020, the UK officially exited the EU following a UK-EU Withdrawal Agreement signed in October 2019. The UK and the EU signed the Brexit trade deal on 30 December 2020 and the UK completed its separation from the EU with effect from 1 January 2021. While the UK and the EU had reached the trade deal, there remains potential lingering uncertainties caused by the ongoing negotiations between the UK and EU, especially with respect to the EU integration process and the relationship between the UK and EU, and Brexit has and may continue to create negative economic impact and increase volatility in the global market. These could include falls in stock exchange indices, a fall in the value of the key trading currencies such as the Euro and/or greater volatility of markets in general due to the increased uncertainty. Fourth, there are increasing inflationary pressures which has been triggered by a number of factors including liberal monetary policies, interruptions to the global supply chain caused by measures taken by various governments to control the spread of COVID-19, labour shortages and rising energy costs, may have severe consequences on the global economy such as increased costs of borrowings and production and lower business activities, which may in turn have a material adverse effect on the Group's business, financial condition and results of operations. Fifth, financial market volatility and increased uncertainty may have a broader global economic impact that may in turn have a material adverse effect on the Group's business, financial condition and results of operations. To the extent uncertainty regarding the economic outlook negatively impacts consumer confidence and consumer credit factors globally, the Group's business and results of operations could likewise be significantly and adversely affected. The global credit crunch has adversely affected the global shipping industry, as liquidity problems in the international banking sector have reduced the availability of credit, making the financing of shipments and trade more difficult.

Such political uncertainty and any resulting prolonged economic downturn could weaken global trade, hamper trade relations with the PRC, and result in another global recession which may, in turn, result in a decrease in container throughput at the Group's ports and a reduced demand for the Group's bonded logistics services. The decrease in imports and exports caused by any of these circumstances may also adversely affect the Group due to a negative impact on the ability of the customers of the Group to pay the Group, thus reducing the Group's cash flow. There can be no assurance that the Group's business, financial position and operating results, as well as its future prospects, will not be materially and adversely affected by such political uncertainty and any resulting prolonged economic downturn.

The global economy is facing significant uncertainties and disruptions caused by the outbreak of the coronavirus in late 2019 ("COVID-19"), which may impact the Group's business, financial condition and results of operations

The outbreak of COVID-19 and its spread worldwide have caused and are expected to continue to bring uncertainty and volatility in global markets, and the future effects of the COVID-19 pandemic are uncertain. The COVID-19 pandemic has negatively affected the global economy and trade, and the global demand for maritime container shipping significantly declined. In 2021, the global situation of COVID-19 pandemic was complex and severe. In the first half of the year, the pandemic in Europe and the United States was eased due to the accelerated vaccination process, which led to a recovery of consumption in global trade. However, in the second half of the year, the epidemic situation resumed. In addition to the global rebound of COVID-19 arising from the spread of COVID-19 Delta variant to various countries worldwide, the COVID-19 Omicron variant also spurred another wave of outbreaks in major regions around the world at the end of the year, increasing the uncertainties of global economic recovery significantly. In addition, the Group has incurred additional costs in response to the COVID-19 pandemic and related government policies, such as the cost of quarantining the Group's employees, disinfecting facilities that the Group relies on for its operations and launching various pandemic prevention and containment measures. These increased costs and expenses may not be fully recoverable or adequately covered by insurance.

In response to the COVID-19 pandemic, governments and central banks across the world have introduced fiscal and monetary stimulus measures including tax cuts, direct subsidies, rate cuts, bond repurchase programmes and suspension or relaxation of prudential bank capital requirements to stabilise financial markets and provide liquidity support to companies that are affected by business disruptions. However, as the COVID-19 outbreak is still ongoing, it is difficult to predict whether these measures will be sufficient or effective in containing the economic impact, or whether more measures will be required in the future should the outbreak of COVID-19 continue for a prolonged period. The speed at which countries and territories will be able to unwind the government support measures and restrictions and return to pre-COVID-19 economic levels will vary based on the levels of infection, local governmental decisions and access to and ability to roll out vaccines. In light of significant uncertainties and headwinds the global economy is facing, the Group cannot guarantee that the COVID-19 pandemic will not have a material adverse impact on the Group's business, financial condition and prospects.

The Group's terminal business is reliant on concessions and key contracts

Many of the Group's terminal business and projects are reliant on concessions or key contracts granted by the relevant government authorities. Furthermore, many of the Group's subsidiaries, associates, jointly controlled entities and affiliates are subject to regulatory controls. Cancellation of any such concessions or key contracts, or imposition of restrictive regulatory controls, would have a material adverse effect on the financial condition and operating results of certain subsidiaries, associates, jointly controlled entities and/or affiliates of the Group and may have a material adverse effect on the financial condition and operating results of the Group.

There is certain cyclicality associated with ports and ports-related businesses

The Group's core business comprises the ownership, operation and management of ports and the provision of ports-related services. To a certain extent, the global port industry is cyclical and subject to seasonal fluctuations, experiencing volatility in revenues, profitability and asset values resulting from changes in the supply of and demand for ports and ports-related services. The demand for ports and ports-related services may be indirectly influenced by global and regional economic conditions, developments in international trade, changes in seaborne and other transportation patterns, pandemics (including the COVID-19 pandemic), weather patterns, armed conflicts, canal closures, foreign exchange fluctuations, embargoes and strikes, among other factors. Throughput and tariffs at container terminals and general and bulk cargo terminals fluctuate in response to the volume of containerised and general and bulk cargo trade, which is influenced by many factors, including the demand for containerised and general and bulk cargo trade, general economic conditions, developments in the major world economies that influence trade patterns and competition from alternative modes of transportation.

Increasing competition from other existing port terminal operators and new port terminal operators may adversely affect the Group's business growth and financial conditions

The Group faces competition from other port terminal operators within surrounding ports to its own port operations in the Pearl River Delta, Yangtze River Delta, Bohai Rim, the south-eastern region and the south-western region of mainland China as well as in overseas markets in which the Group operates. The Group's ports operations face competition from both international and local operators on factors such as location, facilities and supporting infrastructure, service and price. The Group also competes with both local and international companies in capturing new business opportunities in the PRC. Some of these companies have significant financial resources, marketing and other capabilities. In the PRC, some of the local companies have extensive local knowledge and business relationships and a longer operational track record in the relevant local markets than the Group. The international companies are able to capitalise on their overseas experience to compete in the PRC markets. As a result, there can be no assurance that the Group will be able to compete successfully in the future against its existing or potential competitors. See also "*Description of the Guarantor — Competition*." The dilution of the Group's market share as a result of the competition from surrounding port terminal operators in other nearby ports may adversely affect its business, financial condition and operating results.

Since the promulgation of the Foreign Investment Industrial Guidance Catalogue in 2002, which removed the requirement that Chinese partners must hold the majority of shares in foreign investment enterprises ("**FIE**") engaging in port terminal services, there has been an increase in the diversification of investors in container terminals, investments, and mergers and acquisitions activities by foreign investors in the port terminal industry. China's accession to the World Trade Organisation and the promulgation of various laws and regulations on international maritime transport and ports in the PRC lowered the entry barriers into the port terminal industry. Thus, there may be more enterprises, in particular FIEs, entering the port terminal industry which may intensify competition.

The Group may be unsuccessful in completing and managing current and future investments, strategic co-operations and/or acquisitions

In connection with the implementation of its business strategy to focus on ports and ports-related services as its core business, the Group has in recent years pursued a port development strategy of "exploring overseas markets while optimising domestic layout" with an aim to foster new sources for business growth. As part of such expansion plans, the Group considers investment, co-operation and acquisition opportunities in the PRC and overseas that will complement its core ports portfolio and capabilities, and assist in expanding the market share for its ports operations. External factors which are beyond the control of the Group, such as the availability of attractive projects, availability of acceptable commercial, technical and financing terms and the successful receipt of required approvals from relevant regulatory authorities may to a certain extent affect the Groups' growth by investment in and/or acquisition of its target businesses or form strategic co-operations.

The Group's acquisitions, co-operations and/or investments in the PRC and overseas may expose the Group to potential difficulties that could prevent it from achieving its strategic objectives for the acquisitions, co-operations and/or investments or harm its ability to achieve anticipated levels of profitability. These difficulties include:

- diversion of management's attention from the normal operation of the Group's business;
- increases in the Group's expenses and working capital requirements, which reduces its return on invested capital;
- potential increases in debt, which increase the Group's costs as a result of higher interest payments;
- exposure to unanticipated contingent liabilities to acquired companies;

- possibility that acquired businesses may not grow or deliver regular profitability as anticipated;
- difficulties with co-operating with new strategic partners; and
- difficulties or delays in integrating acquired businesses into the Group's existing operations, which may prevent it from achieving, or may reduce, the anticipated synergies.

Any acquisitions that may be made by the Group in the future would face similar potential difficulties. If the Group is not able to successfully manage these potential difficulties, its acquisitions might not result in any material revenues or other anticipated benefits.

Despite the Group's identification of a number of favourable opportunities, the Group's ability to continue to develop further ports projects will depend on it being able to reach agreements with potential joint venture partners on terms satisfactory to the Group and to enter into binding contracts with such parties. There can be no assurance that the Group will be able to identify suitable investments, co-operation and acquisition targets, complete the investments, co-operations and acquisitions on satisfactory terms or, if any such investments and acquisitions are consummated, satisfactorily integrate the acquired businesses. Any failure of the Group to implement its expansion plans through investments, strategic co-operations and/or acquisitions could have a material and adverse effect on the Group's business, financial position and operating results, as well as its future prospects.

The Group may not successfully manage its growth

As the Group pursues its growth strategy, it must continue to improve its managerial, technical, operational and other resources, and to implement an effective management information system. In addition, the Group plans to strengthen management control of its subsidiaries, associates and joint ventures. In order to fund the Group's on-going operations and its future growth, the Group needs to have sufficient internal sources of liquidity or access to additional financing from external sources. Further, the Group will be required to manage relationships with a greater number of customers, suppliers, contractors, service providers, lenders and other third parties. There can be no assurance that the Group will not experience issues such as capacity and capital constraints, construction delays, operational difficulties at new facilities or difficulties in upgrading or expanding existing facilities and training an increasing number of personnel to manage and operate those facilities. In particular, failure of the Group to implement its expansion plans in a timely manner could adversely affect its ability to maintain, expand and diversify its revenue base and to maintain its profitability. Additionally, there can be no assurance that such expansion plans will not adversely affect the Group's existing operations by, for instance, subjecting it to substantial additional costs that may decrease profitability, which would have a material adverse effect on its business, financial condition, operating results and future prospects.

The Group's investments in non-wholly owned subsidiaries, joint ventures and associates may reduce its degree of control and its ability to manage risks

A significant portion of the ports and other operations of the Group are conducted through non-wholly owned subsidiaries, joint ventures and associates. Co-operation and agreement among the Group's investment partners on its existing or any future projects are important factors for the smooth operation and financial success of such projects. Although the Group, through contractual provisions or appointment of representatives, typically has the ability to exert influence on certain material decisions over operations in which it has equity interest, the Group's investment partners may (i) have economic or business interests or goals that are inconsistent with those of the Group, (ii) be unable or unwilling to fulfil their obligations under the relevant joint venture or other agreements or (iii) experience financial or other difficulties, threatening the viability of a given project.

The Group is exposed to certain risks in respect of the development and construction of new terminals and port facilities

The Group has existing plans to develop a number of projects. The actual timing of completion, the development of capacity of the terminals and the revenues obtained from such developments may be affected by a number of factors beyond the Group's control. These may include general economic conditions in the countries where the developments are located, and, in particular, the areas in and around such developments, as well as changes in the volume of international trade. The development of port facilities also faces other risks commonly associated with infrastructure projects, which include shortages or delays in the supply of labour, materials and equipment, cost overruns, natural disasters, accidents or other unforeseen circumstances. The Group therefore cannot guarantee that the new developments would be completed on schedule or within the current estimated budget. Furthermore, the Group cannot assure investors that the potential revenues generated from these new developments would be sufficient to cover the costs associated with their construction.

The Group may be adversely affected by the performance of its contractors

The Group engages contractors for the development of its port projects and the related infrastructure. There can be no assurance that the services rendered by the Group's contractors or subcontractors will always be satisfactory or meet the Group's quality and safety standards. If the performance of any contractor is not satisfactory, the Group may need to replace them or take other actions to remedy the situation, which could adversely affect the cost and construction progress of its projects. Further, the completion of the Group's projects may be delayed, and the Group may incur additional costs in some cases due to a contractor's financial or other difficulties. In addition, in some jurisdictions there may be a shortage of contractors that meet the Group's quality requirements. Contractors may undertake projects for other companies, engage in risky or unsound practises or encounter financial or other difficulties, which may affect their ability to complete their work for the Group on time or within budget. Any of these factors may have a material adverse effect on the Group's business, financial condition and results of operations.

The Group is required to comply with extensive environmental, health and safety laws and regulations and quality control standards and the compliance of which may be onerous or expensive

The Group is required to comply with extensive environmental, health and safety laws and regulations promulgated by the both the PRC and other foreign governments in the jurisdictions where the Group has operations, as well as quality control standards. Given the magnitude and complexity of these laws and regulations, compliance with them or the establishment of effective monitoring systems may be onerous or require a significant amount of financial and other resources. If the Group fails to comply with these laws and regulations and industry standards applicable to its operations, it could be subject to suspension of its operations, failed evaluation when a project is delivered for review, substantial penalties, fines, suspension or revocation of its licences or permits, termination of government contracts, administrative proceedings or litigation. Such events could have a material and adverse impact on its business, results of operations, financial condition and reputation. There can also be no assurance that the PRC government or other foreign governments will not impose additional or more onerous laws or regulations, compliance with which may cause the Group to incur significantly increased costs, which the Group may not be able to pass on to its customers.

The Group's labour costs may increase for reasons such as the implementation of the PRC Labour Contract Law or inflation in the PRC

The PRC Labour Contract Law (中華人民共和國勞動合同法) became effective on 1 January 2008 in the PRC and was amended on 28 December 2012. It imposes more stringent requirements on employers in relation to entry into fixed-term employment contracts and the dismissal of employees. Pursuant to the PRC Labour Contract Law, the employer is required to make a compensation payment to a fixed-term contract employee when the term of their employment contract expires, unless the employee does not agree to renew the contract even though the conditions offered by the employer for renewal are the same as or better than those stipulated in the current employment contract. In general, the amount of compensation payment is equal to the monthly wage of the employee multiplied by the number of full years that the employee has worked for the employer. A minimum wage requirement has also been incorporated into the PRC Labour Contract Law. In addition, unless otherwise prohibited by the PRC Labour Contract Law or objected to by the employees themselves, the employer is also required to enter into non fixed-term employment contracts with employees who have previously entered into fixed-term employment contracts for two consecutive terms.

In addition, under the Regulations on Paid Annual Leave for Employees (職工帶薪年休假條例), which became effective on 1 January 2008, employees who have worked continuously for more than one year are entitled to paid annual leave ranging from five to 15 days, depending on the length of the employee's work time. Employees who consent to waive such vacation at the request of employers shall be compensated an amount equal to three times their normal daily salaries for each vacation day being waived. Under the National Leisure and Tourism Outline 2013-2020 (國民旅遊休閒綱要2013-2020), which became effective on 2 February 2013, the institution of paid annual leave for employees should be basically implemented by 2020. As a result of the PRC Labour Contract Law, the Regulations on Paid Annual Leave for Employees and the National Leisure and Tourism Outline 2013¬2020, the Group's labour costs (inclusive of those incurred by contractors) may increase. Further, under the PRC Labour Contract Law, when an employer terminates its PRC employees' employment, the employer may be required to compensate them for such amount which is determined based on their length of service with the employer, and the employer may not be able to efficiently terminate non fixed-term employment contracts under the PRC Labour Contract Law without cause. In the event the Group decides to significantly change or reduce its workforce, the PRC Labour Contract Law could adversely affect its ability to effect these changes in a cost-effective manner or in the manner that the Group desires, which could result in an adverse impact on the Group's businesses, financial condition and results of operations.

Further, if there is a shortage of labour or for any reason the labour cost in the PRC rises significantly, the costs of providing port handling, port logistics and other services are likely to increase. This may in turn affect the selling prices of the Group's services, which may then affect the demand for such services and thereby adversely affect the Group's financial condition. In addition, inflation in the PRC and globally has increased in recent years. Inflation increases the costs of labour and the costs of raw materials the Group must purchase for production. Rising labour costs may increase the Group's operating costs and partially erode the cost advantage of the Group's operations, and therefore negatively impact the Group's profitability.

The Group's businesses require additional external financing

The Group requires additional financing to fund capital expenditures, to support the future growth of its business and/or to refinance existing debt obligations. The Group's core businesses require substantial capital investment, particularly for the acquisition of new ports and the development and expansion of ports facilities. The Guarantor has historically required and expects that in the future it will continue to require substantial external financing to fund its capital expenditures. The Guarantor's ability to arrange for external financing and the cost of such financing are dependent on numerous factors, including general economic and capital market conditions, interest rates, inflation, credit availability from banks or other lenders, investor confidence in the Guarantor, success of the Group's businesses, provisions of tax and securities laws that may be applicable to the Guarantor's efforts to raise capital and political and economic conditions in Hong Kong and the PRC generally. There can be no assurance that additional financing, on either a short-term or a long-term basis, will be made available or, if available, that such financing will be obtained on terms favourable to the Group.

Substantial indebtedness may restrict the Group's business activities and increase its exposure to various operational risks

The Group relies on bank loans and proceeds from bond issuances to satisfy a portion of its capital requirements and the Group has a significant amount of outstanding indebtedness. As at 31 December

2019, 2020 and 2021, the Guarantor's total indebtedness (comprising bank loans, loan from a non-controlling equity holder of a subsidiary, loans from fellow subsidiaries, loan from immediate holding company, notes payable and lease liabilities) were approximately HK$39,416 million, HK$40,154 million and HK$37,708 million, respectively, of which approximately HK$9,079 million, HK$9,028 million and HK$14,591 million would, respectively, become due within 12 months. The total indebtedness of the Group may further increase to, among other things, finance its business operations, capital expenditure and acquisitions.

Substantial indebtedness could impact on the Group's business in a number of ways, including:

- requiring the Group to divert its operating cash flow to service the Group's indebtedness;
- increasing the Group's finance costs, thus affecting its overall profits;
- decreasing the Group's financial flexibility in carrying on its business or responding to unexpected market changes;
- limiting, together with the financial and other restrictive covenants of its indebtedness, among other things, the Group's ability to borrow additional funds; and
- increasing the Group's vulnerability to adverse general economic and industry conditions.

Certain financing contracts entered into by members of the Group contain operational and financial restrictions that prohibit them from incurring additional indebtedness unless they are able to satisfy certain financial ratios, restrict them from creating security or granting guarantees or prohibit them from changing their business and corporate structures, without the lender's prior consent. Such restrictions may negatively affect the relevant Group members' ability to respond to changes in market conditions, pursue the business opportunities the Group believes to be desirable, to obtain future financing, fund capital expenditures, or withstand a continuing or future downtown in the Group's business. Any of these factors could materially and adversely affect the Group's ability to satisfy its obligations under outstanding financial obligations, such as the Notes issued by the Issuer.

If the Issuer or any member of the Group is unable to comply with the restrictions (including restrictions on future investments) and covenants in its current or future debt obligations and other financing agreements, a default under the terms of such agreements may occur. In the event of a default under such agreements, creditors may be entitled to terminate their commitments granted to the Group, accelerate the debt and declare all amounts borrowed due and payable or terminate the agreements, depending on the provisions of the relevant agreements. Some financing agreements of the Group contain cross-acceleration or cross-default provisions. Creditors under these financing agreements can require the Group to immediately repay their loans or declare a default of the borrower as a result of the acceleration or default of other financing agreements by any other member of the Group. If any of these events occur, there can be no assurance that the Group will be able to obtain the lenders' waiver in a timely manner or that the assets and cash flow of the Group would be sufficient to repay in full all of its respective debts as they become due, or that the Group would be able to find alternative financing. Even if the Group could obtain alternative financing, there can be no assurance that it would be on terms that are favourable or acceptable to the Group.

The Group is subject to project development and approval risks

There are a number of construction, financing, operating and other risks associated with the Group's project developments in the PRC, Hong Kong and other regions. Such projects typically require substantial capital expenditures during the construction phase and usually take many months, sometimes years, before they become operational and generate revenue. The time required to complete construction, and the associated costs, may be adversely affected by many factors, including but not limited to shortages of materials, equipment and labour, adverse weather conditions, natural disasters, labour disputes, disputes with sub-contractors, accidents, changes in governmental policies, unforeseen mechanical, technical, engineering, design, environmental or geological problems and other circumstances that are beyond the Group's control. Any of these could give rise to delays in the completion of construction and/or cost overruns.

As certain of the Group's operations are highly regulated in the jurisdictions where they are carried out, government approvals, permits, licences or consents need to be obtained and maintained. Delays in the process of obtaining or maintaining, or a failure to obtain or maintain, the requisite licences, consents, permits or approvals from government agencies or authorities can also increase the cost or delay or disrupt the operations of the Group's businesses, which will materially and adversely affect the financial performance of the Group's business operations. For example, conducting ports operations in the PRC requires the approval from the PRC Government. The Group's operations are carried out pursuant to the ports operation permits issued by the relevant port authorities. The Port Law of the PRC (中華人民共和國港口法) and other relevant regulations authorise the port authorities to impose penalties or even revoke the ports operation permits if the port operator fails to fulfil certain specified requirements. The Group is subject to the risk that its port operating permits may be revoked or rejected for renewal by the PRC Government due to various reasons. If the Group fails to obtain or renew its port operating permit, its business, financial condition and results of operations may be adversely affected.

Although the majority of the Group's infrastructure projects have been completed on schedule, there can be no assurance that this will remain the same or future infrastructure projects will be completed on time and generate satisfactory returns, or at all. Finally, the acquisition or transfer of interests in such projects may be subject to governmental approvals, which can affect the Group's ability to dispose of such projects.

The Group's insurance policies may not be adequate and the Group may be subject to uninsured risks

The Group maintains insurance policies covering both its assets and employees in line with general business practises in the PRC and Hong Kong in the relevant industries, with policy specifications and insured limits which the Group believes are adequate. There are, however, certain types of losses (such as from wars, acts of terrorism or acts of God, business interruption, property risks and third party (public) liability) that generally are not insured because they are either uninsurable or not economically insurable. Should an uninsured loss or a loss in excess of insured limits occur, the Group could lose capital invested in the relevant property, as well as anticipated future revenue and, in the case of debt that is with recourse to the Group, the Group may remain liable for financial obligations related to the relevant property. Any such loss could adversely affect the operating results and financial condition of the Group. In addition, insurance companies typically seek to exclude insurance risks and claims relating to terrorism or natural disasters and as a result, the Group's insurance policies do not cover damages and losses arising from acts of terrorism or natural disasters.

The Group's overseas ports operations subject it to various business, economic, political, regulatory and legal risks

Pursuant to the Group's strategic vision of becoming the "world's leading comprehensive port service provider", the Group has invested, and plans to continue investing, in overseas markets. In recent years, the Group and its associates, joint ventures and affiliates, as applicable, have expanded its ports operation to overseas markets through its respective acquisitions of various interests, including Tin-Can Island Container Terminal Limited ("TICT") in Nigeria, Port de Djibouti S.A. ("PDSA") in Djibouti, Kumport Liman Hizmetleri ve Lojistik Sanayi ve Ticaret Anonim Şirketi ("Kumport") in Turkey and Port of Newcastle ("PON") in Australia, the South Container Terminal in Colombo, Sri Lanka by Colombo International Container Terminals Limited ("CICT"), the Hambantota Port in Hambantota, Sri Lanka by Hambantota International Port Group (Private) Limited ("HIPG"), Lomé

Container Terminal S.A. ("LCT") in Togo , TCP Participações S.A. ("TCP") in Brazil and Terminal Link SAS ("Terminal Link") in France which newly invested in Odessa Terminal Holdco Ltd ("Odessa Terminal") in Ukraine, CMA CGM-PSA Lion Terminal Pte Ltd ("CMA CGM-PSA") in Singapore, Kingston Freeport Terminal Limited ("Kingston Freeport") in Jamaica, Rotterdam World Gateway B.V. ("Rotterdam World Gateway") in the Netherlands, First Logistics Development Company ("First Logistics") in Vietnam, Laem Chabang International Terminal Co Ltd ("Laem Chabang") in Thailand and CMA CGM Terminals Iraq S.A.S, holding the lease and all assets and liabilities of the Umm Qasr terminal in Iraq ("Umm Qasr Terminal"), which together operate, develop and invest in a port network comprising 42 container and bulk cargo terminals in 25 countries and regions across six continents. The implementation of this strategy has subjected the Group to, among other things, economic and political conditions in foreign countries, including the imposition of government controls, political and economic instability, trade restrictions, changes in tariffs, laws and policies affecting trade and investment, the lack of development of local infrastructure, labour unrest and difficulties in staffing, co-ordinating communications among and managing international operations, fluctuations in currency exchange rates and earnings, expatriation restrictions, difficulties in obtaining export licences, misappropriation of intellectual property, tax issues including amendments to taxation laws, cultural and language differences, local banking systems, restrictions on the repatriation of profits or payment of dividends, nationalisation or expropriation of property, crime, strikes, riots, civil disturbances, terrorist attacks or wars, regulations and requirements related to community welfare and social responsibilities.

The continuation of the Group's overseas expansion plans may place a significant strain on its management, operational and financial resources. There can be no assurance that the Group's existing or future management, operational and financial systems, procedures and controls will be adequate to support its future operations or that the Group will be able to recruit, retain and motivate its personnel or establish or develop business relationships beneficial to its future operations. Failure of the Group to manage growth effectively could have a material adverse effect on its businesses, operating results and financial condition. If the Group cannot successfully manage the risk and challenges generally associated with multinational operations, it may have to dedicate resources to resolving issues arising from its future overseas operations at the expense of its current PRC and Hong Kong operations.

Individual countries in which the Group may invest and develop projects in the future may also have particular risks. In addition, some countries in which the Group may intend to invest and operate may experience periods of slow or negative growth, high inflation, significant currency devaluations or limited availability of foreign exchange. Furthermore, in countries such as the PRC, governmental authorities exercise significant influence over many aspects of the economy and their actions could have a significant effect on the Group's operations and on the Group's intended overseas operations.

The ordinary operations of ports operators could be adversely affected by damage to port facilities caused by weather, natural disasters, pandemics or terrorist attacks, strikes and stoppages or other events beyond their control

Similar to many other businesses, the Group's normal operations could be adversely affected or disrupted, and its port facilities could be damaged, by weather, terrorist attacks, pandemics, natural disasters (such as earthquake, flood, snow, fire, typhoons or other natural disaster or other force majeure events) or other events, including, but not limited to:

- invasion, acts of foreign enemies, rebellion, revolution, insurrection, military or usurped power, war and radioactive contamination;
- riot or commotion;
- climate change;

- denial of the use of any railway, port, airport, shipping service or other means of public transport; and

- strikes, labour disputes or labour unrests, lock-out or other industrial action by workers or employers.

These events would adversely affect the ordinary operations of the shipping industry and international trade, which would, in turn, adversely affect the Group's business and could cause disruption to its operations in part or in whole therefore potentially materially and adversely affecting its financial condition and operating results.

In addition, the on-going COVID-19 outbreak, coupled with the measures implemented by relevant government authorities to contain it, such as travel restrictions, border controls and other measures to discourage or prohibit the movement of people, is expected to have a material and adverse impact on the level of economic activity globally and in the PRC. At present, it is difficult to ascertain how long the COVID-19 pandemic may last and the full impact that COVID-19 may have on the Group's business operations. The occurrence of another outbreak of SARS, the influenza A/H1N1 virus, COVID-19 or of any other highly contagious disease may result in another economic downturn and may have an adverse effect on the overall level of business in the affected areas. It may also disrupt the Group's business operations and consequently have an adverse effect on its business, financial condition and operating results.

Acts of war and terrorist attacks may also cause damage or disruption to the Group, its employees, subcontractors, operations, equipment and facilities, as well as to its markets, any of which could impact its public image and revenue. The potential for wars or terrorist attacks may also create uncertainty and cause its business to suffer in ways that the Group cannot currently predict. Any of these may have a material and adverse effect on the Group's business, results of operations and financial condition.

Changes in interest rates and interest rate benchmark reform could significantly affect the Group's financial condition and operating results

The Group is exposed to interest rate risk on its floating rate borrowings and on additional debt financing that may be periodically needed for its capital expenditures. The Group adopts a policy of maintaining an appropriate mix of fixed and floating rate borrowings which is achieved primarily through the contractual terms of borrowings. Any upward fluctuations in interest rates would increase the cost of both existing and new debt of the Group which in turn could adversely impact the financial condition, operating results, planned capital expenditures and cash flows of the Group.

On 5 March 2021, the United Kingdom Financial Conduct Authority (the "FCA") confirmed that all LIBOR settings will either cease to be provided by any administrator or no longer be representative: (i) immediately after 31 December 2021, in the case of all sterling, euro, Swiss franc and Japanese yen settings, and the 1-week and 2-month US dollar settings; and (ii) immediately after 30 June 2023, in the case of the remaining US dollar settings. The Group is actively looking to adopt alternative or replacement reference rates for its contracts. However, for contracts which have not been transitioned to the relevant alternative benchmark rates and without detailed fallback clauses, if the bilateral negotiations with the Group's counterparties are not successfully concluded before the cessation of LIBORs, there are significant uncertainties with regard to the interest rates that would apply. This gives rise to additional interest rate risk that was not anticipated when the contracts were entered into. The Group is working closely with all counterparties to avoid a huge increase of interest rate on its contracts, however there is no assurance that the Group will be able to effectively manage its interest rates. In addition, there are fundamental differences between IBORs and the various alternative benchmark rates. IBORs are forward looking term rates published for a period at the beginning of that period and include an inter-bank credit spread, whereas alternative benchmark rates are typically risk-free overnight rates published at the end of the overnight period with no embedded credit spread. These differences will also result in additional uncertainty regarding the Group's floating interest rate payments.

The Group may not be able to fully detect money laundering and other illegal or improper activities in its business operations on a timely basis

The Group is required to comply with applicable anti-money laundering, anti-terrorism laws and other regulations in the PRC and other relevant jurisdictions. While the Group has spent substantial effort on the avoidance of money-laundering and other illegal activities by formulating and updating internal policies and procedures, in the event that the Group fails to detect money laundering or other illegal activities or fails to fully comply with applicable laws and regulations, the relevant government agencies may freeze the Group's assets or impose fines or other penalties on it. Any of these may materially and adversely affect the Group's business reputation, financial condition and results of operations and may also materially and adversely affect the Issuer's performance under the Notes.

The Group may be involved in disputes, legal and other proceedings arising out of its operations from time to time and may face significant liabilities as a result

The Group may from time to time be involved in disputes with various parties involved in its businesses, including contractors, customers and suppliers. Such disputes may lead to legal or other proceedings and they may damage the Group's reputation, increase the Group's costs of operations and divert the Group's management attention from daily business operations. In addition, where regulatory bodies or governmental authorities disagree with the Group in respect of its operations, the Group may be subject to administrative proceedings and unfavourable decrees that could result in liabilities and delays to its projects. There can be no assurance that the Group will not be so involved in any major legal or other proceedings in the future which may subject the Group to any significant liabilities and this may materially and adversely affect the Issuer's performance under the Notes. Moreover, legal proceedings resulting in judgements or findings against the Group may harm its reputation and affect its business prospects.

As at 31 December 2021, the Guarantor has been involved in a legal action involving dispute over the Group's overseas investment. Based on advice of legal counsel and information available to the Group, the directors of the Guarantor are of the opinion that it is pre-mature to assess the possible outcome of the case and the Guarantor is unable to ascertain the likelihood and estimate a reliable amount of the claim at the current stage.

As at 31 December 2021, TCP and its subsidiaries (together, the "TCP Group") had significant contingent liabilities arising from pending legal proceedings in Brazil in respect of disputes with local tax authorities, employees or former employees of the TCP Group and other parties, amounting to HK$255 million, which, based on the latest estimates of the management of the Group, is not probable that outflows of resources embodying economic benefits will be required to settle these obligations.

Sanctions could affect the Group's activity and operations

Investing in certain countries and engaging in dealings with or involving certain countries, entities and individuals could result in adverse consequences to the Group under existing or future sanctions. Sanctions regimes can also be subject to sudden change and there can be no assurance that any such change to, or expansion of, the current sanctions regimes would not impact or limit the ability of the Group to undertake certain operations in the jurisdictions where it currently carries out its operations, or otherwise affect the financial performance of the Group in such jurisdictions.

The Group is becoming increasingly reliant on information technology systems for its business and any information technology system limitations or failures could adversely affect its business, financial condition and results of operations

One of the Group's major strategies is to promote business innovation within its operations and in particular, to deploy sophisticated technology in order to establish a comprehensive port services ecosystem. As the Group becomes more reliant on technology, it will naturally also become more exposed to the risks associated with disruptions to such technology. If the Group's information technology systems cannot effectively address issues arising from any increase in business volumes or otherwise fail to perform, the Group could experience unanticipated disruptions in business, slower response times and limitations on the Group's ability to monitor and manage data and risk exposures, control financial and operation conditions, and keep accurate records. These consequences could result in operating outages, poor operating performance, financial losses, and intervention from regulatory authorities. Moreover, the Group may need to expand or upgrade its technology systems and network infrastructure. There can be no assurance that the Group will be able to accurately project the rate, timing or cost of any such expansions or upgrades and this may adversely affect the Group's business, results of operations and financial condition and the Issuer's performance under the Notes.

The Group's business generates and processes a large amount of data, and any improper use or disclosure of such data could subject the Group to significant reputational, financial, legal and operational consequences, and deter current and potential customers from using its services

The Group's business generates and processes a large quantity of transaction data. The Group face risks inherent in handling large volumes of data and protecting the security of such data. In particular, the Group faces a number of challenges relating to data from transactions and other activities on its platforms, including:

- protecting the data in and hosted on the Group's system, including against attacks on its system by outside parties or fraudulent behaviour by its employees;
- addressing concerns related to privacy and sharing, safety, security and other factors; and
- complying with applicable laws, rules and regulations relating to the collection, use, retention, disclosure or security of information, including any requests from regulatory and government authorities relating to such data.

Any systems failure or security breach or lapse that result in the release of user data could harm the Group's reputation and brand, and consequently, its business, in addition to exposing it to potential legal lability. Any failure, or perceived failure, by the Group to comply with its privacy policies or with any regulatory requirements or privacy protection related laws, rules and regulations could result in proceedings or actions against it by governmental entities or others. These proceedings or actions may subject the Group to significant penalties and negative publicity, require the Group to change its business practises, increase its costs and severely disrupt its business.

The Group is subject to domestic and international laws relating to the collection, use, retention, security, and transfer of personally identifiable information, with respect to its customers and employees. In many cases, these laws do not only apply to third-party transactions, but may also restrict transfers of personally identifiable information among the Group and its international subsidiaries. Several jurisdictions have passed laws in this area, and other jurisdictions are considering imposing additional restrictions. These laws continue to develop and may vary from jurisdiction to jurisdiction. Complying with emerging and changing international requirements may cause the Group to incur substantial costs or require it to change its business practises, and failure to comply with any data protection laws could subject the Group to significant penalties and negative publicity and severely disrupt its operations.

RISKS RELATING TO THE ISSUER AND THE GUARANTOR

The Guarantor's ability to make payments on the Guarantee of the Notes depends upon receipt of distributions from its subsidiaries, associated companies and joint ventures

The Guarantor's ability to make payments on the Guarantee of the Notes, which is solely an obligation of the Guarantor, and to make payments to the Issuer to fund payments on the Notes, depends upon the receipt of dividends, distributions, interest or advances from its wholly-owned or partly-owned subsidiaries, associates and joint ventures. The ability of the subsidiaries, associates and joint ventures of the Guarantor to pay dividends and other amounts to the Guarantor may be subject to their profitability and to applicable laws and regulations. Furthermore, under applicable PRC laws, rules and regulations, payment of dividends by our PRC subsidiaries is permitted only out of their retained earnings, if any, determined in accordance with PRC accounting standards. Under PRC laws, rules and regulations, all of our PRC subsidiaries are required to set aside at least 10% of their after-tax profit based on PRC accounting standards each year to their respective statutory capital reserve funds until the accumulative amount of such reserves reaches 50% of their respective registered capital. As a result, the Group's PRC subsidiaries are restricted in their ability to transfer a portion of their net income to us whether in the form of dividends, loans or advances. The outstanding indebtedness of the subsidiaries, associates and joint ventures of the Guarantor may contain covenants restricting the ability of such entity to pay dividends in certain circumstances for so long as such indebtedness remains outstanding. Moreover, the Guarantor's percentage interests in its subsidiaries, associates and joint ventures could be reduced in the future.

In addition, the Guarantor's receipt of dividends, distributions, interest or advances from its wholly-owned or partly-owned subsidiaries, associates and joint ventures is also subject to the controls imposed by the PRC government on the convertibility of Renminbi into foreign currencies and the remittance of currency to jurisdictions outside China in certain cases. Under existing PRC foreign exchange regulations, payments of certain current account items can be made in foreign currencies without prior approval from the local branch of the SAFE, by complying with certain procedural requirements. However, except as otherwise specified by laws and regulations, approval from the appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted to a jurisdiction outside China to pay capital expenses such as the repayment of bank loans denominated in foreign currencies. The PRC government may also, at its discretion, restrict access to foreign currencies for current account transactions in the future. The Guarantor's PRC subsidiaries must present certain documents to the SAFE, its authorised branch, or the designated foreign exchange bank, for approval before they can obtain and remit foreign currencies out of China, including, in the case of dividends, evidence that the relevant PRC taxes have been paid and, in the case of shareholder loans, evidence of the registration of the loan with the SAFE. Prior to payment of interest and principal on any shareholder loan that the Guarantor makes to its PRC subsidiaries, the relevant PRC subsidiary must also present evidence of payment of the 10% withholding tax or lower tax treaty rate on the interest payable in respect of such shareholder loan.

The Group is exposed to foreign exchange risks

Most of the transactions of the Group are denominated in Renminbi, Hong Kong dollars or US dollars. The Group is exposed to foreign exchange risk primarily through sales and purchases, capital expenditures and expenses that are denominated in a currency other than the functional currency of the relevant company in the Group. The Group considers that its foreign currency exposure mainly arises from the exposure of Renminbi against the Hong Kong dollar and the US dollar. Approximately 71.7% of the Group's bank and other borrowings as at 31 December 2021 were denominated in Hong Kong dollars and US dollars while the remaining borrowings were denominated in other currencies including Brazilian Real, Euro and Renminbi. The majority of the Group's operating subsidiaries draw loans in their functional currencies to finance their funding requirements.

As the Hong Kong dollar is pegged to the US dollar, the Group has a limited exposure to transactions denominated in United States dollars, which are entered into by Group companies with a functional currency of Hong Kong dollars.

The exchange rates between the Renminbi, the US dollar and other foreign currencies is affected by, among other things, changes in China's political and economic conditions. On 21 July 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the US dollar. Under the new policy, the Renminbi is pegged against a basket of currencies, determined by the PBOC, against which it can fluctuate within a narrow and managed band based on market supply and demand

and by reference to a basket of currencies. On 21 May 2007, the PBOC enlarged the floating band for the trading prices in the inter-bank spot exchange market of Renminbi against the US dollar from 0.3% to 1.5% around the central parity rate. This allowed the Renminbi to fluctuate against the US dollar by up to 0.5% above or below the central parity rate published by the PBOC. The floating band was further widened to 1.0% on 16 April 2012. These changes in currency policy resulted in the Renminbi appreciating against the US dollar by approximately 26.9% from 21 July 2005 to 31 December 2013. On 14 March 2014, the PBOC further widened the floating band against the US dollar to 2.0% On 11 August 2015, to improve the central parity quotations of Renminbi against the US dollar, the PBOC authorised market-makers to provide central parity quotations to the China Foreign Exchange Trading Centre daily before the opening of the interbank foreign exchange market with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign exchange as well as changes in major international currency exchange rates. Following the announcement by the PBOC on 11 August 2015, Renminbi depreciated significantly against the US dollar. The Renminbi experienced further fluctuation in value against the US dollar. The PBOC also adjusted the mechanism for market makers to form the central parity rate by requiring them to consider the closing exchange rate of the last trading date, the supply and demand of foreign exchange and the rate change of primary international currencies. On 11 December 2015, the China Foreign Exchange Trade System ("CFETS"), an organisation under the PBOC, published the CFETS Renminbi exchange rate index for the first time, which weighs Renminbi based on 13 currencies, to guide the market in order to measure the Renminbi exchange rate from a new perspective. The PBOC has further authorised the CFETS to announce its central parity rate for Renminbi against the US dollar through a weighted averaging of the quotes from the market makers after removing the highest quote and the lowest quote. From 1 January 2017, according to the sampling rule of "CNY versus FX currency pair listed on CFETS", CFETS will add 11 currencies newly listed on CFETS in 2016, and the number of basket currencies will increase from 13 to 24. The International Monetary Fund announced on 30 September 2016 that, effective on 1 October 2016, the Renminbi was added to its special drawing rights currency basket. Following the gradual appreciation against US dollar in 2017, Renminbi experienced a recent depreciation in value against US dollar followed by a fluctuation in 2018 and early 2019. On 5 August 2019, the PBOC set the Renminbi's daily reference rate above RMB7 per US dollar for the first time in over a decade amidst an uncertain trade and global economic climate. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future. These changes in policy have resulted in fluctuations of the Renminbi against the US dollar in the past several years. There can be no assurance that the RMB exchange rate will remain stable against the US dollar or other foreign currencies in the market. While the international reaction of the Renminbi revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the Renminbi against the US dollar or other foreign currencies.

As the Renminbi exchange rate is no longer fixed, any volatility of the Renminbi exchange rate and any continued depreciation of the Renminbi in the future may materially affect the Group's business, financial position, operating results and future prospects and any devaluation of the Renminbi against the Hong Kong dollar and the US dollar will increase the amount of Renminbi the Group would need to service its obligations denominated in Hong Kong dollars or US dollars

The imposition of or increase in the level of trade barriers, restrictions on exports or imports or trade disputes may adversely affect the business of the Group

Some countries may impose tariffs or non-tariff barriers to restrict the flow of imported products into their local markets. Such trade barriers or any trade dispute may hinder international trade and the volume of shipments, which may in turn adversely affect the business of the Group, in particular its ports and logistics related businesses, which are highly dependent on the volume of import and export trade. Any imposition of trade barriers or other restriction on the import or export of goods into or out of the PRC may have a material adverse effect on the Group's business, financial position and operating results, as well as the Group's future prospects.

The Group's historical financial information may not be indicative of its current or future results of operations and investors should exercise caution in comparing financial data between years due to changes in its portfolio or changes in accounting standards

The Group's historical consolidated financial information must be evaluated in light of the impact of the changes in its portfolio that have occurred in the years covered in the financial statements, as well as due to changes in accounting standards. There can be no assurance that the historical financial information were or will be indicative of what the Group's results of operations, financial condition or cash flow will be in the future or that financial information is comparable on a year to year basis.

The Group establishes, as well as acquires and disposes of equity interests in, joint venture and portfolio companies from time to time in accordance with the Group's business objectives. Year-to-year comparisons of the Guarantor's historical operating results must be evaluated in light of the impact of such transactions.

RISKS RELATING TO THE PRC AND HONG KONG

The PRC's economic, political and social conditions, as well as government policies, could affect the Group's business

The Group derives a substantial portion of its revenues from its operations in the PRC. The Group's financial condition, operating results and future prospects will, accordingly, be subject to economic, political and legal developments in the PRC, as well as in the economies of the surrounding region. The following conditions and developments in the PRC may materially adversely affect the Group's financial condition, operating results and future prospects:

- inflation, interest rates and general economic conditions;
- the introduction of economic policies to control inflation or stimulate growth, change the rate or method of taxation or impose additional restrictions on currency conversions and remittances abroad, where the government has periodically taken measures to slow economic growth to a more manageable level, in response to concerns about the PRC's historical high growth rate in industrial production, bank credit, fixed investment and money supply;
- the structure of the economy, where the economy has been transitioning from a planned economy to a market-oriented economy, but the government still controls a substantial portion of productive assets, continues to play a significant role in regulating industries through industrial policies and exercises significant control over growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies;
- demographic factors in the PRC which has a rapidly growing population requiring rapid economic growth to assure employment and stability;
- governmental policies, laws and regulations, including, without limitation, those relating to foreign investment anti-trust, or classification of industries, and changes to such policies, laws and regulations and their implementation and interpretation, which could prevent, delay, increase the cost of or otherwise adversely affect the Group's ability to invest in, acquire or divest, develop, operate or manage its facilities;
- certain recent changes in PRC tax law and proposed application and/or interpretation of these laws could increase the Group's PRC tax liability;
- the risk of nationalisation and expropriation of assets;

- currency controls and other regulations, which may affect the Guarantor's ability to receive distributions or other dividends from the Guarantor's subsidiaries or other entities in which it may have any interest, to borrow onshore or offshore where the facility or the relevant subsidiary or entity is located, or to carry out acquisition, divestment and capital expenditure plans; and

- political and other conditions, including the ongoing economic conflict and trade tension between the United States and the PRC.

While the PRC economy has experienced significant growth in the past 20 years, growth has been uneven, both geographically and among the various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also have a negative effect on the operations of the Group. For example, the Group's financial condition and results of operations may be adversely affected by the PRC government's control over capital investments or any changes in tax regulations, labour regulations or foreign exchange controls that are applicable to the Group.

The PRC economy has been transitioning from a planned economy to a more market-orientated economy. Although, in recent years, the PRC government has implemented measures emphasising the utilisation of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of productive assets in the PRC is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating the development of industries in the PRC by imposing top-down policies. It also exercises significant control over the PRC's economic growth through the allocation of resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

Under the Enterprise Income Tax Law, the Issuer may be classified as a "resident enterprise" of the PRC. Such classification could result in unfavourable tax consequences to the Issuer and its non-PRC Noteholders

Under the Enterprise Income Tax Law (the "EIT Law") of the PRC, an enterprise established outside the PRC with a "de facto management body" within the PRC is deemed a "resident enterprise", meaning that it can be treated as a PRC enterprise for enterprise income tax purposes, although dividends paid from one resident enterprise to another may qualify as "tax-exempt income". The implementing rules of the EIT Law define "de facto management" as "substantial and overall management and control over the production and operations, personnel, accounting, and properties" of the enterprise. A circular issued by the State Administration of Taxation on 22 April 2009 (the "Circular 82") which came into effect as of 1 January 2008 provides that a foreign enterprise controlled by a PRC company or a PRC company group will be treated as a "resident enterprise" with a "de facto management body" located within the PRC if all of the following requirements are satisfied at the same time: (i) the senior management and core management departments in charge of daily operations are located mainly within the PRC; (ii) financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (iii) major assets, accounting books, company seals and minutes and files of board and shareholders' meetings are located or kept within the PRC; and (iv) at least half of the enterprise's directors with voting rights or senior management frequently reside within the PRC.

On 27 July 2011, the State Administration of Taxation promulgated the Provisional Administrative Regulations of Enterprise Income Taxation of a Foreign Enterprise Controlled by a PRC Enterprise or a PRC Enterprise Group ("Circular 45") which came into effect as of 1 September 2011, to further prescribe the rules concerning the recognition, administration and taxation of a foreign enterprise "controlled by a PRC enterprise or PRC enterprise group". Circular 45 identifies and defines two ways for a foreign enterprise "controlled by a PRC enterprise or a PRC enterprise group" to be treated as a resident enterprise. First, the foreign enterprise may decide on its own whether its de facto management body is located in the PRC based on the criteria set forth in Circular 82, and, if it makes such determination, it shall apply to the competent tax bureau to be treated as a resident enterprise. Secondly, the tax authority may determine that the foreign enterprise is a resident enterprise following an investigation.

The Issuer and the Guarantor believe that the Issuer is currently not a "resident enterprise", and as confirmed by the Issuer and the Guarantor, as at the date of this Offering Memorandum, neither the Issuer nor the Guarantor has been notified or informed by the PRC tax authorities that the Issuer is considered as a "resident enterprise" for the purpose of the EIT Law. However, neither the Issuer nor the Guarantor can assure Noteholders that the Issuer will not be deemed a "resident enterprise" under the EIT Law and other applicable implementation regulations and, therefore, be subject to enterprise income tax at a rate of 25% on its global income in the future.

If the Issuer is not considered to be a "resident enterprise" for EIT Law purposes, the payment of interest on the Notes to the overseas Noteholders will not be subject to PRC withholding tax. Under the EIT Law and the implementation regulations thereunder, PRC withholding tax at a rate of 10% is normally applicable to PRC-source income derived by non-PRC resident enterprises or individuals, subject to adjustment by applicable treaty. The EIT Law's implementation regulations further set forth that interest income is viewed as PRC-source income if the enterprise or the establishment that pays or bears the interest is situated in the PRC. If the Issuer is deemed a PRC resident enterprise for tax purposes, interest paid to non-PRC resident Noteholders may be regarded as PRC-sourced and therefore be subject to PRC withholding tax at a rate of 10% for enterprise Noteholders and 20% for individual Noteholders (or a lower treaty rate, if any).

Any gains realised on the transfer of the Notes by such Noteholders may also be subject to PRC income tax at a rate of 10% for enterprise Noteholders or 20% for individual Noteholders, if such gains are regarded as PRC-sourced. According to an arrangement between the PRC and Hong Kong for the avoidance of double taxation, Noteholders who are Hong Kong residents, including both enterprise holders and individual holders, will be exempted from PRC income tax on capital gains derived from a sale or exchange of the Notes.

If a Noteholder, being a non-PRC resident enterprise or non-PRC resident individual, is required to pay any PRC income tax on capital gains on the transfer of the Notes, the value of the relevant Noteholder's investment in the Notes may be materially and adversely affected.

Under the Circular of Full Implementation of Business Tax to VAT Reform, interest paid on the Notes might be subject to VAT and relevant local levies, and the Issuer might be obligated to withhold the VAT

On 23 March 2016, the Ministry of Finance and the SAT issued the Circular of Full Implementation of Business Tax to VAT Reform (Caishui [2016] No. 36) ("Circular 36"), which completely replaced the regime of PRC business tax from 1 May 2016. VAT is applicable where the entities or individuals provide services within the PRC. The services are treated as being provided within the PRC where either the service provider or the service recipient is located in the PRC. The services subject to VAT include the provision of financial services such as the provision of loans. It is further clarified under Circular 36 that the "loans" refers to the activity of lending capital for another's use and receiving the interest income thereon. Based on the definition of "loans" under Circular 36, the issuance of Notes is likely to be treated as the Noteholders providing loans to the Issuer, which thus could be regarded as the provision of financial services that could be subject to VAT. However, there can be no assurance that relevant PRC tax authorities will not regard the provision of loans to the Issuer under the Notes as the provision of financial services within the PRC, which thus could be subject to VAT. If relevant PRC tax authorities deem the holders of the Notes as providing financial services within China, interest paid on the Notes might be subject to PRC value-added tax and relevant local levies (currently at a rate of 6.72%) which may require the Noteholders to pay an additional amount and also increase the Group's cost of servicing payments on the Notes.

A significant proportion of the Group's revenue is denominated in Renminbi, which is not freely convertible for capital account transactions

The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of the PRC. A significant proportion of the Group's revenue is denominated in Renminbi and must be converted to pay dividends or make other payments in freely convertible currencies, including payments on the Notes. Under the PRC's foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade, may be made in foreign currencies without prior approval, subject to certain procedural requirements. However, foreign exchange controls continue for capital account transactions, including repayment of indebtedness denominated in foreign currencies, including the Notes, and return of direct capital investments and investments in negotiable securities. The restrictions on foreign exchange transactions under capital accounts could also affect the Guarantor's PRC subsidiaries' ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from the Guarantor. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. Shortages in the availability of foreign currency may restrict the ability of the Guarantor's PRC subsidiaries to remit sufficient foreign currency to pay dividends or make other payments to the Guarantor, or otherwise satisfy their foreign currency denominated obligations, if any. In the past, there have been shortages of US dollars or other foreign currency available for conversion of Renminbi in the PRC, and it is possible such shortages could recur, or that restrictions on conversion could be re-imposed. If the foreign exchange control system prevents the Guarantor from obtaining sufficient foreign currency to satisfy its currency demands, the Guarantor's PRC subsidiaries may not be able to pay dividends in foreign currencies to the Guarantor, which could adversely affect the Guarantor's ability to make payments under the Guarantee of the Notes or make payments on the Notes through the Issuer.

The legal system of the PRC is still developing and there are inherent uncertainties that may affect the protection afforded to the Group's business

The Group's business and operations in the PRC are governed by the PRC legal system that is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since the late 1970s, the PRC government has promulgated laws and regulations dealing with economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade. However, as these laws and regulations are relatively new and continue to evolve, interpretation and enforcement of these laws and regulations involve significant uncertainties and different degrees of inconsistency. Some of the laws and regulations are still in the developmental stage and are therefore subject to policy changes. The implementation, interpretation and enforcement of many laws, regulations, policies and legal requirements may involve uncertainty due to the lack of established practise available for reference.

The Group cannot predict the effect of future legal developments in the PRC, including the promulgation of new laws, changes in existing laws or their interpretation or enforcement, or the pre-emption of local regulations by national laws. As a result, there remains uncertainty as to the legal protection available to the Group. Furthermore, due to the limited volume of published cases and the non-binding nature of prior court decisions, the outcome of dispute resolution may not be as consistent or predictable as in other more developed jurisdictions, which may limit the legal protection available to the Group.

Hong Kong is exposed to geopolitical risk which may affect the Group's financial condition and the results of its operations

Some of the assets of the Group are located in, and part of the Group's revenue are derived from activities in, Hong Kong. Hong Kong became a Special Administrative Region of the PRC on 1 July 1997 and has maintained its role as an international financial centre. Accordingly, the Group is subject to geopolitical risk, in particular any relationship tension between China and other countries such as the United States. Such tension may result in economic, political and legal developments which may affect the Group's financial condition and results of operations.

On 30 June 2020, the Standing Committee of the National People's Congress of the PRC passed the Law of the People's Republic of China on Safeguarding National Security in the Hong Kong Special Administrative Region (the "Hong Kong National Security Law"). The Hong Kong National Security Law took effect on 30 June 2020. On 14 July 2020, the US President signed into law the Hong Kong Autonomy Act (the "Autonomy Act") and issued The President's Executive Order on Hong Kong Normalisation ("EO 13936"). Under EO 13936, among other things, existing licence exceptions and preferential status for Hong Kong under relevant US export control laws and regulations are revoked. As a result, exports to Hong Kong of certain US controlled software, commodities, and technology are subject to the enhanced requirements applicable to exports to the PRC. Any further economic sanctions imposed under the Autonomy Act or EO 13936, trade-related restrictions under EO 13936, and other sanctions may have an impact on the Group's operations.

There can be no assurance that the political and legal environment in Hong Kong will remain favourable to the Group's business in future. Future geopolitical or domestic political instability or a sustained slowdown in domestic and global economic activities as a result of such instability may adversely affect the Group's financial condition and results of operations.

It may be difficult to enforce any judgements obtained from non-PRC courts against the Group or its directors and senior management who reside in the PRC

A substantial portion of the Group's assets is located within the PRC. In addition, most of the Group's directors and senior management reside within China, and assets of the directors and senior management may also be located within China. It may not be possible to effect service of process outside China upon most of the Group's directors and senior management, including for matters arising under applicable securities law. A judgement of a court of another jurisdiction may be reciprocally recognised or enforced if the jurisdiction has a treaty with China or if judgements of the PRC courts have been recognised before in that jurisdiction, subject to the satisfaction of other requirements. However, China does not have treaties providing for the reciprocal recognition and enforcement of judgements of courts with many countries, including Japan, the United States and the United Kingdom. Therefore, it may be difficult for investors to enforce any judgements obtained from non-PRC courts against the Group, the Guarantor, any of their respective directors or senior management in the PRC.

PRC Government's control over foreign currency conversion may limit the Group's foreign exchange transactions

Currently, RMB still cannot be freely converted into any foreign currency, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. It cannot be guaranteed that under a certain exchange rate, the Group will have sufficient foreign exchange to meet its foreign exchange requirements. Under the current PRC foreign exchange control system, foreign exchange transactions under the current account conducted by the Group do not require advance approval from SAFE, but the Group is required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within the PRC that have the requisite licences to carry out foreign exchange business. Foreign exchange transactions under the capital account conducted by the Group, however, must be approved in advance by SAFE or registered with SAFE upon approval of other competent authorities, including National Development and Reform Commission (the "NDRC") and the Ministry of Commerce.

Any changes to laws, regulations and government policies governing the ports terminal industry in the PRC may have a material adverse effect on the business and operations of the Group

Any changes to laws, regulations and policies governing the port terminal industry in China may have a material adverse effect on the Group's business and operations. The Ministry of Transport of the PRC ("**MOT**") and other relevant government departments currently formulate port dues and charges chargeable by port terminal operators. Exports or imports of cargo must undergo customs and excise, quarantine procedures and government inspection. Construction of the Group's port infrastructure and facilities is subject to environmental and urban planning laws and procedures. The administration and changes of these laws or procedures may adversely affect the efficiency of the operations of the Group.

Further, the Group operates its business pursuant to licences granted by various PRC government authorities. If these approvals or licences were revoked or suspended as a result of any changes in laws, regulations or government policies, the business and operations of the Group may be materially and adversely affected.

The ports industry in the PRC and abroad is a highly regulated industry

The ports industry in the PRC and abroad is highly regulated. In the PRC, operators are required to obtain a ports operation licence as well as to comply with strict regulations in respect of, among other things, operational management, supervision, inspection and the loading, unloading and storage of hazardous goods. One of the key areas in which regulation affects ports operators is with respect to fees and charges. The MOT, the administrative body in charge of the ports industry in the PRC, together with the NDRC, are responsible for setting ports fees and charges, other than fees and charges for domestic non-containerised cargo handling which have recently been liberalised. Ports operators must, with limited exceptions, set their fees and charges for services other than domestic non-containerised cargo handling in accordance with the fees and charges determined by the MOT and the NDRC. As such, operators have limited room to compete with each other on the basis of price and instead must rely on service levels and efficiency. In addition, the Group's other ports operation abroad are also subject to various degree of regulations and licencing requirements.

Furthermore, as a result of terrorist activities and increased security concerns, there is a global move towards increased inspection procedures and tighter import/export controls and safety regulations. Although there are currently no specific regulations or compliance procedures that affect the Group in this regard, it cannot assure investors that such regulations or procedures will not be introduced in the future. If the additional compliance costs of any such regulations or procedures cannot be recovered through higher ports fees and charges, the operating margins of port operators may be adversely affected.

RISKS RELATING TO THE NOTES AND THE GUARANTEE OF THE NOTES

The PRC government has no obligations under the Notes or the Guarantee of the Notes

The PRC government is not an obligor and shall under no circumstances have any obligation arising out of or in connection with the Notes or the Guarantee of the Notes in lieu of the Issuer or (as the case may be) the Guarantor. This position has been reinforced by the Circular of the Ministry of Finance on Issues relevant to the Regulation on the Investment and Financing Activities Conducted by Financial Institutions for Local Governments and State-owned Enterprises (財政部關於規範金融企業對地方政府和國有企業投融資行為有關問題的通知)(財金[2018]23 號) promulgated on 28 March 2018 and took effect on the same day, the Circular of the National Development and Reform Commission and the Ministry of Finance on Improvement of Market Regulatory Regime and Strict Prevention of Foreign Debt Risks and Local Government Indebtedness Risks (國家發展改革委財政部關於完善市場約束機制嚴格防範外債風險和地方債務風險的通知)(發改外資[2018]706號) promulgated on 11 May 2018 and took effect on the same day and the Circular by the General Office of the National Development and Reform Commission of the Relevant Requirements for the Application for Recordation and Registration of Foreign Debt Issuance by Local State-owned Enterprises (國家發展改革委辦公廳關於對地方國有企業發行外債申請備案登記有關要求的通知)(發改辦外資[2019]666號) promulgated on 6 June 2019 and took effect on the same day.

The PRC government is the ultimate controlling shareholder of the Guarantor, the Guarantor's shareholders only have limited liability in the form of its equity contribution in the Guarantor. As such, the PRC government does not have any payment obligations under the Notes or the Guarantee of the Notes. The Notes are solely to be repaid by the Issuer and by the Guarantor pursuant to the Guarantee of the Notes, each as an obligor under the relevant transaction documents and as an independent legal person.

The Issuer or the Guarantor may be substituted without the consent of the Noteholders

The Terms and Conditions of the Notes permit that the Guarantor may be substituted without the consent of the Noteholders for any entity which following an amalgamation, reconstruction or otherwise, has vested in or imposed on it all or substantially all of the undertakings, properties or assets of the Guarantor, including obligations and liabilities under the Guarantee of the Notes (such substituted company being hereinafter called the "**New Guarantor**"). The Terms and Conditions of the Notes also permit that the Issuer may be substituted without the consent of the Noteholders for an Affiliate of the Issuer to assume liability for the due and punctual payment of all payments and the performance of all the Issuer's other obligations under, or in respect of, the Notes then outstanding.

Following such substitution pursuant to Condition 14 of the Terms and Conditions of the Notes, the Notes will have a different entity as either issuer or guarantor and potentially with a different credit profile. The substituted securities may also be unrated (other than where the New Guarantor was rated immediately prior to such amalgamation or reconstruction) or be assigned a different credit rating from the Notes (if the Notes are then rated) which, in turn, may be disadvantageous to the Noteholders as such substitution and/or withdrawal of the rating may materially adversely affect the market price of the Notes. This in turn, may impact the Noteholders' ability to resell the Notes. There can also be no assurance that such substitution of the Issuer or the Guarantor will not adversely affect the market price of the substituted securities.

The Notes and the Guarantee of the Notes are unsecured obligations

As the Notes and the Guarantee of the Notes are unsecured obligations, their payment may be compromised if:

- the Issuer or the Guarantor enters into bankruptcy, liquidation, reorganisation or other winding-up proceedings;

- there is a default in payment under the Issuer's or the Guarantor's secured indebtedness or other unsecured indebtedness; or

- there is an acceleration of any of the Issuer's or the Guarantor's indebtedness.

If any of these events were to occur, the Issuer's or, as the case may be, the Guarantor's assets and any amounts received from the sale of such assets may not be sufficient to pay amounts due on the Notes.

An active trading market for the Notes may not develop

The Notes are a new issue of securities for which there is currently no trading market. Although an application will be made to the Hong Kong Stock Exchange for the listing of the Notes, no assurance can be given that such application will be approved, or even if the Notes become so listed, an active trading market for the Notes will develop or be sustained. No assurance can be given that an active trading market for the Notes will develop or as to the liquidity or sustainability of any such market, the ability of holders to sell their Notes or the price at which holders will be able to sell their Notes. There can be no assurance that certain of the Joint Lead Managers and/or their affiliates will not initially purchase a significant portion of the Notes for asset management and/or proprietary purposes but not with a view to distribution. Liquidity of the Notes will be adversely affected if the Notes are held by or allocated to limited investors. None of the Joint Lead Managers is obliged to make a market in the Notes and any such market making, if commenced, may be discontinued at any time at the sole discretion of the Joint Lead Managers. In addition, the Notes are being offered pursuant to exemptions from registration under the Securities Act and, as a result, holders will only be able to resell their Notes in transactions that have been registered under the Securities Act or in transactions not subject to or exempt from registration under the Securities Act.

The Issuer may issue additional Notes in the future

The Issuer may, from time to time, and without prior consultation with the Noteholders create and issue further Notes with respect to the Notes (see "*Terms and Conditions of the Notes — Further Issues*") or otherwise raise additional capital through such means and in such manner as the Group may consider necessary. There can be no assurance that such future issuance or capital raising activity will not adversely affect the market price of the Notes.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Notes are legal investments for it, (ii) the Notes can be used as collateral for various types of borrowing, and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

The liquidity and price of the Notes following the offering may be volatile

The price and trading volume of the Notes may be highly volatile. Factors such as variations in the Group's turnover, earnings and cash flows, proposals for new investments, strategic alliances and/ or acquisitions, changes in interest rates, fluctuations in price for comparable companies, government regulations and changes thereof applicable to the department store industry and general economic conditions nationally or internationally could cause the price of the Notes to change. Any such developments may result in large and sudden changes in the trading volume and price of the Notes. There is no assurance that these developments will not occur in the future.

The Notes may not be a suitable investment for all investors

The Notes are complex financial instruments and may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Notes unless it has the expertise (either alone or with the assistance of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Memorandum or any applicable supplement;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;

- understand thoroughly the terms and conditions of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

- be able to evaluate (either alone or with the assistance of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The failure to comply with the requirements of the NDRC in respect of the issue of the Notes could have adverse consequences for the Issuer, the Guarantor, the Notes and the investors in the Notes

The NDRC Circular on 14 September 2015, which came into effect on the same day, stating that domestic enterprises and their overseas controlled entities shall procure the registration of any debt securities issues outside the PRC with the NDRC prior to the issue of the securities and notify the particulars of the issuance within 10 working days after the completion of the issue of the securities. On 18 December 2015, the NDRC promulgated a further NDRC Circular named as Guidance for Off-shore Bond Issuance which come into effect on the same day (the "**New NDRC Circular**", and together with the NDRC Circular, the "**NDRC Circulars**"). According to the New NDRC Circular, the enterprise which fails to complete the pre-issue registration and post-issue notification requirement or provides false information shall be listed on the Credit Blacklist and in the National Uniform Credit Information Share & Exchange System by NDRC. The NDRC has issued the pre-issuance registration certificate in respect of the offering of the Notes on 26 April 2022.

The administration of the NDRC Notice may be subject to a certain degree of executive and policy discretion by the NDRC. There is no assurance that the Guarantor will be able to comply with the NDRC requirements to provide the notification of the particulars of the issue of the Notes to the NDRC within the prescribed timeframe. There is also no assurance that the Guarantor will not be subject to any penalties if it fails to (including for reasons outside of the Guarantor's control) complete the Post-Issuance Filing within the required timeframe. The NDRC Circulars does not expressly state the legal consequences of non-compliance with such post-issue notification requirements, and accordingly there is no assurance that the failure to comply with the NDRC requirements would not result in any adverse consequences for the Guarantor, the Notes or the investors in the Notes. In the worst case scenario, it might become unlawful for the Guarantor to perform or comply with any of its obligations under the Notes. Potential investors of the Notes are advised to exercise due caution when making their investment decisions. The Guarantor has undertaken in the Terms and Conditions of the Notes to notify the NDRC of the particulars of the issue of the Notes within the prescribed period (being 10 working days) under the NDRC Circular. As advised by the PRC legal counsel of the Guarantor, the Guarantor believes that such post-issuance notification is a procedural process provided that all relevant documents have been duly submitted to the NDRC rather than a substantive approval or consent process, and believes that any failure by the Guarantor to complete the such post-issuance notification in accordance with the NDRC Circulars will not impact the enforceability or validity of the Notes. There is also no assurance that the post-issuance notification can be completed in time or at all or the registration with the NDRC will not be revoked or amended in the future or that future changes in PRC laws and regulations will not have a negative impact on the performance or validity and enforceability of the Notes in the PRC. Potential investors of the Notes are advised to exercise due caution when making their investment decisions.

The Notes will be effectively subordinated to all of the liabilities of its subsidiaries and affiliates

The Issuer is a wholly-owned subsidiary of the Guarantor formed for the principal purposes of issuing the Notes and will on-lend the entire proceeds from the issue of the Notes to the Guarantor and its subsidiaries. The Issuer does not and will not have any net assets other than such on-lent loans and its ability to make payments under the Notes depends on timely payments under such loans. In the event that the Guarantor and its subsidiaries do not make such payments due to limitation in such loans or other agreements, lack of available cashflow or other factors, the Issuer's ability to make payments under the Notes could be adversely affected.

The Guarantor is primarily a holding company and its ability to make payments in respect of the Guarantee of the Notes or to fund payments by the Issuer depends largely upon the receipt of dividends, distributions, interest or advances from its wholly or partly owned subsidiaries, its associated companies and the Group's joint ventures. The ability of the subsidiaries and associated companies of the Guarantor and the Group's joint ventures to pay dividends and other amounts to the Guarantor may be subject to their profitability and to applicable laws and to restrictions on the payment of dividends contained in financing or other agreements. Payments under the Guarantee of the

Notes are structurally subordinated to all existing and future liabilities and obligations of each of the Guarantor's subsidiaries (other than the Issuer), its associated companies and the Group's joint ventures. Claims of creditors of such companies will have priority as to the assets of such companies over the Guarantor and its creditors, including holders of the Notes seeking to enforce the Guarantee of the Notes.

The terms of the Notes do not restrict the ability of the Guarantor's subsidiaries, associated companies and joint ventures to incur additional debt. In addition, further issues of equity interests by such subsidiaries, associated companies and joint ventures may dilute the ownership interest of the Guarantor in such entities.

The ratings assigned to the Notes may be lowered or withdrawn

The Notes are expected to be rated "Baa1" by Moody's. The rating represents only the current opinions of the rating agencies and their current assessment of the ability of the Issuer and the Guarantor to perform their respective obligations under the Notes and the Guarantee of the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. Ratings are not recommendations to buy, sell or hold the Notes and may be subject to suspension, reduction or withdrawn at any time. Neither the Issuer nor the Guarantor is obligated to inform holders of the Notes if the ratings are lowered or withdrawn nor to maintain ratings for so long as the Notes are outstanding. Each rating should be evaluated independently of the other rating. A downgrade or withdrawal of the ratings may materially and adversely affect the market price of the Notes and the Issuer's and the Guarantor's ability to access the debt capital markets.

If an investor holds Notes which are not denominated in the investor's home currency, it will be exposed to movements in exchange rates adversely affecting the value of its holding. In addition, the imposition of exchange controls in relation to any Notes could result in an investor not receiving payments on those Notes

The Issuer, or as the case may be, the Guarantor, will pay principal and interest on the Notes in United States dollars (the "**Specified Currency**"). This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease: (1) the Investor's Currency-equivalent yield on the Notes; (2) the Investor's Currency equivalent value of the principal payable on the Notes; and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer, or the Guarantor, as the case may be, to make payments in respect of the Notes. As a result, investors may receive less interest or principal than expected, or no interest or principal.

The Issuer's ability to make payments under the Notes will depend on timely payments under on-lent loans of the proceeds from the issue of the Notes to the Guarantor and its subsidiaries

The Issuer is a wholly-owned subsidiary of the Guarantor formed for the purpose of raising finance for the purposes of issuing securities, including the Notes, and on-lending the net proceeds from the issue of any such securities, including the Notes, to the Guarantor's subsidiaries. The Issuer does not and will not have any net assets other than such on-lent loans and its ability to make payments under the Notes depends on timely payments under such loans. In the event that the Guarantor and its subsidiaries do not make such payments due to limitation in such loans or other agreements, lack of available cash flow or other factors, the Issuer's ability to make payments under the Notes may be adversely affected.

The Issuer may not be able to repurchase the Notes upon a Change of Control Triggering Event

The Issuer will offer to purchase the Notes upon the occurrence of a Change of Control Triggering Event, at a purchase price equal to 101% of the principal amount, together with accrued interest. See "*Terms and Conditions of the Notes*".

If the Issuer or the Guarantor is unable to repay (or cause to be repaid) all of the Indebtedness, if any, that would prohibit repurchase of the Notes or is unable to obtain the requisite consents of the holders of such Indebtedness, or terminate any agreements or instruments that would otherwise prohibit a Change of Control Offer, the Issuer may be prohibited from purchasing the Notes. In that case, the failure to purchase tendered Notes may constitute an Event of Default under the Terms and Conditions of the Notes.

Certain of the events constituting a Change of Control under the Notes will also constitute an event of default under certain debt instruments of the Issuer, the Guarantor and its Subsidiaries. Future debt of the Issuer and the Guarantor may also (1) prohibit them from purchasing Notes in the event of a Change of Control; (2) provide that a Change of Control is a default; or (3) require repurchase of such debt upon a Change of Control. Moreover, the exercise by the Noteholders of their right to require the Issuer to purchase the Notes could cause a default under other indebtedness of the Issuer or the Guarantor, even if the Change of Control itself does not, due to the financial effect of the purchase on the Issuer and the Guarantor.

The source of funds for any purchase of the Notes upon the occurrence of a Change of Control Triggering Event would be the Issuer's available cash or third-party financing. However, the Issuer may not have sufficient available funds at the time of the occurrence of any Change of Control Triggering Event to make purchases of the outstanding Notes. A failure to make the offer to purchase or purchase the outstanding Notes would constitute an Event of Default under the Terms and Conditions of the Notes. The Event of Default may, in turn, constitute an event of default under other indebtedness of the Issuer, the Guarantor and its material subsidiaries, any of which could cause the related debt to be accelerated after any applicable notice or grace periods. If the Issuer's or the Guarantor's other debt were to be accelerated, the Issuer and the Guarantor may not have sufficient funds to purchase the Notes and repay the debt.

The definition of Change of Control Triggering Event also does not necessarily afford protection for the holders of the Notes in the event of some highly leveraged transactions, including certain acquisitions, mergers, refinancings, restructurings or other recapitalisations, although these types of transactions could increase the Issuer's or the Guarantor's indebtedness or otherwise affect their capital structure or credit ratings. The definition of Change of Control also includes a phrase relating to the sale of "all or substantially all" the properties or assets of the Guarantor and its subsidiaries. Although there is a limited body of case law interpreting the phrase "substantially all," no precise definition of the phrase has been established. Accordingly, the ability of a Noteholder to require the Issuer to repurchase such holder's Notes as a result of a highly-leveraged transaction or a sale of less than all the properties or assets of the Guarantor and its subsidiaries to another person or group is uncertain and will be dependent upon particular facts and circumstances.

If the Issuer or the Guarantor is unable to comply with the restrictions and covenants in their respective debt agreements, there could be a default under the terms of these agreements, which could cause repayment of their respective debt to be accelerated

If the Issuer or the Guarantor were to be unable to comply with their respective current or future debt obligations and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to the Issuer and the Guarantor, accelerate repayment of the debt and declare all outstanding amounts due and payable or terminate the agreements, as the case may be. Furthermore, some of the Issuer's or the Guarantor's debt agreements contain cross-acceleration or cross-default provisions. As a result, the Issuer's or the Guarantor's default under one debt agreement may cause the acceleration of repayment of not only such debt but also other debt, including the Notes, or result in a default under the Issuer's or the Guarantor's other debt agreements. If any of these events occur, the Issuer and the Guarantor cannot assure holders that their respective assets and cash flows would be sufficient to repay in full all of their respective indebtedness, or that the Issuer and the Guarantor would be able to find alternative financing. Even if they could obtain alternative financing, they cannot assure holders that it would be on terms that are favourable or acceptable to them.

The insolvency laws of British Virgin Islands, Hong Kong and other local insolvency laws may differ from those of another jurisdiction with which the holders of the Notes are familiar

Since the Issuer and the Guarantor are incorporated under the laws of British Virgin Islands and Hong Kong, respectively, any insolvency proceedings relating to the Issuer or the Guarantor, even if brought in other jurisdictions, would likely involve British Virgin Islands or Hong Kong insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with which the holders of the Notes are familiar.

The Guarantor's subsidiaries, jointly controlled entities and associated companies are subject to restrictions on the payment of dividends and the repayment of intercompany loans or advances to the Guarantor, its jointly controlled entities and associated companies

As a holding company, the Guarantor depends on the receipt of dividends and the interest and principal payments on intercompany loans or advances from its subsidiaries, jointly controlled entities and associated companies to satisfy its obligations, including its obligations under the Notes and the Guarantee of the Notes. The ability of the Guarantor's subsidiaries, jointly controlled entities and associated companies to pay dividends and make payments on intercompany loans or advances to their shareholders is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of these companies, applicable laws and restrictions contained in the debt instruments of such companies. The Guarantor cannot assure that its subsidiaries, jointly controlled entities and associated companies will have distributable earnings or will be permitted to distribute their distributable earnings to it as it anticipates, or at all. In addition, dividends payable to it by these companies are limited by the percentage of its equity ownership in these companies. Further, if any of these companies raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such shares would not be available to the Guarantor to make payments on the Notes. These factors could reduce the payments that the Guarantor receives from its subsidiaries, jointly controlled entities and associated companies, which would restrict its ability to meet its payment obligations under the Notes and the Guarantee of the Notes.

PRC laws and regulations permit payment of dividends only out of accumulated profits as determined in accordance with PRC accounting standards and regulations. The PRC subsidiaries, jointly controlled entities and associated companies of the Guarantor or its non-PRC subsidiaries, jointly controlled entities and associated companies are also required to set aside a portion of their post tax profits according to PRC accounting standards and regulations to fund certain reserves that are not distributable as cash dividends. In addition, starting from 1 January 2008, dividends paid by such PRC subsidiaries, jointly controlled entities and associated companies to their non-PRC parent companies will be subject to a 10% withholding income tax, unless there is a tax treaty between the PRC and the jurisdiction in which the overseas parent company is incorporated which specifically exempts or reduces such withholding income tax. Pursuant to a double tax avoidance arrangement between Hong Kong and the PRC together with related implementation rules, if a non-PRC parent company is a Hong Kong resident and directly holds a 25% or more interest in a PRC enterprise for at least 12 consecutive months immediately prior to receiving the dividends, and subject to certain other requirements, this withholding income tax rate may be lowered to 5%. However, according to the Circular of the SAT on Printing and Distributing the Administrative Measures for Non Resident Individuals and Enterprises to Enjoy the Treatment Under Taxation Treaties (《國家稅務總局關於發布〈非居民納稅人享受協定待遇管理辦法〉的公告》(國家稅務總局公告2019年第35號)), effective on 1 January 2020, the 5% withholding income tax rate does not automatically apply and approvals from or filings with or reporting to, as applicable, the competent local tax authorities are required before an enterprise can enjoy any benefits under the relevant taxation treaties. Moreover, according to a tax circular issued by the SAT in February 2009, if the main purpose of an offshore arrangement is to obtain a preferential tax treatment, the PRC tax authorities have the discretion to adjust a preferential tax rate of an offshore entity to the relevant tax rate that it otherwise would have been eligible for. The Guarantor cannot provide assurance that the PRC tax authorities will grant approvals on the 5% withholding income tax rate on dividends received by it or its subsidiaries, jointly controlled entities and associated companies in Hong Kong from their respective PRC subsidiaries, jointly controlled entities and associated companies. As a result of such factors, the Guarantor could face difficulties in making payments required by the Notes or satisfying obligations under the Guarantee of the Notes.

Changes in interest rates may have an adverse effect on the price of the Notes

The Holders may suffer unforeseen losses due to fluctuations in interest rates. Generally, a rise in interest rates may cause a fall in the prices of the Notes, resulting in a capital loss for the Holders. However, the Holders may reinvest the interest payments at higher prevailing interest rates. Conversely, when interest rates fall, the prices of the Notes may rise. The Holders may enjoy a capital gain but interest payments received may be reinvested at lower prevailing interest rates.

The Notes may be redeemed prior to maturity in the event of certain withholding taxes being applicable

In the event that, as a result of a change in law or regulation, the Issuer or the Guarantor would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the British Virgin Islands or the PRC (in the case of the Issuer) or Hong Kong or the PRC (in the case of the Guarantor) or any political subdivision thereof or any authority therein or thereof having power to tax, and such obligation cannot be avoided by reasonable measures, the Issuer may redeem all outstanding Notes in accordance with the Terms and Conditions of the Notes.

Modifications and waivers may be made

The Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

Accordingly, there is a risk that the terms of the Notes, the Conditions or the Agency Agreement may be modified, waived or amended in circumstances where a Noteholder does not agree to such modification, waiver or amendment, which may adversely impact the rights of such Noteholder.

Notes with integral multiples

As the Notes have a minimum denomination of US$200,000 plus a higher integral multiple of US$1,000, it is possible that the Notes may be traded in amounts in excess of US$200,000 that are not integral multiples of the US$200,000. Noteholders who, as a result of trading such amounts, hold a principal amount of Notes other than a multiple of US$200,000 will receive Definitive Notes in respect of their holding (provided that the aggregate amount of Notes they hold is in excess of US$200,000, however, any such Definitive Notes which are printed in denominations other than US$200,000 may be illiquid and difficult to trade. Furthermore, a Noteholder who, as a result of trading such amounts, holds a principal amount of less than US$200,000 may not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to US$200,000.

Because the Global Notes are held by or on behalf of Euroclear and Clearstream, holders of the Notes will have to rely on their procedures for transfer, payment and communication with the Issuer and/or the Guarantor

The Notes will be represented by the Global Notes except in certain limited circumstances described in the Permanent Global Note. The Global Notes will be deposited with a common depositary or common safekeeper, as the case may be, for Euroclear and Clearstream. Except in the circumstances described in the Permanent Global Note, holders of the Notes will not be entitled to receive Definitive Notes. Euroclear and Clearstream will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by the Global Notes, holders of the Notes will be able to trade their beneficial interests only through Euroclear and Clearstream and their participants.

The Issuer and the Guarantor will discharge their payment obligations under the Notes by making payments to the common depositary for Euroclear and Clearstream for distribution to their account holders. A holder of a beneficial interest in a Global Notes must rely on the procedures of Euroclear and Clearstream to receive payments under the relevant Notes. The Issuer and the Guarantor have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream to appoint appropriate proxies. Similarly, holders of beneficial interests in the Global Notes will not have a direct right under the Global Notes to take enforcement action against the Issuer or the Guarantor in the event of a default under the Notes but will have to rely upon their rights under the Deed of Covenant.

EXCHANGE RATE INFORMATION

PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the market during the prior day. The PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by 2% against the US dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system. On 18 May 2007, the PBOC enlarged, effective on 21 May 2007, the floating band for the trading prices in the inter-bank spot exchange market of Renminbi against the US dollar from 0.3% to 0.5% around the central parity rate. This allows the Renminbi to fluctuate against the US dollar by up to 0.5% above or below the central parity rate published by the PBOC. The floating band was further widened to 1.0% on 16 April 2012. These changes in currency policy resulted in the Renminbi appreciating against the US dollar by approximately 26.9% from 21 July 2005 to 31 December 2013. On 14 March 2014, the PBOC further widened the floating band against the US dollar to 2.0%. On 11 August 2015, PBOC announced to improve the central parity quotations of Renminbi against the US dollar by authorising market-makers to provide central parity quotations to the China Foreign Exchange Trading Centre daily before the opening of the interbank foreign exchange market with reference to the interbank foreign exchange market closing rate of the previous day, the supply and demand for foreign exchange as well as changes in major international currency exchange rates. Following the announcement by the PBOC on 11 August 2015, Renminbi depreciated significantly against the US dollar throughout the entire year in 2016 and the first half of 2017. In the second half of 2017 and the first half of 2018, Renminbi experienced further fluctuation in value against the US dollar. In August 2019, the PBOC on 5 August 2019 set the Renminbi's daily reference rate above 7 per US dollar for the first time in over a decade amidst an uncertain trade and global economic climate. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future.

The following table sets forth the noon buying rates in Renminbi per US dollar, as set forth in the H. 10 statistical release of the Federal Reserve Bank of New York for the periods presented:

	Noon Buying Rate			
	Low	Average(1)	High	Period End
	(RMB per US$1.00)			
2010	6.6000	6.7603	6.8330	6.6000
2011	6.2939	6.4475	6.6364	6.2939
2012	6.2221	6.2990	6.3879	6.2301
2013	6.0537	6.1412	6.2438	6.0537
2014	6.0402	6.1704	6.2591	6.2046
2015	6.1870	6.2869	6.4896	6.4778
2016	6.4480	6.6549	6.9580	6.9430
2017	6.4773	6.7350	6.9575	6.5063
2018	6.2649	6.6090	6.9737	6.8755
2019	6.6822	6.9081	7.1786	6.9618
2020	6.5208	6.9042	7.1681	6.5250
2021	6.3435	6.4508	6.5716	6.3726
2022				
January	6.3206	6.3556	6.3822	6.3610
February	6.3084	6.3444	6.3660	6.3084
March	6.3116	6.3446	6.3720	6.3393
April	6.3590	6.4310	6.6243	6.6080

Note:

(1) Averages are calculated by using the average of the exchange rates on the last business day of each month during the relevant year. Monthly averages or the average for a period are calculated by using the average of the daily exchange rates during the relevant month or period.

USE OF PROCEEDS

The gross proceeds of the issue of the Notes will be in total US$[●] which, after deducting underwriting commissions and other estimated expenses payable by the Group, will be used for general corporate purposes by the Group, including the repayment of existing indebtedness.

CAPITALISATION AND INDEBTEDNESS OF THE GUARANTOR

The following table sets out the consolidated capitalisation and indebtedness of the Guarantor as at 31 December 2021 as extracted from the Guarantor's audited consolidated financial statements as at and for the year ended 31 December 2021 and as adjusted to reflect the issue of the Notes before deducting the underwriting commissions and other estimated expenses payable by the Issuer and Guarantor:

	As at 31 December 2021			
	Actual		As adjusted	
	HK$ million	US$ million (3)	HK$ million	US$ million (3)
Short-term bank loans (including current portion of long-term bank loans)	5,791	743	5,791	743
Loan from immediate holding company	1,314	168	1,314	168
Loans from a fellow subsidiary	77	10	77	10
Lease liabilities (current portion)	40	5	40	5
Total short-term loans and lease liabilities	7,222	926	7,222	926
Long-term bank loans (net of current portion)	5,824	747	5,824	747
Notes payable				
• US$500 million, 5% guaranteed listed notes maturing in 2022	3,896	500	3,896	500
• US$900 million, 4.375% guaranteed listed notes maturing in 2023	6,998	897	6,998	897
• US$500 million, 4.75% guaranteed listed notes maturing in 2025	3,888	499	3,888	499
• US$600 million, 5% guaranteed listed notes maturing in 2028	4,633	594	4,633	594
• Brazilian Real 300 million, Brazil's Extended National Consumer Price Index +7.82% listed notes maturing in 2022	411	53	411	53
• RMB2,500 million, 4.89% unlisted notes maturing in 2022	3,062	393	3,062	393
Loans from a non-controlling equity holder of a subsidiary	504	65	504	65
Loans from fellow subsidiaries	384	49	384	49
Lease liabilities (non-current portion)	886	114	886	114
Total long-term loans and lease liabilities	30,486	3,911	30,486	3,911
Notes to be issued	—	—	[●]	[●]
Total shareholders' funds (1)	104,503	13,400	104,503	13,400
Total capitalisation (2)	134,989	17,311	[●]	[●]

Notes:

(1) Total shareholders' funds comprise ordinary shares, capital reserve, investment revaluation reserve, translation reserve, statutory reserves, retained earnings and perpetual capital securities.

(2) Total capitalisation comprises long-term loans (net of current portion) and shareholder's funds.

(3) Calculated based on an exchange rate of HK$7.7985 to US$1.00, being the average of the buying and selling rates of the opening indicative counter exchange rate published by the Hong Kong Association of Banks as at 31 December 2021.

There has been no material change in the consolidated capitalisation of the Guarantor since 31 December 2021.

DESCRIPTION OF THE ISSUER

Formation

CMHI Finance (BVI) Co., Ltd is a limited liability company incorporated under the BVI Business Companies Act, 2004 (as amended) of the British Virgin Islands (BVI Company Number: 1479565). It was incorporated in the British Virgin Islands on 1 May 2008 under the name BIG FORCE INTERNATIONAL LIMITED and changed its name on 2 June 2008 to CMHI Finance (BVI) Co., Ltd. The Issuer is a wholly-owned subsidiary of the Guarantor.

Business Activity

The Issuer was established for the purpose of issuing debt securities and raising debt financing, including the Notes, and advancing the proceeds to the Guarantor and/or its subsidiaries. The Issuer has not engaged, since the date of its incorporation, in any other material activities other than those relating to the issue of debt securities and raising of debt financing, including the US$900 million 4.375% guaranteed notes due 2023 issued on 6 August 2018, the US$600 million 5.00% guaranteed notes due 2028 issued on 6 August 2018, the US$600 million 3.50% guaranteed subordinated perpetual securities and US$200 million 3.875% guaranteed subordinated perpetual capital securities issued on 9 October 2020 and the proposed issue of the Notes, and the on-lending of the proceeds thereof to the Guarantor and/or any other subsidiary of the Guarantor, and the authorisation of documents and agreements referred to in this Offering Memorandum to which it is or will be a party.

Financial Statements

Under British Virgin Islands law, the Issuer is not required to publish interim or annual financial statements. The Issuer has not published, and does not propose to publish, any financial statements. The Issuer is, however, required to keep proper records and underlying documentation in such form as is sufficient to show and to explain its transactions and which will, at any time, enable the financial position of the Issuer to be determined with reasonable accuracy.

Directors and Officers

The directors of the Issuer as at the date of this Offering Memorandum are Ligan SUN, Xiaoping TU and Pui Wai Carol CHENG. The business address of the directors is 38/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road, Central, Hong Kong. The Issuer has no employees.

Shares

The Issuer is authorised under its memorandum of association to issue a maximum of 50,000 shares of US$1.00 par value each and one share has been issued to, and is held by, the Guarantor. The register of members of the Issuer is maintained at its registered office in the British Virgin Islands at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG11 10, British Virgin Islands. No part of the equity securities of the Issuer is listed or dealt on any stock exchange and no listing or permission to deal in such securities is being or is proposed to be sought. As of the date of this Offering Memorandum, the Issuer does not have any debt outstanding other than the US$900 million 4.375% guaranteed notes due 2023 issued by the Issuer on 6 August 2018, the US$600 million 5.00% guaranteed notes due 2028 issued by the Issuer on 6 August 2018, the US$600 million 3.50% guaranteed subordinated perpetual securities and US$200 million 3.875% guaranteed subordinated perpetual capital securities issued by the Issuer on 9 October 2020 and the Notes to be issued.

There has been no material change in the capitalisation of the Issuer since the date of its incorporation, except for the US$900 million 4.375% guaranteed notes due 2023 issued by the Issuer on 6 August 2018, the US$600 million 5.00% guaranteed notes due 2028 issued by the Issuer on 6 August 2018, the US$600 million 3.50% guaranteed subordinated perpetual securities and US$200 million 3.875% guaranteed subordinated perpetual capital securities issued by the Issuer on 9 October 2020 and the proposed issue of the Notes.

DESCRIPTION OF THE GUARANTOR

Introduction

The Guarantor, together with its subsidiaries, and together with the Group's associates and joint ventures, is primarily engaged in the business of ports and port-related services. The Group is a global leading port developer, investor and operator. It has interests in a number of ports strategically located in Shenzhen and Hong Kong in the Pearl River Delta, Shanghai and Ningbo in the Yangtze River Delta, Dalian, Qingdao and Tianjin in the Bohai Rim, Shantou and Zhangzhou in the south-eastern and Zhanjiang in the south-western regions of mainland China and Kaohsiung in Taiwan, respectively. In addition to its domestic ports network, the Group and the Group's associates and joint ventures have interests in multiple ports located in Australia, Belgium, Brazil, Cote d'Ivoire, Djibouti, France, Greece, Iraq, Jamaica, Malta, Morocco, Nigeria, Singapore, South Korea, Sri-Lanka, Thailand, the Netherlands, the US, Togo, Turkey, Ukraine, Vietnam. In June 2013, the Group acquired a 49% equity interest in Terminal Link, a wholly-owned subsidiary of CMA CGM SA ("CMA CGM"), engaged in the investment in and the development and management of container and bulk cargo terminals conveniently situated along major international sea-lanes across eight countries in four continents, thus further anchoring the Group's presence in pursuit of its international strategies for the longer term development of its ports business whilst complementing the Group's existing ports operation and bringing in new growth drivers. On 20 December 2019, the Group entered into a master agreement with CMA CGM, CMA Terminals, Terminal Link and China Merchants Luxembourg S.à,r.l ("CMLux"), to set out the framework in relation to, among others, the acquisition by Terminal Link of a portfolio of ten container terminals. On 26 March 2020, the acquisition of eight of such ten container terminals was completed. Please see "*Description of the Guarantor — Ports Business — Overseas*" for a description of these container terminals. These proposed acquisitions were consistent with the Group's strategy and marked a significant step of the Group towards expanding its international footprint. For the year ended 31 December 2021, the Group's ports operation recorded a total container throughput of 135.04 million TEUs, representing a 12.0% year-on-year growth, and bulk cargo volume of 567 million tonnes, representing an increase of 38.0% year-on-year. In addition to its ports operations, the Group also operates bonded logistics facilities in Shenzhen, Qingdao, Tianjin and Djibouti.

The Guarantor, which until August 2016 was known as China Merchants Holdings (International) Company Limited, was incorporated on 28 May 1991 and has been listed on the Hong Kong Stock Exchange since 1992. As at 31 December 2021, the Guarantor had a market capitalisation of approximately HK$53.8 billion.

As at 31 December 2021, China Merchants Group Limited ("CMG"), directly and indirectly, including through CMU, has the power to direct the voting rights of approximately 65.69% of the total issued share capital of the Guarantor. CMG is engaged in three core business sectors, including transportation and related infrastructure, financial investment and asset management and property development and management.

Material Asset Reorganisation involving Shenzhen Chiwan Wharf Holdings Limited ("Shenzhen Chiwan")

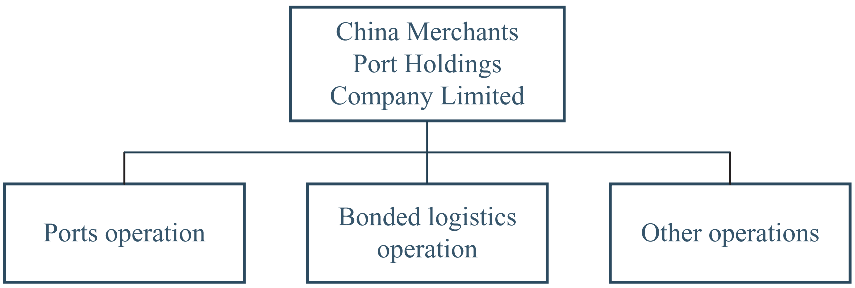
In June 2018, after the Guarantor completed the disposal of the entire 33.58% equity interests held in Shenzhen Chiwan to CMG, Shenzhen Chiwan entered into an agreement with China Merchants Investment Development Company Limited ("CMID"), an indirect subsidiary of CMG, pursuant to which Shenzhen Chiwan acquired CMID's entire interest in the Guarantor for a consideration of RMB 24,650 million (the "Material Transfer"). The consideration was settled by Shenzhen Chiwan by issuing 1,148,648,648 shares (representing approximately 64.05% of the enlarged total issued capital of Shenzhen Chiwan) to CMID on 26 December 2018. As part of this transaction, Shenzhen Chiwan also entered into an acting-in-concert agreement with China Merchants Holdings (Hong Kong) Company Limited ("CMHK"), an indirect subsidiary of CMG (the "Acting-in-Concert Agreement", together with the Material Transfer, the "Material Asset Reorganisation"), in relation to the voting rights attached to the shares in the Guarantor entitled by CMHK.

The Material Asset Reorganisation was completed and as at 31 December 2021, Shenzhen Chiwan (whose shares are listed on the Shenzhen Stock Exchange, and has changed its name to China Merchants Port Group Co., Ltd. on 14 December 2018) holds approximately 43.18% of the total issued share capital of the Guarantor directly. Together with the Acting-in-Concert Agreement, CMHK has the power to direct voting right over approximately 64.98% of the total issued share capital of the Guarantor as at 31 December 2021. Accordingly, the directors of the Guarantor regard CMHK as an immediate holding company.

For the year ended 31 December 2021, the Group recorded revenue of HK$11,850 million, up 32.5% year-on-year, which was mainly due to the high business volume of ports operation. Profits attributable to equity holders of the Guarantor amounted to HK$8,144 million, representing an increase of 58.1% year-on-year, which included a net gain on deemed disposal of partial interest in associates of HK$407 million (net of tax) during the year, while the amount for last year included a net gain of HK$775 million (net of tax) recognised by the Group from the resumption of certain land parcels at Shantou by the government, the gain on discontinuance of equity accounting for a joint venture of HK$912 million (net of tax) and goodwill impairment loss of a subsidiary of HK$621 million. The recurrent profit increased by 81.3% year-on-year to HK$7,537 million, which was due to the Group's increase in revenue and share of profits of associates. Total assets of the Group increased by 5.1% from HK$170,064 million as at 31 December 2020 to HK$178,690 million as at 31 December 2021, which was mainly due to the increase in share of profits in associates. In addition, the total liabilities of the Group decreased by 4.5% from HK$56,429 million as at 31 December 2020 to HK$53,892 million as at 31 December 2021 mainly due to repayment of bank loans. As at 31 December 2021, net assets attributable to equity holders of the Guarantor was HK$98,262 million, up 11.8% as compared to that as at 31 December 2020. This was mainly attributed to the increase in profits attributable to equity holders of the Guarantor.

Business

The following chart sets out the major business operations of the Group as at the date of this Offering Memorandum.



Competitive Strengths

A leading ports operator with a strong and growing international presence and geographically diversified port portfolio

The Group is a leading ports operator with a strong and growing international presence, a geographically diversified portfolio and a considerable market share in major ports in the PRC. The Group has a presence in all three main port zones in the PRC and has roughly one-third of the total market share of PRC's container throughput. In addition to its domestic ports operations in the Pearl River Delta, Yangtze River Delta, Bohai Rim, the south-eastern region and the south-western region of mainland China, as well as Hong Kong and Taiwan, the Group has built a global footprint at strategic locations covering key cross continental trade routes in terms of both deep water depth and shoreline length. The Group's Asia Pacific region network includes CICT and HIPG in Sri Lanka, PON in Australia, Busan New Container Terminal in South Korea, CMA CGM-PSA in Singapore, First Logistics in Vietnam, Laem Chabang International Terminal in Thailand and Umm Qasr Terminal in

Iraq, whilst the Group's European network covers Kumport in Turkey, Somaport and Eurogate Tanger in Morocco, the Malta Freeport Terminals in Malta, the Eurofos, Terminal de France, Terminal Nord, Terminal des Flandres and Terminal du Grand Ouest in France, Rotterdam World Gateway in the Netherlands, Antwerp Gateway in Belgium and Odessa Terminal in Ukraine and Thessaloniki Port Authority in Greece. The Group also has an African network, which includes ports operations in LCT in Togo, PDSA in Djibouti, TICT in Nigeria, Terra Abidjan in Côte d'lvoire as well as a presence in the United States via the operations of Terminal Link Texas and South Florida Container Terminal, Brazil via the operation of TCP, Jamaica via the operation of Kingston Freeport. With this series of investments, the Group's ports operations will be further expanded with a view to optimising its layout of global ports network. In addition to the strategic layout of the Group's ports and its international presence, the following factors have contributed to the Group's leading position:

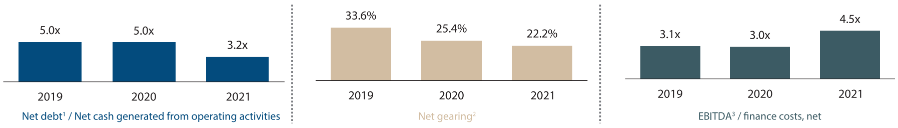
- the Group has board representation and/or management presence for the ports that it has invested in;
- the Group is an independent public ports operator and does not operate its own fleet of ships, avoiding the conflicts of interest commonly associated with participating in both businesses;
- the Group has long-term and close relationship with leading shipping liners;
- the majority of the Group's ports are capable of accommodating large ships due to their water depths and long berths;
- the Group provides various auxiliary value-added services at its ports, such as bonded logistics and information technology services, which enhance the quality and efficiency of its services and the competitiveness of its ports;
- the Group has a proven track record of internal organic growth and external acquisitions;
- the Group strategically positions its overseas business operations following a cost-effective international maritime logistics path and takes advantage of favourable policies such as "Belt and Road" initiative and free trade zones;
- the Group has local knowledge of the overseas locations it operates in through carefully selected local partnerships;
- the port industry in the PRC is highly regulated and the Group has strong working relationships with the PRC government authorities; and
- the ports business has high barriers to entry, such as the capital-intensive nature of the business, the geographical constraints associated with constructing competing ports, the need for a sound infrastructure network to support the ports and the highly regulated nature of the industry.

In line with the Group's international expansion strategy, the Group's geographically diversified portfolio has resulted in a steady increase in the proportion of revenue deriving from international ports. For the years ended 31 December 2019, 2020 and 2021, for instance, overseas ports operation (excluding mainland China, Hong Kong and Taiwan) contributed to 44.5%, 47.0% and 40.2% of revenue from ports operation, respectively. The Group pushes forward a balanced development in terms of regions, businesses and stages, and continue to deepen, optimise, refine and strengthen the Group's strategies, thereby gradually realising its strategic goal of becoming "a world's leading comprehensive port service provider".

Sustainable organic and external growth and stable profitability driven by best-in-class port management and operational excellence

The Group has enjoyed a level of sustainable growth in recent years. For the years ended 31 December 2020 and 2021, EBITDA[1] from ports operation were HK$4,300 million and HK$6,066 million, respectively. Recurrent profit[2] was HK$4,158 million and HK7,537 million for the years ended 31 December 2020 and 2021, respectively, representing an increase of 81.3%. For the year ended 31 December 2021, EBITDA derived from the Group's ports operation amounted to HK$6,066 million, contributing 94.4% of the Group's total EBITDA.

The table below shows the ratios for certain credit metrics of the Group:



Notes:

1 Calculated as total interest-bearing debts and lease liabilities less cash and bank balances.

2 Calculated as net interest-bearing debt and lease liabilities divided by total equity.

3 Earnings of the Guarantor and its subsidiaries before finance costs, net, taxation, depreciation and amortisation, but excluding share of profits less losses of associates and joint ventures, non-recurrent gains, corporate function, profit attributable to non-controlling interests and holders of perpetual capital securities.

The Group's sustainable growth level and stable profitability can be attributed to its port-management experience. The Group's best-in-class port management expertise is proven by its historical track record of internal organic growth and successful external acquisitions. It has continuously strengthened its ports' capability and service quality, hence maintaining competitiveness and driving sustainable long-term growth. Combining its global view and local knowledge, the Group was able to develop practical and scientific long-term strategic blueprints based on which it executes its strategies. Also, rich experience and astute insights has enabled the Group to successfully navigate through economic ups and downs, with hub ports tracking international maritime cargo flow.

With the deployment of advanced technologies and development of automated operation system, the Group has experienced a decreasing trend in operating costs. For example, the port automation in the Group's West Shenzhen port has significantly increased the customs clearance efficiency and comprehensive operational efficiency, resulting in the reduction of workforce, construction costs, potential safety risks and carbon emissions.

Resilient and steadily growing cash flows and healthy credit profile with multi-channel funding sources

The Group has a sound financial profile of steadily growing long-term cash flow due to the quality of funding sources as well as long-term concessions and dividend inflows.

The Group enjoys multiple funding channels via banks and capital markets. Its capability to tap equity and debt capital markets is demonstrated by previous experiences in issuing bonds, perpetual securities

1 Earnings of the Guarantor and its subsidiaries before finance costs, net, taxation, depreciation and amortisation, but excluding share of profits less losses of associates and joint ventures, non-recurrent gains, corporate function, profit attributable to non-controlling interests and holders of perpetual capital securities.

2 Profit attributable to equity holders of the Guarantor net of non-recurrent gains after tax. Non-recurrent gains include: for 2021, net change in fair value of financial assets and liabilities at fair value through profit or loss, net change in fair value of investment properties, gain on modification of contract terms for a concession arrangement, net gain on deemed disposal of a subsidiary partial interest in associates; while for 2020, net change in fair value of financial assets and liabilities at fair value through profit or loss, net change in fair value of investment properties, net gain on resumption of certain land parcels at Shantou, goodwill impairment loss of a subsidiary and gain on discontinuance of equity accounting for a joint venture.

and mandatory convertible securities. Its various underlying listed entities also offer good access to capital markets. In addition, the Group enjoys strong bank relationships leveraging on its state-owned enterprise ("SOE") background and support from CMG.

As at 31 December 2021, the Group has undrawn facilities of bank loan and other debt financing instruments amounting to HK$17,215 million, of which HK$10,663 million and HK$6,552 million are committed and uncommitted credit facilities respectively.

The Group's strong liquidity position also reinforces its solid credit profile. It has healthy cash flow generation. The Group also has disciplined financial and investment policies with controlled capital expenditure. Liquidity and credit metrics also are maintained at healthy levels. Its strong credit profile is well-recognised by credit rating agencies, being rated BBB by S&P and Baa1 by Moody's as at the date of this Offering Memorandum. Please see "Ratings" for further details regarding such credit ratings.

Experienced management team

The Group places great emphasis on the quality of its management team and continuously seeks to attract skilled professionals to enhance its services. Over the last few years, the Group's management has brought innovation to the Group through its focus on developing and implementing solid long-term business strategies. The Group's senior executives have extensive experience in the ports business in the PRC and overseas. The current management team has on average over 20 years of experience in the port business industry.

Strategy

The Group will adhere to its existing strategic principles and strive to realise its strategic goal of becoming "a world's leading comprehensive port service provider" through implementing high-quality development concepts, focusing on endogenous growth, driving a new development journey, and improving digitalisation, marketisation, internationalisation, platformisation and intellectualisation. In order to do so, the Group intends to adopt the following specific measures: (i) continuously constructing homebase ports; (ii) optimising overseas presence; (iii) continuing to adopt a comprehensive development strategy; (iv) focusing on innovative development; (v) constantly striving to explore solutions to optimise asset structures; (vi) strengthening management and control optimisation for improvement of management efficiency; and (vii) strengthening the cooperation with major shipping companies and enhancing the interaction with end-customers.

Continuously constructing homebase ports

In terms of the construction of homebase ports, the Group continues to strive to build globally leading ports. The Group adhered to the strategic objective of "building world-class leading ports", further enhanced the comprehensive competitiveness of the West Shenzhen homebase port as a world-class leading port, and strengthened the leading position of the hub in South Asia of overseas homebase ports in Sri Lanka. In the future, the Group will continue to strengthen its efforts in the construction of homebase ports in China and overseas, so as to advance the development of leading ports. Recent developments to optimise the Group's homebase ports operations include:

- In October 2019, the Shenzhen Maritime Safety Administration certified in a navigation notice that the Tonggu Channel on the west of Shenzhen, which leads to the West Shenzhen Port Zone of the Guarantor, achieved an actual channel depth of water measured was 17.5 metres, which signified a breakthrough and further enhancement of the capability achieved by the West Shenzhen Port Zone to serve ultra-large container vessels of 200,000 DWT. The Group intends to continue promotions of the development of channels in West Shenzhen by completing the delivery and acceptance of section II and III of the Public Channel and expediting the construction of phase II of the navigation channel outside the West Shenzhen Port Zone as well as trying to realise regular night services of Tonggu Channel, thereby enhancing the navigation capability and competitiveness of the West Shenzhen Port Zone.

- Mawan Smart Port (renamed from "Haixing Intelligent Port") has officially commenced operation in June 2021, which became the first 5G smart port in the Greater Bay Area and has strengthened innovative applications to develop an "intelligent port cluster". The Mawan Smart Port has five berths in total, including two newly built berths with 200,000-ton capacity specialised for container vessels, and its capacity represents the largest in South China. Those two berths can handle the world's largest container vessels, with a design capacity of 3 million TEUs per annum, being a model for intelligent upgrade of traditional terminals in both domestic and overseas market.

- In 2021, the coordinated ports model in the Greater Bay Area had been promoted to other regions, fully enhanced the efficiency of customs clearance in Western Shenzhen, provided customers with high quality and efficient services, and the convenience advantages of the cross-customs areas were gradually being realised.

- The Group will actively expand ocean-going shipping routes for the West Shenzhen homebase port while maintaining the stable service of short-sea shipping routes, striving to increase import volume while sustaining a healthy growth of export volume from its hinterland. The Group will also develop customised services and expand international transhipment volume by leveraging on the supportive policy for the business of "discharging and transferring containers of an entire vessel" offered by the Shekou Customs in Shenzhen.

- The West Shenzhen Port Zone will closely follow the strategic goal of making China a strong construction and transportation country. The Group will continuously improve service quality, keep infrastructure construction, strengthen the operation of the blockchain platform for logistics and trade facilitation to improve competitiveness. In 2021, the container throughput handled by the West Shenzhen Port Zone was 11.48 million TEUs, up by 8.7% year-on-year, which mainly benefited from better growth of "Trunk Port" under the impact of pandemic.

- In terms of overseas homebase ports, the Group will strive to build a strong regional port, leverage the advantages of port area linkage with enhancing the integrated service port services and strengthening cooperation with all parties such as shipping companies, so as to continue to build a world-class shipping centre in South Asia. In this regard, the Group continuously integrated the operation and management of HIPG and CICT in Sri Lanka, promoted the coordinated development of these two ports, strengthened cooperation with various customers and expanded new ideas for development.

- In 2021, CICT in Sri Lanka handled a container throughput of 3.06 million TEUs, up by 4.4% year-on-year, and HIPG's RORO and bulk cargo operations are well developed, and its RORO terminal handled 0.536 million vehicles, up by 38.0% year-on-year. The bulk cargo throughput reached 1.56 million tonnes, up by 25.6% year-on-year, which mainly benefitted from the growing import throughput volume of raw materials by major customers as the cement market demand rebounded. In 2021, HIPG received the Fitness for Service Certificate for its diesel tank area and the oil berth #1. HIPG's tank area met the requirements for comprehensive operation and international operation standards, and its business of marine bunker supply for cargo ships realised diversified development.

Optimising overseas presence

The Group has been keeping abreast of changes in the economy and trade landscape, comprehensively deepening business collaboration with internal resources and strategic partners, developing high-quality regional shipping routes, and focussing on regional gateway ports. The Group optimised the development of its overseas project management and control system, as well as its overseas project management policy, and promoted the quality and efficiency improvement of overseas terminals. In order to leverage the regional influence of overseas terminals, the Group will strengthen regional market expansion, and continue to promote port-vicinity industry projects. Through improving overseas management systems to enhance the management efficiency for overseas projects, the Group will strive to strengthen the risk prevention and control, quality and efficiency of overseas terminals, and improve the income stream of overseas business. Recent developments include the following:

- For overseas expansion, the Group has established and improved regional market database for Africa and South Asia. The Group conducted studies on the overseas network along the "East-West route, South-North route, regions along the "Belt and Road" initiative with a view to continuously optimising expansion strategies and implementation routes of overseas projects and improving the security system for providing support to business.

- In July 2013, CICT in Sri Lanka, the Group's first-ever overseas greenfield project, commenced operation. CICT has been an important contribution to the Group's overseas network and has exceeded original expectations of the Group achieving a container throughput of 3.06 million TEUs as at 31 December 2021, up by 4.4% year-on-year and its business is expected to continue to grow rapidly. The Group has been actively facilitating the development of an overseas homebase port, with a plan to turn CICT into the Group's regional headquarters.

- In 2013, the Group commenced its operations in Africa and as at the date of this Offering Memorandum, its African ports network includes TICT in Nigeria, PDSA in Djibouti and LCT in Togo.

- In July 2017, the Group entered into a Concession Agreement with the Sri Lanka Ports Authority and the Government of the Democratic Socialist Republic of Sri Lanka in relation to the development, management and operation of the Hambantota Port project. Officially delivered in December 2017, the project is expected to form synergies with the CICT project and further promote the construction of the Group's overseas homebase port in Sri Lanka. All conditions under the Concession Agreement were satisfied by June 2018.

- In September 2017, the Group entered into a Share Purchase Agreement to acquire 90% of the issued share capital of TCP, a company principally engaged in the operation of port facilities in Brazil. The acquisition completed in February 2018 and marked the Group's first expansion into the Central and South American market. In October 2019, the Group completed an expansion project of TCP and such expansion was put into operation. In December 2019, the Guarantor completed the disposal of 25.05% interest in, and 25.05% of the shareholder's loan advanced by the Guarantor to, Xinda Resources Limited (together with its subsidiaries, the "Xinda Group"), a wholly-owned subsidiary of the Guarantor whose principal asset is its interest in 90% of the issued share capital of TCP, together with its subsidiaries, to individual third parties, for a total cash consideration of HK$1,944 million. The Group's effective interest in TCP decreased from 90% to 67.45% immediately after the disposal. In April 2020, the Group further completed its acquisition of the remaining 10% interest in TCP from its minority shareholders. As at the date of this Offering Memorandum, the Group's effective interest in TCP is 77.45%.

- On 6 February 2018, the Group entered into an acquisition agreement in relation to the acquisition of a 50% interest in the PON in Australia. The acquisition completed in June 2018, expanding the Group's port network coverage to six continents. The other 50% interest in PON is held by an independent third party.

- On 20 December 2019, the Group entered into a master agreement with CMA CGM, CMA Terminals, Terminal Link and CMLux to set out the framework (the "Master Agreement") in relation to, among others, the acquisition by Terminal Link of a portfolio of ten container terminals including 50% of Odessa Terminal (Ukraine), 49% of CMA CGM-PSA (Singapore), 50% of Adani CMA Mundra Terminal Private Ltd (India), 100% of Kingston Freeport (Jamaica), 30% of Rotterdam World Gateway (the Netherlands), 25% of Gemalink Terminal Link Cai Mep Terminal Joint Stock Company (Vietnam), 24% equity stake indirectly owned by CMA CGM in Qingdao Qianwan United Advance Container Terminal Co., Ltd (the PRC) ("Qingdao Qianwan"), 47.25% equity stake indirectly owned by CMA CGM in First Logistics (Vietnam), 14.5% equity stake indirectly owned by CMA CGM in Laem Chabang (Thailand) and 100% of the new corporate entity to be registered, holding the lease and all assets and liabilities of Umm Qasr Terminal (Iraq). These proposed acquisitions were consistent with the Group's strategy and marked a significant step of the Group towards expanding its international footprint.

- On 26 March 2020, the acquisition of Odessa Terminal, CMA CGM-PSA, Kingston Freeport, Rotterdam World Gateway, Qingdao Qianwan, First Logistics, Laem Chabang and Umm Qasr Terminal via Terminal Link were completed. The Group will continue to push forward the completion of the acquisition of the two remaining terminals via Terminal Link.

- In 2021, a total container throughput handled by the Group's overseas projects increased by 16.3% year-on-year to 33.57 million TEUs. Except for homebase ports in Sri Lanka, others also achieved outstanding performance in 2021. Container throughput handled by LCT in Togo increased by 19.2% year-on-year to 1.63 million TEUs, which was mainly attributable to the stable growth in container throughput volume from major customers. Benefitting from the increase in local imported container volume driven by the resumption of work and production of the local enterprises in Brazil, TCP in Brazil handled a container throughput of 1.10 million TEUs for the year, up by 12.0% year-on-year. Container throughput handled by Tin-Can Island Container Terminal Ltd. in Nigeria was 0.32 million TEUs, representing an increase of 5.6% year-on-year. Affected by the economic downturn due to political instability, Port de Djibouti S.A. in Djibouti handled a container throughput of 0.69 million TEUs, down by 19.4% year-on-year, and a bulk cargo volume of 4.55 million tonnes, up by 0.4% year-on-year. Container throughput handled by Kumport Liman Hizmetleri ve Lojistik Sanayi ve Ticaret Anonim Şirketi in Turkey was 1.25 million TEUs, representing an increase of 2.5% year-on-year; while bulk cargo volume handled was 0.11 million tonnes, up by 62.1% year-on-year, which was mainly due to the increase in export of construction materials. As Terminal Link completed the new acquisition of eight terminals since the end of March 2020, it handled a container throughput of 25.52 million TEUs, up by 20.3% year-on-year.

Continuing to adopt a comprehensive development strategy

In pursuit of comprehensive development, the Group was committed to improving the global network layout and business synergies in overseas projects, and deepened the implementation of "Port-Park-City" model in overseas regions. In 2021, under the adverse impact of the continuous spread of the COVID-19 pandemic, the promotion activities of induction of business and investment in overseas logistic parks continued to be steadily progressed. As of the end of 2021, the number of contracted enterprises in the HIPG industrial zone and Djibouti International Free Trade Zone reached 35 and 196 respectively. The comprehensive development made sound progress.

In the future, the Group will closely adapt to the changes in the global trade environment, strive to become an important link between domestic and foreign economic cycles, and a cornerstone for the security and stability of the industrial supply chain. The Group will accelerate the building of a mature model of integrated development business of "Port-Park-City" to realise the long-term benefits for "land economy" of the ports. Apart from improving quality of services to existing customers and increasing customer stickiness, the Group will enhance the capability to cultivate and support hinterland industries.

Focusing on innovative development

As for innovative development, the Group continued to revise and improve its digitalisation plan in accordance with the requirements of industry development and technological development trends, promoted the construction of the CMCore platform, the CM ePort platform and the Smart Management platform, and improved the relevant implementation plans, enhanced the digitalisation level of the industry and continued to promote the construction of Mawan Smart Port. Since its operations, the Mawan Smart Port had received widespread praise from the industry and had won a number of awards, including the Gold Award in the 4th "Blossom Cup" 5G Application Competition Benchmarking Competition organised by the Ministry of Industry and Information Technology of China and the Sustainability Award from the International Association of Ports and Harbours. The Group actively explored model innovation, worked with relevant partners to build a demonstration port for the international hydrogen energy industry and set up a smart port technology innovation laboratory. The Group continued to expand the combined ports in the Greater Bay Area to ten feeder terminals such as Shunde and Beijiao in order to continuously boost trade facilitation in the Greater Bay Area.

Regarding future developments in the field of innovations, the Group will focus on industrial transformation and upgrade driven by innovation and technology empowerment and evolve from "scale-driven" to "innovation-driven". Leveraging on the "Research Institute of CMPort for Technological Innovation and Development", the Group will develop the ecosystem for technology and innovation, and generate innovative solutions with technology for ports to build the integrated platform for industry, education and research. Through "CMCore" platform, the Group will develop three major leading products for the industry, including Container Terminal Operation System (CTOS), Bulk Cargo Terminal Operation System (BTOS) and Logistic Park Operation System (LPOS), striving to intelligentise the operation within the terminals. The "CM ePort" platform will innovate the service models by improving the information service system and adopting the "Port + Internet" approach for the port, so as to explore and develop an open platform for intelligent ports. The Group will continue to leverage on and innovate its port business to continuously enrich supply chain comprehensive services, and continue exploring new port business models to enhance the economic value of the container.

Constantly striving to explore solutions to optimise asset structures

As for capital operation, the Group constantly strives to explore solutions to optimise asset structures in order to reduce the investment risks. The Group continued to promote the two-wheel drive model of "asset operation + capital operation" and continue to enhance the efficiency of the assets by improving medium and long-term capital operation plan, starting from optimising the dual platform structure, market value management and asset restructuring. It promoted the transformation and upgrading of existing terminals and the extension of its industrial chain, further enhanced the Guarantor's influence through its capital and internationalisation platform.

In line with the strategies of the Group and promotion of dual-wheel drive model of "asset management + capital operation", starting from the direction of "asset-heavy to asset-light" and "quantity-oriented to quality-oriented", the Group will strive to improve capital operation plans, asset allocation and endogenous growth in order to enhance returns of each asset.

Strengthening management and control optimisation for improvement of management efficiency

In respect of operation management, the Group continued to uphold its strategy, following the direction of "empowerment, professionalism and value". The Group developed five core elements, namely "management standard, teams of experts, closed-loop procedure, information system and benchmarking enhancement", so as to promote the development of a global operation and control system, establish an operation management system with sustainable value creation, link the improvement of quality and efficiency with performance appraisal and greatly integrated the improvement of quality and efficiency with strategic goals. The intelligent management platform was put into trial operation. The subsystem of the lifecycle asset management system was put into trial operation to further optimise the overall management system through digitalisation. The Group improved institutional systems and optimised its control model, promoted the construction of a risk management information platform, and improved the internal control system continuously with optimising risk preference indicators to complete overseas risk quantitative management reports and establish risk warnings to enhance risks control level.

Focusing on the Group's strategies, the Group will strengthen management and control optimisation for improvement of management efficiency. By continuously deepening the smart operation management platform system to push the construction of management standards for operations, the Group will accelerate the development of an international operation and management system that sustainably creates value, as well as a value-oriented management headquarters.

Strengthening the cooperation with major shipping companies and enhancing the interaction with end-customers

With respect to marketing and commerce, the Group continues to cooperating with major shipping companies to improve the port conditions and ensure the stability of shipping routes. In 2021, the Group continuously strengthened its marketing and business promotion in the West Shenzhen Port Zone, a number of intra-Asia and trans-Pacific shipping routes were newly added, and further strengthened its in-depth cooperation with major shipping companies to maintain the existing routes and expand new routes. At the same time, the Group set up a major customer service team and worked with various subordinate units to formulate service strategies, starting with "customised services", focusing on large cargo owners with large cargo volumes, strong representation of product types and strong influence on route connection, and providing "one-stop" services to enhance customer stickiness. The Group promoted the improvement of the collection and transportation system, earnestly consolidated and expanded the hinterland of supply courses, and expanded network of combined seaports and inland dry ports in the Pearl River Delta.

The Group will continue to strengthen the cooperation with major shipping companies and enhance the interaction with end-customers. Simultaneously, the Group will improve the construction of the market commerce system, building up a collaboration platform of integration, platformisation and digitalisation, and expanding the coverage of the logistics supply chain through both internal and external development.

Financial Breakdown

The following table shows a breakdown of the Group's principal businesses in terms of revenue and profit for the periods indicated, as extracted from the Guarantor's published audited consolidated financial statements as at and for the years ended 31 December 2020 and 2021:

	2020	2021
	HK$' million	HK$' million
Revenue		
Ports operation	8,304	11,069
Bonded logistics operation	469	560
Other operations	172	221
Total	8,945	11,850
EBITDA[(1)]		
Ports operation	4,300	6,066
Bonded logistics operation	245	214
Other operations	67	148
EBITDA	4,612	6,428
Share of profits less losses of associates and joint ventures	4,457	7,254
Non-recurrent gains before tax	1,701	825
Corporate function	(55)	(180)
Finance costs, net	(1,524)	(1,415)
Taxation	(1,077)	(1,241)
Depreciation and amortisation	(2,033)	(2,286)
Non-controlling interests and owners of perpetual capital securities	(930)	(1,241)
Profit attributable to equity holders of the Guarantor	5,151	8,144

Notes:

(1) Earnings of the Guarantor and its subsidiaries before financial costs, net, taxation, depreciation and amortisation, but excluding share of profits less losses of associates and joint ventures, non-recurrent gains, corporate function, profit attributable to non-controlling interests and holders of perpetual capital securities.

Ports Business

Overview

The core business of the Group is ports operations. The Group is a leading ports operator in the PRC and is engaged in the development and operation of container and general and bulk cargo handling and port logistics businesses in the PRC. The Group's core segment of domestic ports operations is based at five hub locations: the Pearl River Delta, Yangtze River Delta, Bohai Rim, the south-eastern region and the south-western region of mainland China. The container and general and bulk cargo handling process involves a diverse range of terminal-related operations including loading, unloading, storage and international transhipment for containers.

The market for ports services is dependent on a variety of factors:

- *The hinterland of the port*: The hinterland of each port is essential to its traffic flow. The Group's ports in Shenzhen, Ningbo, Shanghai, Dalian, Qingdao, Tianjin, Zhanjiang, Zhangzhou, Shantou and Shunde benefit from their strategic locations in the most developed and fastest growing areas in Mainland China. Ports in Hong Kong benefit from Hong Kong's strategic location in the centre of the developing economies of Asia.

- *The capacity of the* port: A ports operator must also have sufficient capacity to meet the demands of its customers. Through its interests in ports in Shenzhen, Ningbo, Shanghai, Dalian, Qingdao, Tianjin, Zhanjiang, Zhangzhou, Shantou and Shunde, the Group's domestic port network is able to meet the demands of its customers.

- *The turnaround time at the port*: Shipping lines focus on turnaround time at ports in order to minimise the amount of time their ships spend at ports. The Group is continually introducing the latest information technology and management systems at its ports in order to maximise turnaround performance.

As at the date of this Offering Memorandum, the Group has investments in 68 operating berths in the Pearl River Delta, 151 operating berths in the Yangtze River Delta, 129 operating berths in the Bohai Rim and 19 and 36 operating berths in the south-eastern and south-western regions of mainland China, respectively. The Group has traditionally focused on the Pearl River Delta area but has since acquired interests in ports in the Yangtze River Delta, Bohai Rim, the south-eastern region and the south-western region of mainland China as part of its strategy to build a nationwide ports network. In February 2016, the Group subscribed for a 21.05% equity stake in Dalian Port (PDA) Company Limited, the operating company of the Port of Dalian in the Bohai Rim region, making it the second largest shareholder upon completion of such subscription. In August 2017, the Group subscribed for a 60% equity interest in Shantou Ports Group Corp Co., Ltd., the operating company of the Port of Shantou, which further consolidated resources and strengthened the Group's ports network in the South-Eastern region of the PRC. More recently, in March 2020, the Group completed its acquisition of 11.76% of Qingdao Qianwan United Advance Container Terminal Co., Ltd pursuant to the Master Agreement.

In addition to the continued expansion of its domestic ports network, the Group has acquired interests in overseas ports projects, including the TICT in Nigeria, the CICT and HIPG in Sri Lanka, PDSA in Djibouti and the LCT in Togo, Kumport in Turkey, TCP in Brazil, PON in Australia and Terminal Link. The Group's ports network comprised 42 container and bulk cargo terminals conveniently situated along major international sea-lanes across 25 countries and regions in six continents, thus further anchoring the Group's presence in pursuit of its international strategies for the longer term development of its port business whilst complementing the Group's existing ports operation and bringing in new growth drivers.

In September 2017, the Group further expanded its overseas presence by acquiring a 90% interest in TCP, operator of Brazil's most profitable port terminal in Paranaguá, Brazil, which was completed in February 2018. In December 2019, TCP attracted two other funds as strategic investors, and the Group's interest in TCP as at 31 December 2021 is 77.45%. In February 2018, the Group acquired a 50% interest in the entities operating the PON in New South Wales, Australia. The acquisition completed in June 2018, extending the Group's port coverage to six continents. More recently, in March 2020, the Group, through Terminal Link, completed its acquisition of interests in CMA CGM-PSA comprising eight terminals in Singapore, Kingston Freeport in Jamaica, World Gateway in the Netherlands, Qingdao Qianwan in the PRC, First Logistics in Vietnam, Laem Chabang International Terminal in Thailand, Odessa Terminal in Ukraine and Umm Qasr Terminal in Iraq.

The Group will continue to closely monitor overseas markets and progressively explore, on a prudent and selective basis, port acquisition and investment opportunities overseas, which will offer synergies with its existing ports network in the PRC in order to geographically enlarge the coverage of its ports operations and improve its competitive position in the international ports market.

In 2021, the Group's ports operation recorded a total container throughput of 135.04 million TEUs, representing a 12.0% year-on-year growth, and bulk cargo volume of 567 million tonnes, representing an increase of 38.0% year- on-year.

In 2021, the Group's revenue reached HK$11,850 million, representing an increase of 32.5% year-on-year. Profit attributable to equity holders of the Guarantor amounted to HK$8,144 million, representing an increase of 58.1% over 2020. The Group had interests in the following port projects as at the date of this Offering Memorandum:

Mainland China, Hong Kong and Taiwan

Pearl River Delta

Mega SCT
Chiwan Container Terminal
Mawan Container Terminal
China Merchants Port Services
Shenzhen Haixing Harbour Development
China Merchants Container Services
Modern Terminals
Guangdong Yide Port
Chu Kong River Trade Terminal

China Merchants Bonded Logistics

Yangtze River Delta

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

South-East Region

Shantou China Merchants Port Group
Zhangzhou China Merchants Port
Xia Men Bay China Merchants Terminals

South-West Region

Zhanjiang Port Group

Kaohsiung, Taiwan

Kao Ming Container Terminal

Bohai Rim

Liaoning Port
Qingdao Qianwan United Container Terminal
Qingdao Qianwan West Port United Terminal
Qingdao Port Dongjiakou Ore Terminal
Qingdao Port International
Tianjin Port Container Terminal

China Merchants International Terminal (Qingdao)
Tianjin Haitian Bonded Logistics

Ports
Logistics

The following table sets forth the container throughput of port areas in which the Group has invested for the periods indicated.

	For the year ended 31 December		
	2019	2020	2021
		(TEU millions)	
Container throughput (TEUs)			
PRC, Hong Kong and Taiwan:			
Pearl River Delta			
Western Shenzhen	10.21	10.56	11.48
China Merchants Container Services Limited and Modern Terminals Limited	5.57	5.56	5.65
Chu Kong River Trade Terminal Co., Limited	1.09	1.05	1.03
Guangdong Yide Port Limited	0.30	0.43	0.46
Yangtze River Delta			
Shanghai	43.30	43.50	47.03
Ningbo	3.29	3.32	3.41
Bohai Rim			
Qingdao	7.92	8.10	8.54
Dalian	10.22	6.54	9.91
Tianjin	4.47	7.87	8.64
Mainland China (South-East)			
Zhangzhou	0.42	0.32	0.27
Shantou	1.34	1.59	1.80
Mainland China (South-West)			
Zhanjiang	1.11	1.22	1.22
Other Locations			
Taiwan	1.64	1.60	2.03
Overseas			
Sri Lanka			
Colombo South Container Terminal	2.88	2.93	3.06
Togo			
Lomé Container Terminal	1.13	1.36	1.63
Nigeria			
Tin-Can Island Container Terminal	0.47	0.30	0.32
Djibouti			
Port de Djibouti SA	0.92	0.86	0.69
Brazil			
TCP Participações S.A	0.92	0.98	1.10
Turkey			
Kumport	1.28	1.22	1.25
French Republic			
Terminal Link SAS	13.25	21.22	25.52
Total for the port areas in which the Group has Investments	111.72	120.52	135.04

Notes:

The following is a brief description of the port projects in which the Group has investments:

Ports	Business Type	Guarantor Effective Interest	Management Rights (1)
Pearl River Delta			
Western Shenzhen			
Shekou Container Terminal companies	Container terminal services	80.00%	Yes
Chiwan Container Terminal Co., Ltd	Container terminal services	14.16%	Board representation only
Shenzhen Haixing Harbour Development Co., Ltd	Container terminal services, general and bulk cargo	67.00%	Yes
Chu Kong River Trade Terminal Co., Ltd	Provision of shuttle-barge ports services	20.00%	Board representation only
Guangdong Yide Port Limited	Container terminal services, general and bulk cargo	51.00%	Yes
Hong Kong & Taiwan			
Modern Terminals Ltd	Container terminal services	27.01%	Board representation only
China Merchants Container Services Ltd	Mid-Stream services	100.00%	Yes
Kao Ming Container Terminal Co., Ltd	Container terminal services	10.00%	Board representation only
Yangtze River Delta			
Niagho Daxie China Merchants International Terminals Co., Ltd	Container terminal services	45.00%	Yes
Shanghai International Port (Group) Co., Ltd	Container terminal services, general and bulk cargo	26.64%	Board representation only
Bohal Rim			
Qingdao Qianwan United Container Terminal Co., Ltd	Ports and container terminal	50.00%	Board representation only
Qingdao Qianwan West Port United Terminal Co., Ltd.	Ports and bulk cargo terminal	49.00%	Board representation
Qingdao Port Dongjiakou Ore Terminal Co., Ltd	Ports and bulk cargo terminal business	25.00%	Board representation only
Liaoning Port Company Limited	Provision of terminal business and logistic services	11.32%	Board representation only
Tianjin Port Container Terminal Co., Ltd.	Container terminal services	7.31%	Board representation only
South-eastern region of mainland China			
Zhangzhou China Merchants Port Co., Ltd	Container terminal services, general and bulk cargo	60.00%	Yes

Ports	Business Type	Guarantor Effective Interest	Management Rights[1]
Xia Men Bay China Merchants Terminals Co., Ltd.	General and bulk cargo	31.00%	Yes
Shantou China Merchants Port Group Co., Ltd	Container terminal services, general and bulk cargo	60.00%	Yes
South-western region of mainland China			
Zhanjiang Port (Group) Co., Ltd	Container terminal services, general and bulk cargo	27.58%	Board representation only
Overseas			
Sri Lanka			
Colombo International Container Terminals Limited	Container terminal services	85.00%	Yes
Hambantota International Port Group (Private) Limited	Container terminal services, general and bulk cargo	65.00%	Yes
Togo			
Lomé Container Terminal S.A.	Container terminal services	35.00%	Yes
Nigeria			
Tin-Can Island Container Terminal Limited	Container terminal services	28.50%	Board representation only
Djibouti			
Port de Djibouti SA	Container terminal services, general and bulk cargo	23.50%	Board representation only
Brazil			
TCP Participações S.A.	Container terminal services	77.45%	Yes
Turkey			
Kumport Liman Hizmetleri ve Lojistik Sanayi ve Ticaret Anonim Şirketi	Container terminal services	28.50%	Board representation only
French Republic			
Terminal Link SAS	Container terminal services	49.00%	Board representation only
Australia			
Port of Newcastle/Gold Newcastle Property Holding Pty Limited	Container terminal services, general and bulk cargo	50.00%	Board representation only

Note:

(1) For the avoidance of doubt, "management rights" do not include the right of the Guarantor to vote on certain matters of the relevant entities in its capacity as a shareholder.

The following is a brief description of the port projects in which the Group has investments:

Domestic Ports

Pearl River Delta

(a) *Western Shenzhen Port Zone*

China Merchants Port Services (Shenzhen) Co., Ltd.

China Merchants Port Services (Shenzhen) Co., Ltd. ("CMPS") operates and manages twelve berths for the handling of container and general and bulk cargo in western Shenzhen, and is connected by highways and the Shenzhen-Pingnan Railway.

CMPS is a wholly-owned subsidiary of the Group. For the years ended 31 December 2020 and 2021, the volume of containers handled by CMPS was approximately 1.41 million TEUs and 1.49 million TEUs, respectively, and the volume of general and bulk cargo handled by CMPS was approximately 10.38 million tonnes and 10.56 million tonnes, respectively.

Guangdong Yide Port Limited

The Group owns a 51% indirect interest in Guangdong Yide Port Limited ("GDYP"). GDYP operates and manages four berths in Shunde port, Foshan. GDYP has enhanced the strategic collaboration between the Group's western ports and river trade terminals in the Pearl River Delta.

For the years ended 31 December 2020 and 2021, the volume of containers handled by GDYP was approximately 0.43 million TEUs and 0.46 million TEUs, respectively, and the volume of general and bulk cargo handled by GDYP was approximately 3.95 million tonnes and 5.19 million tonnes, respectively.

Chu Kong River Trade Terminal Co., Limited

Chu Kong River Trade Terminal Company Limited ("CKRTT") is the largest inland terminal operator in the Pearl River Delta. The Group owns 20% of CKRTT which holds interest in ten terminals in the Pearl River Delta. By constructing a pier network layout, stevedoring, warehousing, land-based container haulage services between Hong Kong and the Pearl River Delta inland vessels, CKRTT takes advantage of their second category terminal hub port in Pearl River Delta as the core business to build the Pearl River Delta logistics service system, providing customers with more value-added services.

For the years ended 31 December 2020 and 2021, the volume of containers handled by CKRTT was approximately 1.06 million TEUs and 1.03 million TEUs, respectively, and the volume of general and bulk cargo handled by CKRTT was approximately 3.08 million tonnes and 3.17 million tonnes, respectively.

(b) Hong Kong and Taiwan

Modern Terminals Ltd. ("MTL")

MTL is the longest-established container ports operator in Hong Kong. MTL owns and operates seven container berths and three barge berths at Terminals 1, 2, 5 and 9(South), Kwai Tsing Container Port, Hong Kong, and an on-site 12-storey warehouse and container freight station. It is one of the largest terminal operators in Hong Kong. Kwai Tsing Container Port is the main port facilities in the reclamation along Rambler Channel between Kwai Chung and Tsing Yi Island, Hong Kong and is one of the busiest container ports in the world.

MTL is 27.01% owned by the Group, 67.59% owned by The Wharf (Holdings) Limited, and 5.4% owned by Jebsen Securities Ltd. The operation and management of MTL are undertaken by a management team appointed by the board of directors of MTL

China Merchants Container Services Ltd.

China Merchants Container Services Ltd. ("CMCS"), a wholly-owned subsidiary of the Group, is one of the key operators for mid-stream cargo handling in Hong Kong. CMCS is located in Tsing Yi Island, Hong Kong.

In 2021, MTL and CMCS in Hong Kong delivered an aggregate container throughput of 5.65 million TEUs, up by 1.7% year-on-year.

Kao Ming Container Terminal Corporation

Kao Ming Container Terminal Corporation ("KMCT") owns and operates four container berths in Kaohsiung, Taiwan.

KMCT is 10.0% owned by the Group.

For the years ended 31 December 2020 and 2021, the volume of containers handled by KMCT was approximately 1.60 million TEUs and 2.03 million TEUs, respectively, reflecting an increase of 26.9% year-on-year.

Yangtze River Delta

Shanghai International Port (Group) Co., Ltd.

The Shanghai port is the largest port in the world in terms of container throughput and faces the East China Sea to the east, and Hangzhou Bay to the south. It includes the heads of the Yangtze River, Huangpu River (which enters the Yangtze River), and Qiantang River.

Shanghai International Port (Group) Co., Ltd. ("SIPG") is a company listed on the Shanghai Stock Exchange and as at the date of this Offering Memorandum, the Group owns a 26.64% interest in SIPG. For the years ended 31 December 2020 and 2021, the volume of containers handled by SIPG was approximately 43.50 million TEUs and 47.03 million TEUs, respectively, representing an increase of 8.1%. The volume of general and bulk cargo handled by SIPG was approximately 75.65 million tonnes and 82.39 million tonnes for the same period, representing an increase of 8.9% which was mainly due to the adjustment on business structure, the vigorous development of export cargo types and the synchronous enhancement of regional synergy.

Ningbo Daxie China Merchants International Terminals Co., Ltd.

Ningbo Daxie China Merchants International Terminals Co. Ltd. ("NDCM") operates four container berths at the Ningbo Daxie China Merchants International Terminal, which is located at the T-shaped intersection where the north/south shipping route and the Yangtze River meet. Since November 2020, NDCM is 45% owned by the Group as a result of the entering into of a cooperation agreement between the Group and Ningbo Port**.**

For the years ended 31 December 2020 and 2021, the volume of containers handled by NDCM was approximately 3.32 million TEUs and 3.41 million TEUs, respectively, representing a 2.6% year-on-year increase.

Bohai Rim

Qingdao Port Project

The Qingdao Port is located in Qingdao, a city in the eastern part of the Shandong Province in China. The Qingdao Port is an important hub of international trade and sea-going transportation in North China and the Bohai Rim. The Group has entered into a number of joint ventures in relation to the operations at Qingdao Port:

- *Qingdao Qianwan United Container Terminal Co., Ltd.*

  Qingdao Qianwan United Container Terminal Co., Ltd. ("QQCTU") is a joint venture established by the Group and Qingdao New Qianwan Container Terminal Co., Ltd. in December 2009. The Group and QQCTN each own a 50% equity interest in QQCTU, the principal activities of which are construction, operation and management of container terminals on the southern bank of the Qianwan Harbour District of Qingdao Port and the provision of port-related services.

  For the years ended 31 December 2020 and 2021, the volume of containers handled by QQCTU was approximately 8.10 million TEUs and 8.54 million TEUs, respectively, indicating an increase of 5.5% year-on-year.

- *Qingdao Qianwan West Port United Terminal Co., Ltd.*

  In June 2010, the Group entered into another joint venture agreement to establish a joint venture, Qingdao Qianwan West Port United Terminal Co., Ltd. ("QQTU"), in which the Group holds a 49% equity interest. The principal activities of QQTU are construction, operation and management of a bulk cargo terminal in the Qianwan Harbour District of Qingdao Port and the provision of port-related services.

  For the years ended 31 December 2020 and 2021, the volume of general and bulk cargo handled by QQTU was approximately 16.29 million tonnes and 17.65 million tonnes, respectively, indicating an increase of 8.3% year-on-year.

The Group is also engaged in the operation and management of Qianwan Logistics Park. China Merchants International Terminal (Qingdao) Co., Ltd. is 90.1% owned by the Group and 9.9% owned by Qingdao Bonded Port Zone. The Qianwan Logistics Park occupies one square kilometre and is built around an integrated terminal and logistics facility that extends the port services supply chain and provides for further development of other related services.

Qingdao Port Dongjiakou Ore Terminal Co., Ltd.

Qingdao Port Dongjiakou Ore Terminal Co., Ltd ("QPDOT") is 25.00% owned by the Group. For the years ended 31 December 2020 and 2021, the volume of general and bulk cargo handled by QPDOT was approximately 63.15 million tonnes and 65.59 million tonnes, respectively, indicating an increase of 3.9% year-on-year.

Liaoning Port Company Limited (formerly known as Dalian Port (PDA) Company Limited)

In February 2016, the Group subscribed for a 21.05% interest in Liaoning Port Company Limited (formerly known as Dalian Port (PDA) Company Limited), the operating company of the Port of Dalian in the Bohai Rim region. In February 2021, the Group completed the merger by absorption through share swap (the "Merger") between Liaoning Port Company Limited and Yingkou Port Liability Co., Ltd. Upon completion of the Merger, Liaoning Port's total share capital increased from 12,894,535,999 shares to 22,623,429,453 shares. As at the date of this Offering Memorandum, the Group's effective interest in Liaoning Port Company Limited is 11.32%.

Liaoning Port Company Limited and its subsidiaries are principally engaged in the operation and management of oil/liquefied chemicals terminals, container terminals, automobile terminals, ore terminals, general cargo terminals and bulk grain terminals and related logistics services and ancillary ports operations.

For the years ended 31 December 2020 and 2021, Liaoning Port Company Limited handled a container throughput of 6.54 million TEUs and 9.91 million TEUs, representing a year-on-year increase of 51.6%. Bulk cargo volume increased by 100.1% over the same period, from 131 million tonnes to 263 million tonnes.

Tianjin Port Container Terminal Co., Ltd.

In August 2019, Tianjin Five Continents International Container Terminals Co., Ltd. ("TFCIT") completed its merger with Tianjin Port Container Terminal Co., Ltd. and Tianjin Orient Container Terminals Co., Ltd, upon which the Guarantor held 7.31% equity interests in the enlarged Tianjin Port Container Terminal Co., Ltd.

TFCIT and Tianjin Port Container Terminal Co., Ltd. contributed a total container throughput of 8.64 million TEUs during the year ended 31 December 2021.

South-eastern region of mainland China

Zhangzhou China Merchants Port Co., Ltd.

Zhangzhou China Merchants Port Co., Ltd. ("ZCMP") operates and manages container and bulk terminals at Zhaoyin Harbour area, Xiamen Port. Zhaoyin Harbour area of Xiamen Port is located in the Zhangzhou Economic Development Zone, Fujian, on the south bank of the Xiamen Gulf, at the estuary of the Jiulong River.

ZCMP is 60.00% owned by the Group and 40.00% owned by China Merchants Zhangzhou Development Zone Company Limited. Profits and losses are distributed to and borne by the shareholders in proportion to their equity interest in ZCMP. For the years ended 31 December 2020 and 2021, the volume of containers handled by ZCMP was approximately 0.32 million TEUs and 0.27 million TEUs, respectively, representing a decrease of 15.2% year-on-year which mainly resulted from the decrease in shipping routes affected by the pandemic. The volume of bulk cargo handled by ZCMP was approximately 6.33 million tonnes and 8.68 million tonnes, respectively, for the same periods, representing an increase of 37.2% year-to-year benefitted from the development of North-South grain business.

Xia Men Bay China Merchants Terminals Co., Ltd.

In May 2019, Xia Men Bay China Merchants Terminals Co., Ltd. ("XMBCMT"), which is principally engaged in general and bulk cargo services, officially commenced operation and handled a bulk cargo volume of 5.65 million tonnes for the year ended 31 December 2021, representing an increase of 770.3% year-to-year. XMBCMT is 31.00% owned by the Group.

Shantou China Merchants Port Group Co., Ltd (formerly known as Shantou Ports Group Corp Co., Ltd.)

In August 2017, the Group successfully subscribed for a 60% interest in Shantou China Merchants Port Group Co., Ltd (formerly known as Shantou Ports Group Corp Co., Ltd.) ("SPG"), a company principally engaged in ports operation in the south-eastern region of Guangdong Province. The acquisition was expected to strengthen the Group's port network in the south of the PRC. For the years ended 31 December 2020 and 2021, SPG handled a total container throughput of 1.59 million TEUs and 1.80 million TEU, respectively, up by 13.4% year-on-year.

South-western region of mainland China

Zhanjiang Port (Group) Co., Ltd.

Zhanjiang Port (Group) Co. Ltd ("ZPGC") is situated at Zhanjiang port, lying at the western part of Guangdong Province and north of Leizhou Peninsula. Zhanjiang port is a deep-water port endowed with strategic waterways in south China and southwest China. It is an important sea-bound port in the Pan Southwest region and western part of Guangdong.

During the year ended 31 December 2019, 1,853,518,190 shares of ZPGC were issued to CMPG and another party independent to the Group. Following the subscription of new shares by the subscribers, the Group's interest in ZPGC has been diluted from 40.29% to 27.58%. Under the new shareholders' agreement, decisions of relevant activities of ZPGC do not require unanimous consent from all of its shareholders, including the Group. Hence, the Group no longer recognised its investment in ZPGC as interest in a joint venture. The investment in ZPGC is accounted for as an interest in an associate as the directors consider the Group has significant influence over the investee.

For the years ended 31 December 2020 and 2021, ZPGC handled a total container throughput of 1.22 million TEUs and 1.22 million TEU, respectively, up by 0.2% year-on-year. For the same periods, total bulk cargo volume was 90.87 million tonnes and 95.54 million tonnes, down by 5.1% year-on-year.

Overseas

(a) *Sri Lanka*

Colombo International Container Terminals Limited

In September 2010, the Group entered into a shareholders' agreement with Sri Lanka Ports Authority and Aitken Spence in relation to Colombo International Container Terminals Limited ("CICT"), for the construction, development, management and operation of the Colombo South Container Terminal ("CSCT"). The build, operate and transfer agreement in relation to CSCT was signed in August 2011. In January 2012, the Group acquired Aitken Spence's entire 30% interest in CICT, bringing its total equity interest to 85.00%.

CSCT was designed to accommodate the latest generation of mainline container vessel with a quay length of 1,200 metres, covering a land area of 58 hectares, with a minimum alongside water depth of 18 metres and a design capacity of 2.4 million TEUs.

CSCT commenced operations in 2013 and was the first overseas terminal project in which the Group had independent operation and management rights. For the years ended 31 December 2020 and 2021, the volume of containers handled by CSCT was approximately 2.93 million TEUs and 3.06 million TEUs, respectively, representing a 4.4% year-on-year increase.

Hambantota Port Project

In July 2017, the Group entered into a Concession Agreement with the Sri Lanka Ports Authority ("SLPA") and the Government of the Democratic Socialist Republic of Sri Lanka in relation to the development, management and operation of the Hambantota Port. The project was delivered in December of the same year after the relevant Supplementary Concession Agreement, Conditions Precedent Amendment Letter and Shareholders Agreements were signed (together the "Hambantota Concession Agreements"). Pursuant to the Hambantota Concession Agreements, HIPG and HIPS will develop, operate, maintain and manage the operation of the Hambantota Port. It is anticipated the Hambantota Port project will offer synergies with CSCT and further promote the construction of the Group's overseas homebase port in Sri Lanka.

In June 2020, the Group entered into a share transfer deed to dispose of 20% effective interests in HIPG, and as at the date of this Offering Memorandum, the Group has a 65% interest in HIPG. HIPG has a 58.0% interest in Hambantota International Port Services Company (Private) Limited ("HIPS"). SLPA directly holds 15.0% interest in HIPG and the remaining 42.0% in HIPS.

(b) *Togo*

Lomé Container Terminal S.A.

In August 2012, the Group through its wholly-owned subsidiary Oasis King International Ltd ("OKIL") acquired a 50% stake in Thesar Maritime Limited ("TML"). In 2015, the Group transferred 30% stake of OKIL to the CADF. As at 31 December 2021, the Group's effective interest in TML was 35%. TML owns the concession rights to develop and operate Lomé Container Terminal S.A. ("LCT"). LCT operates and manages three berths. Given its maritime proximity and its natural sea-depth, Lomé lies strategically as Togo's key import and export channel and combined with the Togolese Government's open and free trade policies, the terminal is well-placed to service cargo flows along the Gulf of Guinea and is a key transhipment hub for the West African Region.

As at 31 December 2021, container throughput handled by LCT was 1.63 million TEUs compared to 1.36 million TEUs for 31 December 2020, a year-on-year increase of 19.2%.

(c) *Nigeria*

Tin-Can Island Container Terminal Limited

In November 2010, the Group, through a 60% indirectly held subsidiary, of which 40% stake held by China-Africa Development Fund ("CADF"), acquired a 47.5% shareholding interest in Tin-Can Island Container Terminal Limited ("TICT"), which operates and manages the Tin-Can Island Container Terminal in Lagos, Nigeria. This acquisition marked the first step in the Group's expansion into overseas markets and adhered to its strategy of capturing available opportunities overseas as one of the means to effectively add new growth drivers to its existing ports business. As at 31 December 2021, the Group's effective interest in TICT was 28.50%.

Tin-Can Island Container Terminal is primarily engaged in container terminal services.

For the years ended 31 December 2020 and 2021, the volume of containers handled by Tin-Can Island Container Terminal was approximately 0.30 million TEUs and 0.32 million TEUs, respectively, representing a year-on-year increase of 5.6%.

(d) *Djibouti*

Port de Djibouti SA

In December 2012, the Group entered into a sale and purchase agreement with Djibouti Ports & Free Zones Authority to acquire 23.5% of the issued share capital in Port de Djibouti SA ("PDSA"). The Port of Djibouti lies strategically at the mouth of the Red Sea, thus making it an ideal transhipment hub for maritime cargoes passing in and out of East Africa, offers long-term growth potential as the economic momentum in the proximity intensifies over time.

For the years ended 31 December 2020 and 2021, the volume of containers handled by PDSA was approximately 0.86 million TEUs and 0.69 million TEUs, respectively, representing a year-on-year decrease of 19.4%, and the volume of general and bulk cargo handled by PDSA for the years ended 31 December 2020 and 2021 were, respectively, approximately 4.53 million tonnes and 4.55 million tonnes, up by 0.4% year-on-year.

(e) *Brazil*

TCP Participações S.A.

On 4 September 2017, the Group entered into a share purchase agreement with TCP Participações S.A. ("TCP") and several independent third-party initial shareholders, pursuant to which the Group purchased 90% of the total issued share capital of TCP, a company principally engaged in the operation of port facilities in Brazil. The acquisition completed in February 2018, expanding the Group's presence to Central and South America for the first time.

In December 2019, the Group completed its disposal of 25.05% interest in, and 25.05% of the shareholder's loan advanced by the Guarantor to, Xinda Group whose principal asset is its interest in 90% of the issued share capital of TCP to individual third parties, for a total cash consideration of HK$1,944 million. As at the date of this Offering Memorandum, the Group's effective interest in TCP is 77.45%.

As at 31 December 2021, container throughput handled by TCP was 1.10 million TEUs compared to 0.98 million TEUs for 31 December 2020, a year-on-year increase of 12.0%.

(f) *Turkey*

Kumport Liman Hizmetleri ve Lojistik Sanayi ve Ticaret Anonim Şirketi

In December 2015, the Group entered into an acquisition agreement COSCO Pacific Limited and CIC Capital Corporation to acquire a 65% equity interest in Kumport Liman Hizmetleri ve Lojistik Sanayi ve Ticaret Anonim Şirketi ("Kumport"), which is located on the European side of Istanbul. It has become the third largest marine terminal in Turkey as a result of the recent high increase in turnover along with the investments in human resources and modern technology.

Kumport is situated in the Ambarli Port Complex in the Marmara region, which realises a large portion of the country's foreign trade and acts as an important commercial gateway for the export and import activities of Turkey.

As at 31 December 2021, container throughput handled by Kumport was 1.25 million TEUs compared to 1.22 million TEUs for 31 December 2020, a year-on-year increase of 2.5%.

(g) *Terminal Link portfolio*

Terminal Link SAS

In January 2013, the Group entered into a share purchase agreement with, among others, CMA Terminals Holdings SAS and Terminal Link SAS to purchase 49% of the issued shares in Terminal Link SAS. As at the date of this Offering Memorandum, Terminal Link SAS owns a portfolio of 21 geographically-diversified container and bulk cargo ports located in France, Morocco, Malta, the United States, Ivory Coast, Belgium, Greece, Ukraine, Singapore, Jamaica, the Netherlands, Vietnam, Thailand, Iraq and South Korea. Terminal Link SAS's strategic relationship with CMA CGM supports Terminal Link SAS's long-term growth and development.

For the years ended 31 December 2020 and 2021, the volume of containers handled by Terminal Link was approximately 21.22 million TEUs and 25.52 million TEUs, respectively, representing a year-on-year increase of 20.3%.

(h) *Australia*

Port of Newcastle and Gold Newcastle Property Holding Pty Limited

In June 2018, the Group extended its port network to six continents by completing the acquisition of 50% interest in Port of Newcastle (the "PON"). PON is the largest port in Australia's east coast and the world's largest coal export port. The operation model of Newcastle port is "landowner port", with 98 years of management and lease rights since 2014..

Other Ports related services

Barge shuttle network

The Group commenced the operation of its barge shuttle service in the Pearl River Delta area in 2004. This service has allowed general and bulk cargo owners to conduct transhipment between the port area in western Shenzhen and the Pearl River Delta area. The Group believes that its barge shuttle network will attract major marine routes to designate Shenzhen as their homeport. Leveraging the unique advantages of the port area in western Shenzhen, the Group's barge shuttle service has expanded into the hinterland of the port area in western Shenzhen over the years. At present, the coverage of the shuttle service has extended to Huangpu, Shunde, Jiangmen, Zhongshan, Nanhai, Foshan, Zhanjiang, Zhuhai, Zhaoqing and other ports along the feeder routes.

To further expand its service network, in December 2010, the Group acquired a 20% interest in Chu Kong River Trade Terminal Co., Ltd to develop public barge services for feeder and carrier ports in connection with Chu Kong Shipping Development Company Limited, a cargo transport operator in the Pearl River Delta. The acquisition was completed in February 2011. The acquisition has enhanced the strategic collaboration between the Group's western ports and river trade terminals in the Pearl River Delta.

The Group believes that the barge shuttle network has increased the attractiveness of the port area in western Shenzhen and will play an important part in the growth of the ports area in the future.

Tugboat services

The Group provides tugboat and ancillary transportation and security services to its customers through certain of its subsidiaries. These are:

- Zhangzhou China Merchants Tugboat Co., Ltd, which was established in November 2004, provides tugboat services to ships using the Zhangzhou port and the Xiamen port in Fujian. As at 31 December 2021, the Group held a 70% interest in this investment.

- Shenzhen Lianda Tug Co., Ltd, which was established in 1992, provides tugboat services to ships using the Shenzhen port. As at 31 December 2021, the Group held a 60.29% interest in this investment.

- Shantou Harbour Tug Service Co., Ltd, which was established in 2016, provides tugboat services to ships using the Shantou port. As at 31 December 2021, the Group held a 60% interest in this investment.

Bonded Logistics Operations

Bonded Port Zone collaboration

The Group has implemented the Bonded Port Zone collaboration model at its logistics parks in western Shenzhen (Shenzhen Qianhaiwan Bonded Port Zone, which has an area of 383,000 metres squared and included in the Guangdong Free Trade Zone along with other deep water container terminals and a 98% average warehouse utilisation rate in 2021), Qingdao (Qingdao Bonded Port Zone, which has 11 high-end separated warehouses available totalling approximately 150,000 metres squared and 400,000 metres squared of yard area with a 80% average warehouse utilisation rate in 2021), Tianjin (Tianjin Dongjiang Bonded Port Zone, which has approximately 63,000 metres squared of warehouses and 55,400 metres squared of yard area with a 85% average warehouse utilisation rate in 2021) and

Djibouti (Djibouti International Free Trade Zone, which has approximately 40,000 metres squared of wholly-owned warehouses with an average warehouse utilisation rate of 100% as at 31 December 2021 and about 36,000 metres squared of partially invested warehouses with an average warehouse utilisation rate of 100% as at December 2021). In the PRC, shipment of containers and general and bulk cargo from a port to a location outside the port will generally be subject to duties. The Bonded Port Zone collaboration model involves the construction of bonded and logistics parks for a port that is outside but adjacent to such port. Customers can transport their containers and general and bulk cargo from the port to a warehouse, where they can be stored on a temporary basis but can be shipped to another location inside one of the bonded and logistics parks. The containers and general and bulk cargo that are shipped from the port to the bonded and logistics parks will be exempt from duty.

The Group's logistics parks in western Shenzhen, Qingdao, Tianjin and Djibouti offer a range of value-added services to its customers and this has contributed to the growth of its ports business. In addition to bonded and supervisor control warehouse operations, the Group's logistics parks also provide processing, delivery, consolidation, assortment, packaging and assembling services to meet the demands of its customers for integrated logistics services. The Group intends to focus on enhancing the services offered at its logistics parks. The Group believes its logistics parks allow its customers to benefit from savings in overall operating costs and increases their shipping routes, result in increased throughput at its ports and increase the competitiveness of its ports.

Recent Developments

Impact of COVID-19 on the Group's business operations

The global situation of the COVID-19 pandemic continues to remain complex and severe. In the first half of 2021, the pandemic in Europe and the United States eased due to the accelerated vaccination process, which led to a recovery of consumption side in global trade. However, in the second half of 2021, the epidemic situation resumed. In addition to the global rebound of COVID-19 arising from the spread of COVID-19 Delta variant to various countries worldwide, the COVID-19 Omicron variant also spurred another wave of outbreaks in major regions around the world at the end of the year, increasing the uncertainties of global economic recovery significantly. During 2021, due to repeated epidemics, inflation, extreme weather and other factors, the supply capacity on the production side was under pressure and supply disruptions generally lasted longer than expected, while the recovery on the consumption side was differentiated in different regions and sub-segments. Looking into 2022, the COVID-19 pandemic is expected to continue to bring uncertainties to the global economic recovery.

In the face of the complicated and challenging international environment, the PRC organised and promoted pandemic prevention and control along with economic and social development. Its efforts effectively facilitated the restoration of normal production and everyday life, and realised significant strategic results in pandemic prevention and control. In the meantime, China accelerated the establishment of the new development model with internal circulation in the domestic market as the mainstay and the dual circulation in domestic and international market facilitating each other. As a result, China's economy recovered steadily. Under the ongoing impact of the COVID-19 pandemic, the Group made every effort to promote high-quality development by continuing to adhere to the general tone of making progress while remaining stable. The Group actively carried out various major tasks and further enhanced its core competitiveness in aspects such as the construction of homebase ports, overseas business, comprehensive development, innovative development, capital operation, operation management and marketing and commerce, thereby accomplishing its established strategic goals and successfully completing various operational objectives of the year. For the year ended 31 December 2021, the Group's ports operation recorded a total container throughput of 135.04 million TEUs, representing a 12.0% year-on-year growth, and bulk cargo volume of 567 million tonnes, representing an increase of 38.0% year-on-year. Looking into the regional performance, Mainland China, Hong Kong and Taiwan contributed an aggregate container throughput of 101.47 million TEUs, up by 10.7% year-on-year; and overseas operations delivered a container throughput of 33.57 million TEUs, up by 16.3% year on year.

Acquisition of Shares in Shanghai International Port (Group) Co., Ltd.

Between 9 March 2022 to 19 April 2022, a wholly-owned subsidiary of the Guarantor acquired an aggregate of 328,750,659 shares of Shanghai International Port (Group) Co., Ltd. (the "**SIPG Shares**") through on-market purchases on the Shanghai Stock Exchange at the average price of RMB5.76 per SIPG Share for an aggregate consideration of RMB1,894 million (equivalent to approximately HK$2,338 million). Prior to such acquisitions, the Guarantor was interested in 6,202,562,186 SIPG Shares, representing approximately 26.64% of the total issued share capital of Shanghai International Port (Group) Co., Ltd. ("**SIPG**"). Upon the settlement of the acquisitions, the Company would be interested in 6,531,312,845 SIPG Shares, representing approximately 28.06% of the total issued share capital of SIPG. SIPG is principally engaged in container terminal business, bulk cargo terminal business, port logistics business and port service business.

Competition

The Group faces competition in each of its business areas.

Ports operation

The Group competes with other ports operators in the following respects:

- *location*: strategic location of the port relative to economic trade areas, water depth and other factors that affect the ability of the port to accommodate large ships, and connectivity with other ports;

- *facilities and supporting infrastructure*: accessibility to roads and other transportation links, and capacity and scale of terminal operations and capability of accommodating large ships;

- *service*: ability to provide efficient and reliable services, ability to meet the diverse and complex operational requirements of customers, and local knowledge; and

- *price*: offering a competitive pricing structure.

The Group competes with both international companies that may have a network of ports in different regions, and significant financial resources, marketing and other capabilities, and local companies that may have extensive local knowledge and business relationships and have ports that are located in areas that the Group does not service.

Bonded logistics operation

The Group competes with other bonded logistics operators on factors such as resources (in relation to sourcing for land to construct other port-related business in suitable locations) and in obtaining State Council's approval to enjoy the benefits of Bonded Port Zones. In addition, the Group competes on its capability and industry expertise to operate the port-cargo-park collaboration.

Employees

As at 31 December 2021, the Guarantor had 8,495 full-time employees, 195 of which were employed in Hong Kong, 5,486 worked in the PRC and the remaining 2,814 worked overseas. Staff benefits include provident fund, insurance and medical cover, housing and share option schemes. The Guarantor believes that its employees are critical to its success and is committed to investing in the development of its employees through continuing education and structured training, as well as the creation of opportunities for career growth.

Governmental Regulations

The Guarantor's operations are subject to a variety of laws and regulations promulgated by the national and local government of the PRC, such as environmental laws. The Guarantor's operations are subject to inspections by government officials with regard to various safety and environmental issues. The Guarantor believes that the Guarantor is in compliance in all material respects with applicable governmental regulations in the jurisdictions in which the Guarantor operates. Compliance with such laws has not had, and in the Guarantor's opinion, is not expected to have, a material adverse effect upon the Guarantor's capacity expenditures, earnings or competitive position. The Guarantor is not aware of any governmental proceedings or investigations to which it or any member of the Guarantor is or might become a party and which may have a material adverse effect on its properties and operations.

Insurance

The Guarantor maintains insurance policies which cover loss caused by fire, lightning, flooding, theft, vandalism and public liability. The Guarantor believes that its properties are covered with adequate insurance provided by reputable independent insurance companies in the relevant jurisdictions and with commercially reasonable deductibles and limits on coverage, which are normal for the type and location of the assets and properties to which they relate. Notwithstanding such insurance coverage, damage to the ports, facilities, equipment, or other properties as a result of occurrences such as fire, floods, water damage, explosion, power loss, typhoons and other natural disasters or terrorism, or any decline in the Guarantor's business as a result of any threat of war, outbreak of disease or epidemic, may potentially have a material adverse effect on the Guarantor's financial condition and operating results. See "*Risk Factors — Risks Relating to the Group's Business — The Group's insurance policies may not be adequate and the Group may be subject to uninsured risks*".

DIRECTORS AND SENIOR MANAGEMENT

The members of the Board of Directors of the Guarantor as at the date of this Offering Memorandum are as follows:

Name	Age	Title
Executive Directors		
Mr. Deng Renjie	52	Executive Director and Chairman
Mr. Wang Xiufeng	51	Executive Director, Vice Chairman and Chief Executive Officer
Mr. Liu Weiwu	57	Executive Director
Mr. Deng Weidong	54	Executive Director
Mr. Yim Kong	49	Executive Director and Managing Director
Mr. Wang Zhixian	57	Executive Director
Independent Non-executive Directors		
Mr. Kut Ying Hay	67	Independent Non-executive Director
Mr. Lee Yip Wah Peter	80	Independent Non-executive Director
Mr. Li Ka Fai David	67	Independent Non-executive Director
Mr. Bong Shu Ying Francis	80	Independent Non-executive Director

The biographies of the Executive and Independent Non-executive Directors and Senior Management of the Guarantor as at the date of this Offering Memorandum are as follows:

Executive Directors

Mr. Deng Renjie, aged 52, is the Executive Vice President of China Merchants Group Limited. He graduated from Beijing Electronic Science and Technology Institute with a bachelor's degree of Computer Science Management in October 1991. He later obtained a master's degree of International Economic Law from Dalian Maritime University. Prior to his appointment as Executive Director of the Guarantor, he successively served as Consultant of the General Office in Ministry of Transportation of China, Deputy Director of the General Office in Hunan Province, Deputy Secretary-General of Hunan Province, Deputy Secretary-General of the Party Committee of the Xinjiang Uyghur Autonomous Region and Assistant to General Manager, Director of Administration Department of China Merchants Group Limited and the Chairman of China Merchants Expressway Network & Technology Holdings Co., Ltd., shares of which are listed on the Shenzhen Stock Exchange. He is currently as Deputy Director of the 9th council of the China Highway & Transportation Society, Deputy Director of the 7th council of the China Communications and Transportation Association and the Chairman of China Merchants Port Group Co., Ltd., shares of which are listed on the Shenzhen Stock Exchange.

He was appointed to the Board of Directors as Executive Director of the Guarantor on 1 June 2015 and retired as Executive Director of the Guarantor on 29 November 2016. He was also appointed as an Executive Director and Chairman of the Board of Directors of the Guarantor on 13 February 2020.

Mr. Wang Xiufeng, aged 51, is the Vice Chairman of the Board of Directors and Chief Executive Officer of China Merchants Port Group Co., Ltd., shares of which are listed on the Shenzhen Stock Exchange. He is a senior accountant and senior engineer, graduated from Northeast University with a Bachelor's Degree in Industrial Accounting, and obtained Master's Degree in Business Administration from Tsinghua University. He has served as the Chairman of the Board of Directors and General Manager of China Merchants Expressway Network & Technology Holdings Co., Ltd., shares of which are listed on the Shenzhen Stock Exchange, the Chief Financial Officer of China Merchants Huajian Expressway Investment Co., Ltd., a Director of Xingyun Digital Clustering (Beijing) Technology Co., Ltd., the Vice Chairman of the Board of Directors of Shandong Expressway Holdings Co., Ltd, shares of which are listed on the Shanghai Stock Exchange, a Director of Henan Zhongyuan Expressway

Holdings Co., Ltd, shares of which are listed on the Shanghai Stock Exchange, a Director of Anhui Expressway Company Limited, shares of which are listed on the Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited, the Vice President and a member of Standing Committee of the Party Committee of Metallurgical Corporation of China Ltd., shares of which are listed on the Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited, the Chairman of the Board of Directors and Secretary of the Party Committee of MCC Jingtang Construction Co., Ltd., and the General Manager of MCC 22nd Metallurgical Construction Company.

He was appointed to the Board of Directors as Executive Director and Managing Director of the Guarantor on 26 August 2021 and was then re-designated from Managing Director of the Guarantor to Vice Chairman of the Board of Directors and the Chief Executive Officer of the Guarantor on 3 November 2021. He is also a member of the Remuneration Committee and the Nomination Committee of the Guarantor.

Mr. Liu Weiwu, aged 57, is the General Manager of the Finance Department (Property Rights Department) of China Merchants Group Limited. He graduated from the Economics Department of Xi'an Highway Institute with a Bachelor's Degree in Engineering. He obtained a Master Degree of Business Administration from Macau University of Science and Technology and then obtained the intermediate accountant qualification. He previously served as the Head of Treasury Division of Financial Department of Guangzhou Ocean Shipping Company, the Manager of Financial Department of Hong Kong Ming Wah Shipping Company Limited, the Deputy General Manager of the Finance Department of China Merchants Group Limited, and the Chief Financial Officer, the Deputy General Manager and the Director of China Merchants Energy Shipping Co., Ltd., shares of which are listed on the Shanghai Stock Exchange. Currently, he is also a Director of China Merchants Port Group Co., Ltd. and China Merchants Expressway Network & Technology Holdings Co., Ltd., shares of which are listed on the Shenzhen Stock Exchange, a Non-executive Director of China Merchants Securities Co., Ltd. and Sinotrans Limited, shares of which are listed on the Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited, respectively and an Independent Non-executive Director of AviChina Industry & Technology Company Limited, shares of which are listed on The Stock Exchange of Hong Kong Limited.

He was appointed to the Board of Directors as Executive Director of the Guarantor on 22 March 2021.

Mr. Deng Weidong, aged 54, is currently the General Manager of Strategy and Development Department/Technological Innovation Department of China Merchants Group Limited. He graduated from Nanjing University with a Doctorate Degree in Physical Geography, and then he obtained a Master Degree in Marine Management from Dalhousie University in Canada. He worked in Administration Bureau of Hainan Yangpu Economic Development Zone, and successively served as the General Manager of Research and Development Department of China Nanshan Development (Group) Inc., the Deputy General Manager of Chiwan Container Terminal Co., Ltd., the General Manager of Shenzhen Mawan Terminals Co., Ltd., the Deputy General Manager of the Guarantor, the General Manager of Capital Operation Department of China Merchants Group Limited, the General Manager of China Merchants Investment Development Company Limited and the Director of China Merchants Property Operation & Service Co., Ltd., shares of which are listed on the Shenzhen Stock Exchange. He is also currently a Director of each of S.F. Holding Co., Ltd, China Merchants Shekou Industrial Zone Holdings Co., Ltd ("CMSIZ") and China Merchants Energy Shipping Co., Ltd., shares of the above three companies are listed on the Shenzhen Stock Exchange and a Director of China International Marine Containers (Group) Co., Ltd., shares of which are listed on the Shenzhen Stock Exchange and The Stock Exchange of Hong Kong Limited and a Director of Sinotrans Limited, shares of which are listed on The Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange.

He was appointed to the Board of Directors as Executive Director of the Guarantor on 28 October 2021.

Mr. Yim Kong, aged 49, currently serves as the Chief Operational Officer and General Manager of China Merchants Port Group Co., Ltd., share of which are listed on the Shenzhen Stock Exchange. Having graduated from International Trade at Xiamen University with a Bachelor's Degree in Economics, he went on to complete an MBA programme cocreated by the Maastricht School of Management (Maastricht, the Netherlands) and Shanghai Maritime University. Mr. Yim has rich managerial experience in the port and logistics industries. He served as the Chief Representative of the representative office of China Merchants Group Limited in Central Asia and the Baltic Sea and the General Manager of China-Belarus Industrial Park. He also served as the Deputy General Manager of China Merchants Port Group Co., Ltd, shares of which are listed on the Shenzhen Stock Exchange and the Chief Commercial Officer and Deputy General Manager of the Guarantor as well as the Commercial Director, Deputy General Manager, Standing Deputy General Manager and General Manager of Shekou Container Terminals Limited, a subsidiary of the Guarantor, and worked for senior logistics management positions in Neptune Orient Lines (NOL) of Singapore and Swire Group of Hong Kong. He currently serves as Functional Constituency—Commercial (Third) member of the Legislative Council of the Hong Kong Special Administrative Region, a member of the Hong Kong Special Administrative Region of Election Committee and a member of the Logistics Services Advisory Committee of the Hong Kong Trade Development Council. He was a member of the Pilotage Advisory Committee (PAC) of the Hong Kong Marine Department of the Hong Kong Special Administrative Region.

He was appointed to the Board of Directors as Executive Director and Managing Director of the Guarantor on 3 November 2021.

Mr. Wang Zhixian, aged 57, joined the Guarantor in July 1992 and is an Executive Director of the Guarantor. He is a Director of certain subsidiaries of the Guarantor. He is also the Chairman of Liaoning Port Co., Ltd., shares of which are listed on the Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited and the Chief Executive Officer of Liaoning Port Group Limited. He graduated from Tianjin University, Shanghai Jiaotong University with a Master of Science. He obtained a Master's Degree of Business Administration from Peking University. Mr. Wang has extensive management experience in port and shipping industry. Prior to joining the Guarantor, he worked in Hempel-Hai Hong Paint Company as sales manager. After joining the Guarantor, he was the Deputy General Manager of Industrial Management Department, General Manager of Business Planning Department, the Deputy General Manager of Shenzhen Mawan Port Services Co., Ltd., the Chairman and Chief Executive Officer of Ningbo Daxie China Merchants International Terminal Co., Ltd., the Managing Director of China Merchants Port Services (Shenzhen) Co., Ltd. and Shenzhen Haixing Harbour Development Co., Ltd., Deputy General Manager of the Guarantor, Chairman of China Nanshan Development (Group) Incorporation and a Non-executive Director of China International Marine Containers (Group) Co., Ltd., shares of which are listed on both the Shenzhen Stock Exchange and The Stock Exchange of Hong Kong Limited.

He was appointed to the Board of Directors as an Executive Director of the Guarantor on 18 February 2016.

Independent Non-executive Directors

Mr. Kut Ying Hay, aged 67, is a retired solicitor and a retired notary public in Hong Kong and had been in practise in the name of Kut & Co. for more than 25 years. He obtained qualification as a solicitor of the Supreme Court of England and Wales, the Supreme Court of Victoria, Australia, and the Supreme Court of Singapore, and as an associate member of the Institute of Chartered Arbitrators and the Institute of Arbitrators, Australia. He was appointed by the Hong Kong Government as a member of the Board of Review for the period from 1995 to 1998. He was also appointed by the Ministry of Justice of the PRC as a China Appointed Attesting Officer (now retired). Mr. Kut was formerly an Independent Non-executive Director of publicly-listed China Merchants China Direct Investments Limited from June 1993 to October 2011.

He was appointed to the Board of Directors as an Independent Non-executive Director of the Guarantor on 6 June 1992. He is also the Chairman of the Nomination Committee and a member of the Audit Committee and the Remuneration Committee of the Guarantor.

Mr. Lee Yip Wah, Peter, aged 80, is a retired solicitor. Following the delisting of shares of SHK Hong Kong Industries Limited and Sinotrans Shipping Limited on 23 April 2021 and 16 January 2019, he ceased to act as Independent Non-Executive director of SHK Hong Kong Industries Limited and Sinotrans Shipping Limited respectively on 27 April 2021 and 16 January 2019. He was appointed to the Board of Directors as an Independent Non-executive Director of the Guarantor on 20 June 2001. He is also the Chairman of the Audit Committee and a member of the Nomination Committee and the Remuneration Committee of the Guarantor.

Mr. Li Ka Fai, David, aged 67, is the senior advisor of SHINEWING (HK) CPA Limited. He is also a fellow of The Association of Chartered Certified Accountants, UK. He is an Independent Non-executive Director and Chairman of Audit Committee, member of Remuneration Committee and member of Nomination Committee of China-Hongkong Photo Products Holdings Limited, an Independent Non-executive Director, Chairman of Audit Committee, member of Remuneration Committee and member of Nomination Committee of Cosmopolitan International Holdings Limited, an Independent Non-executive Director, Chairman of Audit Committee, member of Remuneration Committee and member of Nomination Committee of Goldlion Holdings Limited, an Independent Non-executive Director and Chairman of Audit Committee of Shanghai Industrial Urban Development Group Limited, an Independent Non-executive Director, member of Audit Committee and member of Remuneration Committee of Continental Aerospace Technologies Holding Limited (formerly known as AVIC International Holding (HK) Limited), and an Independent Non-executive Director and Chairman of Audit Committee of Wai Yuen Tong Medicine Holdings Limited, shares of the above six companies are listed on The Stock Exchange of Hong Kong Limited. He previously served as an Independent Non-executive Director of CR Construction Group Holdings Limited from October 2019 to June 2021, the shares of which are listed on The Stock Exchange of Hong Kong Limited.

He was appointed to the Board of Directors as an Independent Non-executive Director of the Guarantor on 1 June 2007. He is also the Chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee of the Guarantor.

Mr. Bong Shu Ying, Francis, aged 80, OBE, Justice of Peace, is currently a Non-executive Director of Cosmopolitan International Holdings Limited, shares of which are listed on The Stock Exchange of Hong Kong Limited. Mr. Bong holds a Bachelor's Degree of Sciences in Engineering from the University of Hong Kong and was the Chairman of the Hong Kong University Engineering Advisory Committee. He is a former President of the Hong Kong Institution of Engineers, a former President of Hong Kong Academy of Engineering Sciences and a Fellow of the Institution of Structural Engineers (UK). Mr. Bong is an Honorary Fellow of the University of Hong Kong and he was appointed a Justice of Peace in 1992 by the Government of Hong Kong and he received an OBE award in 1997 for his outstanding contribution to the development of the engineering profession in Hong Kong. Mr. Bong was a former Director of AECOM Technology Corporation, a company listed on the New York Stock Exchange. He was appointed to the Board of Directors as an Independent Non-executive Director of the Guarantor on 14 July 2010. He is also a member of the Audit Committee, Nomination Committee and Remuneration Committee of the Guarantor.

Senior Management

Mr. Tu Xiaoping, aged 56, joined the Guarantor in 2021 and has served as the Chief Financial Officer of the Guarantor since November 2021. He held a Bachelor's degree in Financial Accounting of Water Economics which was granted by the Shanghai Maritime University, and subsequently received a Master's degree in Investment Management from Zhongnan University of Economics and Law during his employment. Mr. Tu has over 30 years of working experience in the enterprise management and financial management. He served as the General Manager of China Yangtze Shipping Group Co., Ltd., Vice General Manager and Chief Financial Officer of China Merchants Logistics Group Co., Ltd., General Manager of Finance Department of CMSIZ and Vice General Manager and Chief Financial Officer of China Merchants Venture Co. Ltd. before joining the Guarantor.

Mr. Lu Yongxin, aged 52, joined the Guarantor in 2007 and currently serves as Deputy General Manager of the Guarantor. He obtained a Master's Degree in Project Management at the Curtin University of Technology (Perth, Western Australia). Mr. Lu has gathered rich managerial experience in the international portfolio expansion activities of port companies. Prior to joining the Guarantor, he had served as Assistant General Manager of Zhen Hua Engineering Co., Ltd. and Deputy General Manager (in charge) of the General Manager's Office at China Harbour Engineering Co. Ltd. (Beijing). He was Deputy General Manager of the Research & Development Division, General Manager of the International Division, and Assistant General Manager of the Guarantor. Between May 2014 and January 2016, Mr. Lu was accredited to France as Chief Financial Officer and Senior Vice President of Terminal Link.

Mr. Li Yubin, aged 50, joined the Guarantor in 2007 and currently serves as Deputy General Manager of the Guarantor. He graduated from Tianjin University with a Bachelor's Degree of Port and Channel Engineering, and a Master's Degree in International Project Management. He subsequently went on to obtain a Doctorate Degree in Real Estate and Construction at the University of Hong Kong. Mr. Li has a number of years' strategic study, operation and management, business innovation, marketing experience in port and logistics industries, and experience in digital transformation. Prior to joining the Guarantor, he had served as Accredited Deputy General Manager of the Road & Bridge Project at China Harbour Engineering Co.'s Bangladeshi Office and Project Director at the International Division of China Harbour Engineering Co. Ltd. After joining the Guarantor, he was Assistant General Manager of the Research and Development Department, International Division, and Commercial and Strategic Planning Department respectively, General Manager of the Strategy and Operations Department, Deputy Chief Economist and Chairman, General Manager of China Merchants Bonded Logistics Co., Ltd., Chairman of China Merchants International Technology Company Limited, Chief Representative of China Merchants Group in Djibouti, Chief Digital Officer of China Merchants Port Group Co., Ltd.

SUBSTANTIAL SHAREHOLDERS' AND DIRECTORS' INTEREST

Disclosure of Interests

As at 31 December 2021, the interests of the Directors of the Guarantor in the securities of the Guarantor and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO"), as recorded in the register maintained by the Guarantor under Section 352 of the SFO or as notified to the Guarantor and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange, were as follows:

Interest in ordinary shares in the Guarantor

Name of Director	Capacity	Nature of Interest	Number of shares held in the Guarantor	Number of shares in the Guarantor subject to share options granted	Percentage of aggregate number of long position in shares held to the issued shares as at 31 December 2021
Mr. Yim Kong (1)	Beneficial owner	Personal interest	7,227	—	0.0002%
Mr. Lee Yip Wah Peter	Beneficial owner	Personal interest	259,439	—	0.0069%
			266,666	—	0.0071%

Interest in ordinary shares in the Guarantor's associated corporation – CMPG

Name of Director	Capacity	Nature of Interest	Number of shares held in the CMPG	Number of shares in the CMPG subject to share options granted	Percentage of aggregate number of long position in shares held to the issued shares as at 31 December 2021
Mr. Yim Kong (1)	Beneficial owner	Personal interest	—	170,000(2)	0.0098%
Mr. Wang Zhixian	Beneficial owner	Personal interest	—	170,000(2)	0.0098%
			—	340,000	0.0196%

Note:

(1) Mr. Yim Kong was appointed as executive director and managing director of the Guarantor on 3 November 2021.

(2) As at 31 December 2021, the Guarantor is a subsidiary of CMPG and accordingly, CMPG is an associated corporation of the Guarantor. The interests in CMPG held by each Director are share options granted on 3 February 2021 under an employee incentive scheme of CMPG (the "Employee Incentive Scheme"), which are subject to the terms and conditions of the Employee Incentive Scheme. The share options may be exercised in batches from 3 February 2023 to 3 February 2027 in accordance with the exercise schedule under the Employee Incentive Scheme, conditional upon the satisfaction of certain performance targets specified thereunder. Details of the Employee Incentive Scheme were published on the information website of the Shenzhen Stock Exchange (http://www.szse.cn/). None of these share options were exercised, lapsed or cancelled.

Save as disclosed above and based on the register maintained by the Guarantor under section 352 of the SFO, as at 31 December 2021, none of the Directors or the chief executive of the Guarantor had any interests or short position in the shares, underlying shares or debentures of the Guarantor or any associated corporation (within the meaning of the SFO) which are required to be : (i) notified to the Guarantor and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; (ii) entered in the register kept by the Guarantor pursuant to Section 352 of the SFO; or (iii) notified to the Guarantor and the Hong Kong Stock Exchange pursuant to the Model Code.

None of the Directors was materially interested in any contract or arrangement entered into by any member of the Group and subsisting at 31 December 2021, which was significant in relation to the business of the Group as a whole.

Share Option Schemes

On 9 December 2011 (the "Adoption Date"), the Guarantor adopted a share option scheme (the "Share Option Scheme"). The life of the Share Option Scheme is 10 years. It commenced on the Adoption Date and ended on 8 December 2021. No further share options will be granted under the Share Option Scheme. Also, no share options were outstanding, granted, exercised, lapsed or cancelled under the Share Option Scheme during the financial period from 1 January 2021 until the end of the Share Option Scheme on 8 December 2021.

Substantial Shareholders

As at 31 December 2021, the following persons, other than a Director or chief executive of the Guarantor, have interest or short position in the shares and underlying shares of the Guarantor as recorded in the register of the Guarantor required to be kept under section 336 of the SFO or as notified to the Guarantor and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO:

Long Positions

Name of substantial shareholder	Capacity	Shares/underlying Shares held	%
China Merchants Group Limited	Interest of Controlled Corporation	2,486,653,984(1,2,3,4)	65.69
China Merchants Steam Navigation Company Limited	Interest of Controlled Corporation	2,460,049,984(2)	64.98
China Merchants Holdings (Hong Kong) Company Limited	Interest of Controlled Corporation	2,460,049,984(2)	64.98
Broadford Global Limited	Interest of Controlled Corporation	1,627,929,473(2)	43.00
Rainbow Reflection Limited	Interest of Controlled Corporation	1,627,929,473(2)	43.00
China Merchants Port Investment Development Company Limited	Interest of Controlled Corporation	1,627,929,473(2)	43.00
China Merchants Port Group Co., Ltd.	Beneficial Owner	1,627,929,473(2)	43.00
China Merchants Union (BVI) Limited	Beneficial Owner	832,120,511(2)	21.98
China Merchants Shekou Industrial Zone Holdings Company Limited	Interest of Controlled Corporation	3,000,000(3)	0.08
Top Chief Company Limited	Interest of Controlled Corporation	3,000,000(3)	0.08
Orienture Holdings Company Limited	Beneficial Owner	3,000,000(3)	0.08
Sinotrans & CSC Holdings Co., Ltd	Interest of Controlled Corporation	23,604,000(4)	0.62
Sinomarine Limited	Interest of Controlled Corporation	23,604,000(4)	0.62
Sinotrans Shipping (Holdings) Limited	Interest of Controlled Corporation	23,604,000(4)	0.62

Name of substantial shareholder	Capacity	Shares/underlying Shares held	%
China Merchants Investment Development (Hong Kong) Limited	Beneficial Owner	23,604,000(4)	0.62
Pagoda Tree Investment Company Limited	Interest of Controlled Corporation	801,294,878(5)	21.17
Compass Investment Company Limited	Interest of Controlled Corporation	801,294,878(5)	21.17
CNIC Corporation Limited	Interest of Controlled Corporation	801,294,878(5)	21.17
Verise Holdings Company Limited	Interest of Controlled Corporation	801,294,878(5)	21.17

Notes:

(1) Each of China Merchants Steam Navigation Company Limited ("CMSN"), China Merchants Shekou Industrial Zone Holdings Co., Ltd. ("CMSIZ") and Sinotrans & CSC Holdings Co., Ltd. ("Sinotrans CSC") is a subsidiary of China Merchants Group Limited ("CMG"). CMG is deemed to be interested in 26,486,653,984 shares, which represents the aggregate of 26,460,049,984 shares deemed to be interested by CMSN (see Note 2 below), 3,000,000 shares deemed to be interested by CMSIZ (see Note 3 below) and 23,604,000 shares deemed to be interested by Sinotrans CSC (see Note 4 below).

(2) China Merchants Holdings (Hong Kong) Company Limited ("CMHK") is wholly-owned by CMSN, and Broadford Global Limited ("Broadford") is in turn wholly-owned by CMHK. Rainbow Reflection Limited ("Rainbow") is 74.66%-owned by Broadford and 25.34%-owned by China Merchants Union (BVI) Limited ("CMU"), which is in turn 50%-owned by CMHK. China Merchants Port Investment Development Company Limited formerly known as "China Merchants Investment Development Company Limited", hereinafter referred to as ("CMPID") is in turn wholly-owned by Rainbow. China Merchants Port Group Co., Ltd. ("CMPG"), which is 59.75%-owned by CMID.

CMSN is deemed to be interested in 26,460,049,984 shares which are deemed to be interested by CMHK. Such shares represent the aggregate of 832,120,511 shares beneficially held by CMU and 1,627,929,473 shares beneficially held by CMPG.

(3) Top Chief Company Limited ("Top Chief") is wholly-owned by CMSIZ and Orienture Holdings Company Limited ("Orienture") is in turn wholly-owned by Top Chief. CMSIZ is deemed to be interested in the 3,000,000 shares which are deemed to be interested by Top Chief. Such shares represent the 3,000,000 shares beneficially held by Orienture.

(4) China Merchants Investment Development (Hong Kong) Limited formerly known as "Sinotrans Shipping Limited", hereinafter referred to as ("CMID (HK)") is 100%-owned by Sinotrans Shipping (Holdings) Limited ("SSHL"), which is wholly-owned by Sinomarine Limited ("Sinomarine"), which is in turn wholly-owned by Sinotrans CSC. Therefore, each of SSHL, Sinomarine and Sinotrans CSC is deemed to be interested in 23,604,000 shares beneficially held by CMID (HK).

(5) According to the disclosure of interests form submitted by Pagoda Tree Investment Company Limited ("Pagoda Tree") on 3 August 2020, 50% interest in CMU is owned by Verise Holdings Company Limited ("Verise Holdings"), which is wholly-owned by CNIC Corporation Limited ("CNIC Corporation"), which is in turn 90%-owned by Compass Investment Company Limited ("Compass Investment"), which is in turn wholly-owned by Pagoda Tree. Therefore, each of Verise Holdings, CNIC Corporation, Compass Investment and Pagoda Tree is deemed to be interested in the 801,294,878 shares beneficially held by CMU.

Short Positions

Nil

Save as disclosed above, there was no person, other than a Director or chief executive of the Guarantor, who has an interest or short position in the shares and underlying shares of the Guarantor as recorded in the register of the Guarantor kept under section 336 of the SFO or as notified to the Guarantor and the Hong Kong Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

TERMS AND CONDITIONS OF THE NOTES

The following, subject to amendment and save for the paragraphs in italics, are the Terms and Conditions of the Notes, substantially as they will appear on the reverse of each of the individual notes evidencing the Notes:

The US$[●] [●] per cent. Guaranteed Notes due [●] (the "**Notes**", which expression includes any further notes issued pursuant to Condition 13 (*Further Issues*) and forming a single series therewith) of CMHI Finance (BVI) Co., Ltd (the "**Issuer**") are the subject of (a) a deed of guarantee dated [●] 2022 (as amended or supplemented from time to time, the "**Deed of Guarantee**") entered into by China Merchants Port Holdings Company Limited (招商局港口控股有限公司) (the "**Guarantor**"), (b) a deed of covenant dated [●] 2022 (as amended or supplemented from time to time, the "**Deed of Covenant**") and (c) an agency agreement dated [●] 2022 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, the Guarantor, The Hongkong and Shanghai Banking Corporation Limited as fiscal agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes) and the paying agents named therein (together with the Fiscal Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes). Certain provisions of these Conditions are summaries of the Deed of Guarantee, the Deed of Covenant and the Agency Agreement and subject to their detailed provisions. The holders of the Notes (the "**Noteholders**") and the holders of the related interest coupons (the "**Couponholders**" and the "**Coupons**", respectively) are bound by, and are deemed to have notice of, all the provisions of the Deed of Guarantee, the Deed of Covenant and the Agency Agreement applicable to them. Copies of the Deed of Guarantee, the Deed of Covenant and the Agency Agreement are available for inspection by Noteholders during normal business hours at the Specified Offices (as defined in the Agency Agreement) of each of the Paying Agents, the initial Specified Offices of which are set out below.

1. FORM, DENOMINATION AND TITLE

The Notes are in bearer form in the denominations of US$200,000 and integral multiples of US$1,000 in excess thereof, with Coupons attached at the time of issue. Title to the Notes and the Coupons will pass by delivery. The holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such holder. No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

*Upon issue, the Notes will be evidenced by a global note (the "**Global Note**") substantially in the form scheduled to the Agency Agreement. The Global Note will be registered in the name of a nominee for, and deposited with, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**") and will be exchangeable for individual notes only in the circumstances set out therein.*

2. STATUS AND GUARANTEE

2.1 Status of the Notes

The Notes constitute direct, general, unsubordinated, unconditional and unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

2.2 **Guarantee of the Notes**

The Guarantor has in the Deed of Guarantee unconditionally and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes. This guarantee (the "**Guarantee of the Notes**") constitutes direct, general, unsubordinated, unconditional and unsecured obligations of the Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured obligations of the Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

3. **COVENANTS**

3.1 **Negative Pledge**

(a) So long as any Note remains outstanding (as defined in the Agency Agreement), the Issuer will not create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital).

(b) So long as any Note remains outstanding:

(i) the Guarantor will not create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Investment Securities or any Guarantee of any Investment Securities; and

(ii) subject to Condition 3.1(a) in the case of the Issuer, the Guarantor shall procure that none of its Subsidiaries (other than a Listed Subsidiary and Subsidiaries of such Listed Subsidiary) will create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Investment Securities or any Guarantee of any Investment Securities,

unless (in the case of paragraphs (b)(i) or (ii) above), at the same time or prior thereto, the Notes and the Guarantor's obligations under the Guarantee of the Notes (i) are secured equally and rateably therewith or (ii) have the benefit of such other security, guarantee, indemnity or other arrangement as may be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of Noteholders.

3.2 **Limitation on Issuer's Activities**

So long as any Note remains outstanding, the Issuer will not conduct any business or any activities other than the issue of debt securities or the raising of debt financing and the lending of the proceeds thereof to the Guarantor and/or any of its other Subsidiaries and any other activities reasonably incidental thereto.

3.3 **Notification to NDRC**

The Guarantor undertakes to file or cause to be filed with the National Development and Reform Commission of the PRC (the "**NDRC**") the requisite information and documents within the prescribed timeframe after the Issue Date in accordance with the Circular on Promoting the Reform of the Filing and Registration System on the Issuance by Enterprises of Foreign Debt (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號)) issued by the NDRC and which came into effect on 14 September 2015, and any implementation rules, reports, certificates, approvals or guidelines as issued by the NDRC from time to time (the "**NDRC Post-issue Filing**").

The Guarantor shall complete the NDRC Post-issue Filing within the prescribed timeframe and shall comply with all applicable PRC laws and regulations in connection with the Notes. The Guarantor shall within 15 PRC Business Days after submission of such NDRC Post-issue Filing give notice to the Noteholders and Couponholders in accordance with Condition 15 (*Notices*) of the submission of such NDRC Post-issue Filing.

The Fiscal Agent shall have no obligation or duty to monitor or ensure the filing or completion of the NDRC Post-issue Filing on or before the deadline referred to above or to verify the accuracy, validity and/or genuineness of any certificate, confirmation or other document in relation to or in connection with the NDRC Post-issue Filing or to give notice to Noteholders and Couponholders confirming the completion of the NDRC Post-issue Filing, and shall not be liable to the Noteholders, Couponholders or any other person for not doing so.

In these Conditions:

"**Authorised Signatory**" means any director of the Issuer or the Guarantor (as the case may be) or any other person who has been notified by the Issuer or the Guarantor in writing to the Fiscal Agent as being duly authorised to sign documents and to do other acts and things on behalf of the Issuer or the Guarantor;

"**Guarantee**" means, in relation to any indebtedness of any Person, any obligation of another Person to pay such indebtedness including (without limitation):

(a) any obligation to purchase such indebtedness;

(b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such indebtedness;

(c) any indemnity against the consequences of a default in the payment of such indebtedness; and

(d) any other agreement to be responsible for such indebtedness;

"**Hong Kong**" means the Hong Kong Special Administrative Region of the People's Republic of China;

"**HKFRS**" means Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants;

"**Hong Kong Stock Exchange**" means The Stock Exchange of Hong Kong Limited;

"**Investment Securities**" means any present or future indebtedness issued outside the PRC which is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which (i) is offered, issued or distributed whether by way of public offer, private placing, acquisition consideration or otherwise and whether issued for cash or in whole or in part for a consideration other than cash and (ii) is, or is capable of being, listed, quoted, dealt in or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market). For the avoidance of doubt, "**Investment Securities**" does not include secured or unsecured transferable loan certificates which are exclusively traded between banks or similar licensed or registered financial institutions;

"**Listed Subsidiary**" means, at any time, any Subsidiary of the Guarantor the ordinary voting shares of which are at such time listed on the Hong Kong Stock Exchange or any other recognised stock exchange;

"**Macau**" means the Macau Special Administrative Region of the People's Republic of China;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**PRC**" means the People's Republic of China, which, solely for the purposes of these Conditions, excludes Hong Kong, Macau and Taiwan;

"**PRC Business Day**" means a day (other than a Saturday or Sunday or public holiday) on which banks are open for general business (including dealings in foreign currencies) in the PRC;

"**Security Interest**" means any mortgage, charge, pledge, lien or other encumbrance or security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction; and

"**Subsidiary**", in relation to any Person, means any company or other business entity of which that Person owns or controls (either directly or through one or more other Subsidiaries) more than 50 per cent. of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such company or other business entity or any company or other business entity which at any time has its accounts consolidated with those of that person or which, under the laws or regulations of Hong Kong, or HKFRS, should have its financial statement consolidated with those of that Person.

4. INTEREST

Subject as provided in Condition 6 (*Payments*), the Notes bear interest from [●] 2022 (the "**Issue Date**") at the rate of [●] per cent. per annum (the "**Rate of Interest**") payable in equal instalments semi-annually in arrear on [●] and [●] in each year (each, an "**Interest Payment Date**"), commencing on [●].

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal or premium (if any) is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable on each Interest Payment Date shall be US$[●] in respect of each Note of US$200,000 denomination and US$[●] in respect of each Note of US$1,000 denomination. If interest is required to be paid in respect of a Note on any other date, it shall be calculated by applying the Rate of Interest to the principal amount of such Note, multiplying the product by the relevant Day Count Fraction and rounding the resulting figure to the nearest cent (half a cent being rounded upwards), where "**Day Count Fraction**" means, in respect of any period, the number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months).

5. REDEMPTION AND PURCHASE

5.1 Scheduled Redemption

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on [●] (the "**Maturity Date**") subject as provided in Condition 6 (*Payments*).

5.2 **Redemption at the Option of the Issuer**

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time on or after [●] (being the date that falls one month prior to the Maturity Date), on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their principal amount, together with interest accrued to, but excluding, the date fixed for redemption.

5.3 **Redemption for Tax Reasons**

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their principal amount, together with interest accrued to, but excluding, the date fixed for redemption, if:

(a) (A) the Issuer has or will become obliged to pay, or cause to be paid, additional amounts as provided or referred to in Condition 7 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands or the PRC or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment is proposed and becomes effective on or after [●]; and (B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, which may include the substitution of another entity for the Issuer as principal debtor in respect of the Notes if such substitution is reasonable; or

(b) (A) the Guarantor has or (if a demand was made under the Guarantee of the Notes) would become obliged to pay, or cause to be paid, additional amounts as provided or referred to in Condition 7 (*Taxation*) or the Guarantee of the Notes, as the case may be, as a result of any change in, or amendment to, the laws or regulations of Hong Kong or the PRC or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment is proposed and becomes effective on or after [●]; and (B) such obligation cannot be avoided by the Guarantor taking reasonable measures available to it;

provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor would be obliged to pay such additional amounts if a payment in respect of the Notes were then due or (as the case may be) a demand under the Guarantee of the Notes were then made.

Prior to the publication of any notice of redemption pursuant to this Condition 5.3, the Issuer (or the Guarantor, as the case may be) shall deliver or procure that there is delivered to the Fiscal Agent:

(i) a certificate signed by an Authorised Signatory of the Issuer (or the Guarantor, as the case may be) stating that the Issuer (or the Guarantor, as the case may be) is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and

(ii) an opinion of independent legal or tax advisers of recognised standing to the effect that the Issuer (or the Guarantor, as the case may be) has or will become obliged to pay such additional amounts as a result of such change or amendment (irrespective of whether such change or amendment is then effective).

Upon the expiry of any such notice as is referred to in this Condition 5.3, the Issuer shall be bound to redeem the Notes in accordance with this Condition 5.3.

5.4 **Redemption for Change of Control**

Not later than 30 days following a Change of Control Triggering Event, the Issuer will make an Offer to Purchase all outstanding Notes (a "**Change of Control Offer**") at a purchase price equal to 101 per cent. of their principal amount, together with interest accrued to, but excluding, the Offer to Purchase Payment Date.

As used in this Condition 5.4:

"**Affiliate**" of any Person means any entity controlled, directly or indirectly, by such Person, any entity that controls such Person, directly or indirectly, or any entity under common control with such Person. For this purpose, "**control**" means ownership of a majority of the voting power of a person or power to direct or cause the direction of the management and policies of a person, whether by contract or otherwise;

"**Business Day**" means any day which is not a Saturday, Sunday, legal holiday or other day on which banking institutions in Hong Kong or in London or in The City of New York (or in any other place in which payments on the Notes are to be made) are authorised by law or governmental regulation to close;

"**Change of Control**" means the occurrence of one or more of the following events:

(a) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of the Guarantor and its Subsidiaries, taken as a whole, to any "person" or "group" (within the meaning of Section 13(d) of the Exchange Act), other than the Guarantor or any of its Subsidiaries or one or more Permitted Holders; or

(b) the Guarantor consolidates with, or merges with or into, any Person (other than any Permitted Holder), or any Person (other than any Permitted Holder) consolidates with, or merges with or into, the Guarantor, in any such event pursuant to a transaction in which any of the outstanding Voting Stock of the Guarantor or such other Person is converted into or exchanged for cash, securities or other property, other than any such transaction where the shares of the Voting Stock of the Guarantor outstanding immediately prior to such transaction constitute, or are converted into or exchanged for, a majority of the outstanding shares of Voting Stock of the surviving Person immediately after giving effect to such transaction; or

(c) the consummation of any transaction or series of related transactions (including, without limitation, any merger or consolidation) the result of which is that any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act), other than any Permitted Holder, becomes the "beneficial owner" (as such term is used in Rule 13d-3 of the Exchange Act), directly or indirectly, of more than 50 per cent. of the outstanding Voting Stock of the Guarantor, measured by voting power rather than number of shares; or

(d) the adoption of a plan relating to the liquidation or dissolution of the Guarantor; or

(e) the Guarantor ceases to, directly or indirectly, maintain beneficial ownership of all of the Issuer's share capital,

except that any of limbs (a) to (e) of the definition of "Change of Control" above shall not be triggered by a substitution of the Guarantor in accordance with the provisions of Condition 14.2 (*Substitution of the Guarantor*) or a substitution of the Issuer in accordance with the provisions of Condition 14.1 (*Substitution of the Issuer*);

"**Change of Control Triggering Event**" means the occurrence of both a Change of Control and a Rating Decline;

"**CMG**" means China Merchants Group Limited;

"**Exchange Act**" means the United States Securities Exchange Act of 1934, as amended;

"**Investment Grade**" means a rating of "AAA", "AA", "A" or "BBB" as modified by a "+" or "-" indication, or an equivalent rating representing one of the four highest rating categories, by S&P or a rating of "Aaa", or "Aa", "A" or "Baa" as modified by a "1", "2" or "3" indication, or an equivalent rating representing one of the four highest rating categories, by Moody's or the equivalent ratings of any internationally recognised securities rating agency or agencies, as the case may be, which shall have been designated by the Issuer as having been substituted for S&P or Moody's or both, as the case may be;

"**Offer to Purchase**" means an offer to purchase Notes by the Issuer from the Noteholders commenced by the Issuer giving a notice to the Fiscal Agent, the Paying Agents and each Noteholder stating:

(a) the Condition pursuant to which the offer is being made;

(b) the purchase price and the date of purchase (which shall be a Business Day no earlier than 30 days nor later than 60 days from the date such notice is given) (the "**Offer to Purchase Payment Date**");

(c) that any Note not validly tendered will continue to accrue interest pursuant to its terms;

(d) that, unless the Issuer defaults in the payment of the purchase price, any Note accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest on and after the Offer to Purchase Payment Date;

(e) that Noteholders electing to have a Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, accompanied by a duly signed and completed notice of acceptance of the Offer to Purchase (for the time being current) available from the Specified Office of any Paying Agent, to any Paying Agent at the address specified in the notice prior to the close of business on the third Business Day immediately preceding the Offer to Purchase Payment Date;

(f) that Noteholders will be entitled to withdraw their election if the relevant Paying Agent receives, not later than the close of business on the third Business Day immediately preceding the Offer to Purchase Payment Date, a facsimile transmission or letter setting forth the name of such Noteholder, the principal amount of Notes delivered for purchase and a statement that such Noteholder is withdrawing his election to have such Notes purchased; and

(g) that, for the avoidance of doubt, any Note presented without all unmatured Coupons relating thereto will be subject to the provisions of Condition 6.5 (*Deduction for unmatured Coupons*).

On the Offer to Purchase Payment Date, the Issuer shall deposit with the Paying Agent money sufficient to pay the purchase price of all Notes so accepted. The Issuer will publicly announce the results of an Offer to Purchase as soon as practicable after the Offer to Purchase Payment Date;

“**Permitted Holders**” means CMG and/or any Affiliate of CMG;

“**Rating Agencies**” means (1) Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors (“**S&P**”), (2) Moody’s Investors Service, Inc., a subsidiary of Moody’s Corporation, and its successors (“**Moody’s**”) and (3) if S&P or Moody’s or both shall not make a rating of the Notes publicly available, an internationally recognised securities rating agency or agencies, as the case may be, selected by the Issuer, which shall be substituted for S&P or Moody’s or both, as the case may be;

“**Rating Date**” means that date which is 90 days prior to the earlier of (1) a Change of Control and (2) a public notice of the occurrence of a Change of Control or of the intention by the Guarantor or any other Person or Persons to effect a Change of Control;

“**Rating Decline**” means the occurrence on, or within six months after, the date, or public notice of the occurrence of, a Change of Control or the intention by the Guarantor or any other Person or Persons to effect a Change of Control (which period shall be extended so long as the rating of the Notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies) of any of the events listed below:

(a) in the event the Notes are rated by both of the Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by either Rating Agency shall be below Investment Grade;

(b) in the event the Notes are rated by either, but not both, of the Rating Agencies on the Rating Date as Investment Grade, the rating of the Notes by either Rating Agency shall be below Investment Grade; or

(c) in the event the Notes are rated by both of the Rating Agencies on the Rating Date as below Investment Grade, the rating of the Notes by either Rating Agency shall be below Investment Grade; and

“**Voting Stock**” means, in relation to any Person, the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such Person.

The Agents shall not be required to take any steps to ascertain whether a Change of Control has occurred and shall not be responsible or liable to the Noteholders, the Issuer, the Guarantor or any other person for any loss arising from any failure to do so.

5.5 **No other redemption**

The Issuer shall not be entitled to redeem the Notes otherwise than as provided in this Condition 5.

5.6 **Purchase**

The Issuer, the Guarantor or any of their respective Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price, **provided that** all unmatured Coupons are purchased therewith.

5.7 **Cancellation**

All Notes so redeemed or purchased by the Issuer, the Guarantor or any of their respective Subsidiaries and any unmatured Coupons attached to or surrendered with them may be cancelled and, if cancelled, may not be reissued or resold.

6. PAYMENTS

6.1 Principal and Premium

Save as provided in paragraph 6.3 (*Payments in New York City*) below, payments of principal and premium (if any) shall be made only against presentation and (**provided that** payment is made in full) surrender of Notes at the Specified Office of any Paying Agent outside the United States by US dollar cheque drawn on, or by transfer to a US dollar account maintained by the payee with, a bank in New York City.

6.2 Interest

Save as provided in paragraph 6.3 (*Payments in New York City*) below, payments of interest shall, subject to paragraph 6.7 (*Payments other than in respect of matured Coupons*) below, be made only against presentation and (**provided that** payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph 6.1 (*Principal and Premium*) above.

6.3 Payments in New York City

Payments of principal, premium (if any) or interest in respect of the Notes may only be made at the Specified Office of a Paying Agent outside the United States, except that they may be made at the Specified Office of a Paying Agent in New York City if (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest on the Notes in US dollars when due, (ii) payment of the full amount of such interest at all Specified Offices of all such Paying Agents outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law.

6.4 Payments subject to Fiscal Laws

All payments are subject in all cases to (i) any applicable fiscal or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 7 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

6.5 Deduction for unmatured Coupons

If a Note is presented (including for the purposes of redemption or purchase) without all unmatured Coupons relating thereto, then:

(a) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; **provided, however, that** if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;

(b) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:

(i) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; **provided, however, that** where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

(ii) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; **provided, however, that,** if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph 6.1 (*Principal and Premium*) above against presentation and (**provided that** payment is made in full) surrender of the relevant missing Coupons not later than ten years after the Relevant Date (as defined in Condition 7 (*Taxation*)) for the relevant payment of principal. No payments will be made in respect of void coupons.

6.6 **Payments on Business Days**

If the due date for payment of any amount in respect of any Note or Coupon is not a business day in the place of presentation, the holder of such Note or Coupon shall not be entitled to payment in such place of the amount due until the next succeeding business day in such place and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, "**business day**" means, in respect of any place of presentation, any day on which banks are open for presentation and payment of bearer debt securities and for dealings in foreign currencies in such place of presentation and on which Euroclear and Clearstream, Luxembourg are operating and, in the case of payment by transfer to a US dollar account as referred to above, on which dealings in foreign currencies may be carried on both in Hong Kong, London and New York City and in such place of presentation.

6.7 **Payments other than in respect of Matured Coupons**

Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Paying Agent outside the United States (or in New York City if permitted by paragraph 6.3 (*Payments in New York City*) above).

6.8 **Partial Payments**

If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

*Whilst the Notes are evidenced by the Global Note, each payment in respect of the Global Note will be made in respect of the total aggregate amount of the Notes represented by such Global Note and to the person shown as the holder in the Register at the close of business (of the relevant clearing system) on the Clearing System Business Day before the due date for such payment, where "**Clearing System Business Day**" means a weekday (Monday to Friday, inclusive, except 25 December and 1 January).*

7. TAXATION

All payments of principal, premium (if any) and interest in respect of the Notes, the Coupons and the Guarantee of the Notes by or on behalf of the Issuer or the Guarantor shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the British Virgin Islands, Hong Kong or the PRC or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Issuer or (as the case may be) the Guarantor shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note or Coupon presented for payment:

(a) by or on behalf of a holder of such Note or Coupon which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note or Coupon;

(b) more than 30 days after the Relevant Date except to the extent that the holder of such Note or Coupon would have been entitled to such additional amounts on presenting such Note or Coupon for payment on the last day of such period of 30 days; or

(c) to a holder of such Note or Coupon who would not be liable for or subject to such withholding or deduction by making a declaration of identity, non-residence or other similar claim for exemption to the relevant tax authority if, after having been requested to make such a declaration or claim, such holder fails to do so within any applicable period prescribed by such relevant tax authority.

In these Conditions, "**Relevant Date**" means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received in New York City by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal, premium or interest shall be deemed to include any additional amounts in respect of principal, premium or interest (as the case may be) which may be payable under this Condition 7 (*Taxation*).

If the Issuer or the Guarantor becomes subject at any time to any taxing jurisdiction other than the British Virgin Islands, Hong Kong or the PRC respectively, references in these Conditions to the British Virgin Islands, Hong Kong or the PRC shall be construed as references to the British Virgin Islands, Hong Kong or the PRC (as the case may be) and/or such other jurisdiction.

The Agents shall not be responsible for paying any tax, duty, charges, withholding or other payment referred to in this Condition 7 or for determining whether such amounts are payable or the amount thereof, and shall not be responsible or liable for any failure by the Issuer or any Noteholder to pay such tax, duty, charges, withholding or other payment.

8. **EVENTS OF DEFAULT**

If any of the following events with respect to the Notes occurs and is continuing:

(a) ***Non-payment:*** the Issuer fails to pay any amount of principal or premium in respect of the Notes on the due date for payment thereof and such failure continues for a period of seven days, or the Issuer fails to pay any amount of interest in respect of the Notes on the due date for payment thereof and such failure continues for a period of 14 days; or

(b) ***Failure to purchase:*** the Issuer or the Guarantor defaults in the performance or observance of any of its obligations under Condition 5.4 (*Redemption for Change of Control*) in respect of the Notes; or

(c) ***Breach of other obligations:*** the Issuer or the Guarantor defaults in the performance or observance of any of its other obligations under or in respect of the Notes, the Deed of Covenant or the Guarantee of the Notes and such default remains unremedied for 30 days after written notice thereof, addressed to the Issuer and the Guarantor by any Noteholder, has been delivered to the Issuer and the Guarantor or to the Specified Office of the Fiscal Agent; or

(d) ***Cross-acceleration of Issuer, Guarantor or any Material Subsidiary***:

(i) any present or future Indebtedness of the Issuer, the Guarantor or any Material Subsidiary is not paid when due or (as the case may be) within any applicable grace period;

(ii) any such Indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer, the Guarantor or (as the case may be) the relevant Material Subsidiary, by reason of any actual default or events of default; or

(iii) the Issuer, the Guarantor or any Material Subsidiary fails to pay when due any amount payable by it under any Guarantee of any present or future Indebtedness;

provided that the amount of Indebtedness referred to in sub-paragraph (i) and/or subparagraph (ii) above and/or the amount payable under any Guarantee referred to in subparagraph (iii) above individually or in the aggregate exceeds US$80,000,000 (or its equivalent in any other currency or currencies); or

(e) ***Unsatisfied judgment:*** one or more judgment(s) or order(s) from which no further appeal or judicial review is permissible under applicable law for the payment of an amount in excess of US$80,000,000 (or its equivalent in any other currency or currencies), whether individually or in aggregate, is rendered against the Issuer, the Guarantor or any Material Subsidiary and continue(s) unsatisfied and unstayed for a period of 60 days after the date(s) thereof or, if later, the date therein specified for payment; or

(f) ***Security enforced:*** a secured party takes possession of, or a receiver, manager or other similar officer is appointed over, in each case for a continuous period of 60 days or more, the whole or any substantial part of the undertaking, assets and revenues of the Issuer, the Guarantor or any Material Subsidiary; or

(g) ***Insolvency, etc.:*** (i) the Issuer, the Guarantor or any Material Subsidiary becomes insolvent or is unable, for a continuous period of 60 days or more, to pay its debts as they fall due, (ii) an administrator or liquidator of the Issuer, the Guarantor or any Material Subsidiary or the whole or a substantial part of the undertaking, assets and revenues of the Issuer, the Guarantor or any Material Subsidiary is appointed (or application for any such appointment is made and has not been discharged or stayed within a period of 60 days or more) or (iii) the Issuer, the Guarantor or any Material Subsidiary makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its Indebtedness or any Guarantee of any Indebtedness given by it; or

(h) ***Cessation of business:*** the Issuer, the Guarantor or any Material Subsidiary ceases or threatens to cease to carry on all or any substantial part of its business, except:

(i) in the case of a substitution of the Issuer in accordance with the provisions of Condition 14.1 (*Substitution of the Issuer*);

(ii) in the case of a substitution of the Guarantor in accordance with the provisions of Condition 14.2 (*Substitution of the Guarantor*);

(iii) in the case of any Material Subsidiary, where the cessation is for the purpose of and followed by a solvent winding-up, dissolution, reconstruction, merger or consolidation whereby the business, undertaking and assets of such Material Subsidiary are transferred to or otherwise vested in the Guarantor and/or another Subsidiary of the Guarantor;

(iv) in the case of any Material Subsidiary, as a result of a disposal on arm's length terms or with respect to a part of such Material Subsidiary's business or operations which has not contributed to the consolidated operating profit of the Guarantor and its Subsidiaries for at least three consecutive years immediately prior to the day on which this paragraph operates; or

(v) in each case, for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation, each on terms approved by an Extraordinary Resolution of the Noteholders; or

(i) ***Winding up, etc.:*** an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer, the Guarantor or any Material Subsidiary except (i) in the case of a substitution of the Issuer in accordance with the provisions of Condition 14.1 (*Substitution of the Issuer*); (ii) in the case of a substitution of the Guarantor in accordance with the provisions of Condition 14.2 (*Substitution of the Guarantor*); (iii) in the case of any Material Subsidiary, for a voluntary solvent winding up, liquidation or dissolution in connection with the transfer of all of the business, undertaking and assets of such Material Subsidiary to the Guarantor or another Subsidiary of the Guarantor; or (iv) in each case, for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation, each on terms approved by an Extraordinary Resolution of the Noteholders; or

(j) ***Analogous event:*** any event occurs which, under the laws of any relevant jurisdiction, has an analogous effect to any of the events referred to in paragraphs (e) (*Unsatisfied judgment*) to (i) (*Winding up, etc.*) above; or

(k) ***Unlawfulness:*** it is or will become unlawful for the Issuer or the Guarantor to perform or comply with any of its obligations under or in respect of the Notes, the Deed of Covenant or the Deed of Guarantee; or

(l) ***Guarantee not in force:*** the Guarantee of the Notes is not (or is claimed by the Guarantor not to be) in full force and effect; or

(m) ***Nationalisation:*** (i) all or (other than on arm's length terms or with respect to a part of the relevant entity's business or operations which has not contributed to the consolidated operating profit of the Guarantor and its Subsidiaries for at least three consecutive years immediately prior to the day on which this paragraph operates) any substantial part of the undertaking, assets and revenues of the Issuer, the Guarantor or any Material Subsidiary is seized or otherwise appropriated by any person acting under the authority of any national, regional or local government or (ii) the Issuer, the Guarantor or any Material Subsidiary is prevented by any such person from exercising normal control over all or (other than on arm's length terms or with respect to a part of the relevant entity's business or operations which has not contributed to the consolidated operating profit of the Guarantor and its Subsidiaries for at least three consecutive years immediately prior to the day on which this paragraph operates) any substantial part of its undertaking, assets and revenues;

then any Note may, by written notice addressed by the holder thereof to the Issuer and the Guarantor and delivered to the Issuer and the Guarantor or to the Specified Office of the Fiscal Agent, be declared immediately due and payable, whereupon it shall become immediately due and payable at its principal amount together with accrued interest without further action or formality.

In these Conditions:

"**Indebtedness**" means any indebtedness of any Person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

(i) amounts raised by acceptance under any acceptance credit facility;

(ii) amounts raised under any note purchase facility;

(iii) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;

(iv) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 60 days; and

(v) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing; and

"**Material Subsidiary**" means, at any time, any Subsidiary of the Guarantor:

(i) whose profit before taxation and exceptional items ("**pre-tax profit**") or (in the case of a Subsidiary of the Guarantor which itself has Subsidiaries and which customarily prepares consolidated financial statements) consolidated pre-tax profit, attributable to the Guarantor, as shown by its latest audited income statement, are at least 10 per cent. of the consolidated pre-tax profit as shown by the latest published audited consolidated income statement of the Guarantor and its Subsidiaries including, for the avoidance of doubt, the Guarantor and its consolidated Subsidiaries' share of profits of Subsidiaries not consolidated and of associated companies and after adjustments for minority interests; or

(ii) whose total assets or (in the case of a Subsidiary of the Guarantor which has Subsidiaries and which customarily prepares consolidated financial statements) total consolidated assets attributable to the Guarantor as shown by its latest balance sheet are at least 10 per cent. of the sum of (A) the total consolidated assets of the Guarantor and its Subsidiaries as shown by the latest published audited consolidated balance sheet of the Guarantor and its

Subsidiaries and (B) the Guarantor and its consolidated Subsidiaries' share of the total assets (consolidated in the case of a Subsidiary of the Guarantor which itself has Subsidiaries and which customarily prepares consolidated financial statements) (as shown by its latest balance sheet (consolidated, if available)) of each Subsidiary of the Guarantor whose financial statements are not consolidated with the financial statements of the Guarantor and after adjustment for minority interests;

provided that, in relation to (i) and (ii) above:

(A) in the case of a corporation or other business entity becoming a Subsidiary of the Guarantor after the end of the financial period to which the latest consolidated audited financial statements of the Guarantor relate, the reference to the then latest consolidated audited financial statements of the Guarantor for the purposes of the calculation above shall, until consolidated audited financial statements of the Guarantor for the financial period in which the relevant corporation or other business entity becomes a Subsidiary of the Guarantor are published, be deemed to be a reference to the then latest consolidated audited financial statements of the Guarantor adjusted to consolidate the latest financial statements (consolidated in the case of a Subsidiary of the Guarantor which itself has Subsidiaries and which customarily prepares consolidated accounts) of such Subsidiary in such financial statements;

(B) if the financial statements of any Subsidiary of the Guarantor (not being a Subsidiary of the Guarantor referred to in proviso (A) above) are not consolidated with those of the Guarantor, then the determination of whether or not such Subsidiary is a Material Subsidiary shall be based on a *pro forma* consolidation of its financial statements (consolidated, if available) with the consolidated financial statements (determined on the basis of the foregoing) of the Guarantor; and

(iii) in relation to any Subsidiary of the Guarantor, each reference in (i), (ii), (A) or (B) above to all or any of the financial statements (consolidated or otherwise) of such Subsidiary shall be deemed to be a reference to the relevant audited financial statements of such Subsidiary if it customarily prepares financial statements which are audited and, if not, to the relevant unaudited financial statements of such Subsidiary which shall be certified by any two directors of such Subsidiary as having been properly prepared in accordance with generally accepted accounting principles applicable to such Subsidiary; or

(iv) any Subsidiary of the Guarantor to which is transferred the whole or substantially the whole of the assets of another Subsidiary of the Guarantor which, immediately prior to such transfer, was a Material Subsidiary, **provided that** the Material Subsidiary which so transfers its assets shall forthwith upon such transfer cease to be a Material Subsidiary and the Subsidiary to which the assets are so transferred shall become a Material Subsidiary at the date on which the first published audited consolidated financial statements of the Guarantor prepared as of a date later than such transfer are issued unless such Subsidiary would continue to be a Material Subsidiary on the basis of such financial statements by virtue of the provisions of paragraphs (i) or (ii) above.

The Agents shall not be required to take any steps to ascertain whether an Event of Default has occurred and shall not be responsible or liable to the Noteholders, the Issuer, the Guarantor or any other person for any loss arising from any failure to do so.

9. PRESCRIPTION

Claims for principal shall become void unless the relevant Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date.

10. REPLACEMENT OF NOTES AND COUPONS

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Fiscal Agent, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer and the Guarantor may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

11. PAYING AGENTS

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Paying Agents act solely as agents of the Issuer and the Guarantor and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Paying Agents and their initial Specified Offices are listed below. The Issuer and the Guarantor reserve the right at any time to vary or terminate the appointment of any Paying Agent and to appoint a successor fiscal agent and additional or successor paying agents; **provided, however, that** the Issuer and the Guarantor shall at all times maintain a fiscal agent.

Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Noteholders.

12. MEETINGS OF NOTEHOLDERS; MODIFICATION

12.1 Meetings of Noteholders

The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and the Guarantor (acting together) and shall be convened by them upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing more than one half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; **provided, however, that** certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes, to reduce the amount payable upon a Change of Control Offer, change the time or manner by which a Change of Control Offer may be made or by which the Notes must be purchased pursuant to a Change of Control Offer, to amend the terms of the Guarantee of the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**")) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of Noteholders of not less than 90 per cent. of the aggregate principal amount of the Notes for the time being outstanding will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more holders of the Notes.

12.2 **Modification**

The Notes, these Conditions, the Deed of Covenant and the Deed of Guarantee may be amended without the consent of the Noteholders or the Couponholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is not materially prejudicial to the interests of the Noteholders.

13. **FURTHER ISSUES**

The Issuer may from time to time, without the consent of the Noteholders or the Couponholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest and the NDRC Post-issue Filing) so as to form a single series with the Notes.

14. **SUBSTITUTION**

14.1 **Substitution of the Issuer**

The Issuer may at any time substitute, without the consent of the Noteholders or the Couponholders, an Affiliate of the Issuer (such substituted company being hereinafter called the "**New Issuer**") to assume liability for the due and punctual payment of all payments and the performance of all the Issuer's other obligations under, or in respect of, the Notes then outstanding. Upon any such substitution, the New Issuer shall succeed to the rights and obligations of the Issuer (or any previous assuming company) under the Notes and the Issuer (or any previous substitute) shall be released from its liability on the Notes. Such substitution shall be permitted only if, in addition to assuming the obligations of the Issuer (or of any previous substitute) under the Notes:

(a) the New Issuer shall, by means of a deed poll (the "**Issuer Substitution Deed Poll**"), agree to indemnify each Noteholder and Couponholder against (A) any taxes, duties, fees, assessments or governmental charges of whatever nature which are imposed on such holder with respect of such Note, and which would not have been so imposed had such substitution not been made, (B) any taxes, duties, fees, assessments or governmental charges of whatever nature imposed on or relating to such substitution and (C) any costs or expenses of the act of such substitution;

(b) if the New Issuer is not the Guarantor, the Guarantor shall, in the Issuer Substitution Deed Poll, unconditionally guarantee all payments in respect of the Notes;

(c) each of the New Issuer and (if the New Issuer is not the Guarantor) the Guarantor shall, jointly and severally, warrant, by means of the Issuer Substitution Deed Poll, that all necessary governmental approvals and consents for the assumption by the New Issuer of its obligations and the giving and implementation of the Guarantor's guarantee have been obtained and are in full force and effect and the obligations of the New Issuer under the Notes and of the Guarantor under its guarantee to guarantee payments in respect of the Notes (if applicable) are legal, valid, binding and enforceable in accordance with their terms;

(d) the New Issuer shall have obtained legal opinions (which are capable of being relied upon by each of the Paying Agents and the Noteholders and contain no more than customary assumptions or qualifications) from independent legal advisers of recognised standing in the country of incorporation of the New Issuer (if the New Issuer is not the Guarantor), Hong Kong and England that the obligations of the New Issuer and (if the New Issuer is not the Guarantor) of the Guarantor in respect of the Notes, the Guarantee of the Notes and the Issuer Substitution Deed Poll, as the case may be, are legal, valid, binding and enforceable and that all consents and approvals as aforesaid have been obtained;

(e) immediately after giving effect to such substitution, no event which is, or with the passage of time or the giving of notice or both would be, one of those circumstances described in Condition 8 (*Events of Default*) shall have occurred and be continuing; and

(f) the New Issuer shall have obtained confirmation from the Hong Kong Stock Exchange that the Notes will continue to be listed on the Hong Kong Stock Exchange.

Not more than 30 nor less than 15 days prior to the effective date of the substitution by the New Issuer, the Issuer shall procure the notification to the Noteholders, in accordance with Condition 15 (*Notices*), of the substitution, stating that copies or, pending execution thereof, final drafts of the Issuer Substitution Deed Poll and other relevant documents and of the legal opinions are available for inspection by Noteholders at the Specified Offices of the Paying Agents. The originals of the Issuer Substitution Deed Poll and other documents will be delivered to the Fiscal Agent to hold until there are no claims outstanding in respect of the Notes.

Upon the substitution of the Issuer becoming effective, references (if any) in Condition 5 (*Redemption and Purchase*) and Condition 7 (*Taxation*) to the "British Virgin Islands" shall be deemed to be replaced by references to the country of incorporation and, if different, the country of tax residence of the New Issuer.

14.2 **Substitution of the Guarantor**

The Guarantor may at any time substitute, without the consent of the Noteholders or the Couponholders, any entity which, following an amalgamation, reconstruction or otherwise, has vested in or imposed on it all or substantially all of the undertakings, properties or assets of the Guarantor, including obligations and liabilities under the Guarantee of the Notes (such substituted company being hereinafter called the "**New Guarantor**"), to assume liability for the due and punctual payment of all payments and the performance of all the Guarantor's other obligations under the Guarantee of the Notes. Upon any such substitution, the New Guarantor shall succeed to the rights and obligations of the Guarantor (or any previous assuming company) under the Guarantee of the Notes and the Guarantor (or any previous substitute) shall be released from its liability on the Guarantee of the Notes. Such substitution shall be permitted only if, in addition to assuming the obligations of the Guarantor (or of any previous substitute) under the Guarantee of the Notes:

(a) the New Guarantor shall, by means of a deed poll (the "**Guarantor Substitution Deed Poll**"), agree to indemnify each Noteholder and Couponholder against (A) any taxes, duties, fees, assessments or governmental charges of whatever nature which are imposed on such holder, and which would not have been so imposed had such substitution not been made, (B) any taxes, duties, fees, assessments or governmental charges of whatever nature imposed on or relating to such substitution and (C) any costs or expenses of the act of such substitution;

(b) the New Guarantor shall warrant, by means of the Guarantor Substitution Deed Poll, that all necessary governmental approvals and consents for the assumption by the New Guarantor of its obligations have been obtained and are in full force and effect and the obligations of the New Guarantor under the Guarantee of the Notes are legal, valid, binding and enforceable in accordance with their terms;

(c) the New Guarantor shall have obtained legal opinions (which are capable of being relied upon by each of the Paying Agents and the Noteholders and contain no more than customary assumptions or qualifications) from independent legal advisers of recognised standing in the country of incorporation of the New Guarantor and England that the obligations of the New Guarantor in respect of the Guarantee of the Notes and the Guarantor Substitution Deed Poll are legal, valid, binding and enforceable and that all consents and approvals as aforesaid have been obtained;

(d) immediately after giving effect to such substitution, no event which is, or with the passage of time or the giving of notice or both would be, one of those circumstances described in Condition 8 (*Events of Default*) shall have occurred and be continuing; and

(e) the Issuer shall have obtained confirmation from the Hong Kong Stock Exchange that the Notes will continue to be listed on the Hong Kong Stock Exchange.

Not more than 30 nor less than 15 days prior to the effective date of the substitution by the New Guarantor, the Guarantor shall procure the notification to the Noteholders, in accordance with Condition 15 (*Notices*), of the substitution, stating that copies, or pending execution thereof final drafts, of the Guarantor Substitution Deed Poll and other relevant documents and of the legal opinions are available for inspection by Noteholders at the Specified Offices of the Paying Agents. The originals of the Guarantor Substitution Deed Poll and other documents will be delivered to the Fiscal Agent to hold until there are no claims outstanding in respect of the Notes.

Upon the substitution of the Guarantor becoming effective, references (if any) in Condition 5 (*Redemption and Purchase*) and Condition 7 (*Taxation*) to "Hong Kong" shall be deemed to be replaced by references to the country of incorporation and, if different, the country of tax residence of the New Guarantor.

As used in this Condition 14:

"**Affiliate**" of any person means any entity controlled, directly or indirectly, by such person, any entity that controls such person, directly or indirectly, or any entity under common control with such person. For this purpose, "**control**" means ownership of a majority of the voting power of a person or power to direct or cause the direction of the management and policies of a person, whether by contract or otherwise.

15. NOTICES

Notices to the Noteholders shall be valid if published in a leading English language daily newspaper having general circulation in Asia (which is expected to be *The Asian Wall Street Journal)* or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Asia. Any such notice shall be deemed to have been given on the date of first publication. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

So long as the Global Notes are held in its entirely on behalf of Euroclear and Clearstream, Luxembourg any notice to the Noteholders shall be validly given by the delivery of the relevant notice to Euroclear and Clearstream for communication by the relevant clearing system to entitled accountholders in substitution for notification as required by the Conditions and shall be deemed to have been given on the date of delivery to such clearing system.

16. **CURRENCY INDEMNITY**

If any sum due from the Issuer in respect of the Notes or the Coupons or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer and the Guarantor or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

17. **GOVERNING LAW AND JURISDICTION**

17.1 **Governing Law**

The Notes, the Deed of Covenant and the Deed of Guarantee and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

17.2 **Hong Kong courts**

The courts of Hong Kong are to have exclusive jurisdiction to settle any dispute arising from or in connection with the Notes, the Deed of Covenant and the Deed of Guarantee (including any non-contractual obligation arising out of or in connection with the Notes, the Deed of Covenant and the Deed of Guarantee) and accordingly any legal action or proceedings arising out of or in connection with the Notes, the Deed of Covenant or the Deed of Guarantee ("**Proceedings**") may be brought in such courts.

17.3 **Appropriate Forum**

Each of the Issuer and the Guarantor irrevocably submits to the jurisdiction of the courts of Hong Kong and waives any objection to Proceedings in such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

17.4 **Process Agent**

Each of the Issuer and the Guarantor agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to the Guarantor at 38th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road, Central, Hong Kong or, if different, its registered office for the time being or at any address of the Guarantor in Hong Kong at which process may be served on it. If for any reason the Guarantor is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer or the Guarantor, the Issuer or, as the case may be, the Guarantor shall, on the written demand of any Noteholder addressed to the Issuer or, as the case may be, the Guarantor and delivered to the Issuer or, as the case may be, the Guarantor or to the Specified Office of the Fiscal Agent, appoint a further person in Hong Kong to accept service of process on its behalf and, failing such appointment within 15 days, any Noteholder shall be entitled to appoint such a person by written notice addressed to the Issuer or, as the case may be, the Guarantor and delivered to the Issuer or, as the case may be, the Guarantor or to the Specified Office of the Fiscal Agent. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law.

17.5 **Waiver of Immunity**

To the extent that the Issuer or the Guarantor may in any jurisdiction be entitled to claim for itself or its assets or revenues any immunity (on the grounds of sovereignty or otherwise) from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process, each of the Issuer and the Guarantor agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Temporary Global Note and the Permanent Global Note contain provisions which apply to the Notes while they are in global form, some of which modify the effect of the terms and conditions of the Notes set out in this Offering Memorandum. The following is a summary of certain of those provisions:

Exchange

The Notes will initially be in the form of a Temporary Global Note which will be deposited on or around the Issue Date with a common depositary for Euroclear and Clearstream. The Temporary Global Note will be exchangeable in whole or in part for interests in a Permanent Global Note not earlier than 40 days after the Issue Date upon certification as to non-US beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-US beneficial ownership.

The Permanent Global Note will become exchangeable in whole, but not in part, for the Notes in definitive form in the denomination of US$200,000 and integral multiples of US$1,000 in excess thereof at the request of the bearer of such Permanent Global Note if (a) Euroclear or Clearstream is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention to cease business permanently or (b) any of the circumstances described in Condition 8 (*Events of Default*) occurs.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons attached, in an aggregate principal amount equal to the principal amount of such Permanent Global Note to the bearer of such Permanent Global Note against the surrender of such Permanent Global Note at the specified office of the Fiscal Agent within 30 days of the bearer requesting such exchange.

If:

(a) Definitive Notes have not been delivered by 5:00 p.m. (London time) on the 30th day after the bearer has duly requested exchange of the Permanent Global for Definitive Notes; or

(b) the Permanent Global Note (or any part of it) has become due and payable in accordance with the Conditions or the date for final redemption of such Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the bearer in accordance with the terms of such Permanent Global Note on the due date for payment,

then such Permanent Global Note (including the obligation to deliver Definitive Notes) will become void at 5:00 p.m. (London time) on such 30th day (in the case of (a) above) or at 5:00 p.m. (London time) on such due date (in the case of (b) above) and the bearer of such Permanent Global Note will have no further rights thereunder (but without prejudice to the rights which the bearer of such Permanent Global Note or others may have under a deed of covenant dated [●] 2022 (the "**Deed of Covenant**") executed by the Issuer). Under the Deed of Covenant, persons shown in the records of Euroclear and/or Clearstream as being entitled to an interest in the Permanent Global Note will acquire directly against the Issuer all those rights to which they would have been entitled if, immediately before such Permanent Global Note became void, they had been the holders of Definitive Notes in an aggregate principal amount equal to the principal amount of the Notes they were shown as holding in the records of Euroclear and/or Clearstream (as the case may be).

In addition, the Temporary Global Note and the Permanent Global Note will contain provisions which modify the Terms and Conditions as they apply to the Temporary Global Note and the Permanent Global Note. The following is a summary of certain of those provisions:

Payments

All payments in respect of a Temporary Global Note and a Permanent Global Note will be made against presentation and (in the case of payment of the principal in full with all interest accrued thereon) surrender of such Temporary Global Note or (as the case may be) such Permanent Global Note at the Specified Office of any Paying Agent and will be effective to satisfy and discharge the liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of a Temporary Global Note or (as the case may be) a Permanent Global Note, the Issuer shall procure that the same is noted in a schedule thereto.

Notices

Notwithstanding Condition 15 (*Notices*), while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are) deposited with a common depositary for Euroclear and Clearstream, notices to the Noteholders may be given by delivery of the relevant notice to Euroclear and Clearstream and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 15 (*Notices*) on the date of delivery to Euroclear and Clearstream.

SUBSCRIPTION AND SALE

The Issuer and the Guarantor have entered into a subscription agreement with Bank of China (Hong Kong) Limited, DBS Bank Ltd., ING Bank N.V., Singapore Branch, MUFG Securities Asia Limited, UBS AG Hong Kong Branch, China International Capital Corporation Hong Kong Securities Limited, CMB International Capital Limited, The Hongkong and Shanghai Banking Corporation Limited, Merrill Lynch (Asia Pacific) Limited, Mizuho Securities Asia Limited, Natixis and SMBC Nikko Securities (Hong Kong) Limited (each as a Joint Lead Manager) dated [●] 2022 (the "**Subscription Agreement**"), pursuant to which and subject to certain conditions contained therein, the Issuer and the Guarantor have jointly and severally agreed to sell to the Joint Lead Managers, and the Joint Lead Managers have severally and not jointly agreed to subscribe and pay for, or to procure subscribers to subscribe and pay for, the Notes at an issue price of [●] per cent. of their principal amount in the amount set forth below:

Joint Lead Managers	Principal Amount of the Notes
	(US$)
Bank of China (Hong Kong) Limited	[●]
DBS Bank Ltd.	[●]
ING Bank N.V., Singapore Branch	[●]
MUFG Securities Asia Limited	[●]
UBS AG Hong Kong Branch	[●]
China International Capital Corporation Hong Kong Securities Limited	[●]
CMB International Capital Limited	[●]
The Hongkong and Shanghai Banking Corporation Limited	[●]
Merrill Lynch (Asia Pacific) Limited	[●]
Mizuho Securities Asia Limited	[●]
Natixis	[●]
SMBC Nikko Securities (Hong Kong) Limited	[●]
Total	[●]

The Issuer and the Guarantor have agreed with the Joint Lead Managers in the Subscription Agreement that, for a period from the date of the Subscription Agreement to (and including) the Issue Date, each of it shall ensure that no offering of debt instruments or debt securities (other than the Notes) in connection with which the Issuer or the Guarantor is the issuer or guarantor will be placed (privately or otherwise), directly or on its behalf, unless, in each case, it has obtained the prior written consent of the Joint Global Coordinators (as defined in the Subscription Agreement).

The Subscription Agreement provides that each of the Issuer and the Guarantor will indemnify each of the Joint Lead Managers against certain liabilities in connection with the offer and sale of the Notes. The Subscription Agreement provides that the obligations of each of the Joint Lead Managers are subject to certain conditions precedent, and entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

The Joint Lead Managers and certain of their subsidiaries or affiliates may have performed certain investment banking and advisory services for, and entered into certain commercial banking transactions with the Issuer, the Guarantor or any member of the Group and/or their respective subsidiaries and affiliates, from time to time, for which they have received customary fees and expenses. The Joint Lead Managers and their subsidiaries or affiliates may, from time to time, engage in transactions with and perform services for the Issuer, the Guarantor or any member of the Group and/or their respective subsidiaries and affiliates in the ordinary course of their business.

The Joint Lead Managers or their respective affiliates may purchase the Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Notes and/or other securities of the Issuer or the Guarantor or their subsidiaries or associates at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes to which this Offering Memorandum relates (notwithstanding that such selected counterparties may also be purchasers of the Notes). Furthermore, it is possible that only a limited number of investors may subscribe for a significant proportion of the Notes. If this is the case, liquidity of trading in the Notes may be constrained (see "*Risk Factors – Risks Relating to the Notes and the Guarantee of the Notes — An active trading market for the Notes may not develop*"). The Issuer, the Guarantor and the Joint Lead Managers are under no obligation to disclose the extent of the distribution of the Notes among individual investors.

General

No action has been or will be taken in any country or jurisdiction by the Issuer, the Guarantor or any Joint Lead Manager that would permit a public offering of the Notes, or possession or distribution of this Offering Memorandum or any other offering material relating to the Notes, where action for that purpose is required. No offer, sales or deliveries of any Notes, or distribution of any offering material relating to the Notes (including this Offering Memorandum) may be made in or from any jurisdictions except in circumstances which will result in compliance with any applicable laws or regulations and will not impose any obligations on the Issuer, the Guarantor or the Joint Lead Managers.

Persons into whose hands this Offering Memorandum comes are required by the Issuer, the Guarantor and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Offering Memorandum or any other offering material relating to the Notes, in all cases at their own expense.

No one has been or will be authorised to make any representation or use any information in connection with the offer, sale or distribution of the Notes other than as contained in this Offering Memorandum.

United States

1. ***No registration under Securities Act***

The Notes and the Guarantee of the Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

2. ***Joint Lead Managers' compliance with United States securities laws***

Each Joint Lead Manager has represented, warranted and undertaken to the Issuer and the Guarantor that:

(a) *Offers/sales only in accordance with Regulation S*: it has not offered or sold, and will not offer or sell, any Notes or the Guarantee of the Notes constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S;

(b) *No directed selling efforts*: neither it nor any of its affiliates (nor any person acting on behalf of such Joint Lead Manager or any of its affiliates) has engaged or will engage in any directed selling efforts (as defined in Regulation S under the Securities Act) with respect to the Notes.

3. ***Joint Lead Managers' compliance with United States Treasury regulations***

Each Joint Lead Manager has represented, warranted and undertaken to the Issuer and the Guarantor that:

(a) *Restrictions on offers etc:* except to the extent permitted under United States Treasury Regulation § 1.163-5(c)(2)(i)(D)(the "**D Rules**"):

(i) *No offers etc to United States or US persons*: it has not offered or sold, and during the restricted period will not offer or sell, any Notes to a person who is within the United States or its possessions or to a US person;

(ii) *No delivery of definitive Notes in United States*: it has not delivered and will not deliver in definitive form within the United States or its possessions any Notes sold during the restricted period;

(b) *Internal procedures:* it has, and throughout the restricted period will have, in effect procedures reasonably *designed* to ensure that its employees or agents who are directly engaged in selling Notes are aware that the Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a US person, except as permitted by the D Rules;

(c) *Additional provision if US person:* if it is a US person, it is acquiring the Notes for the purposes of resale in connection with their original issuance and, if it retains Notes for its own account, it will only do so in accordance with the requirements of United States Treasury Regulation § 1.163-5(c)(2)(i)(D)(6); and

(d) *Managers' affiliates*: with respect to each affiliate of such Joint Lead Manager that acquires Notes from such Joint Lead Manager for the purpose of offering or selling such Notes during the restricted period, such Joint Lead Manager has undertaken to the Issuer and the Guarantor that it will obtain from such affiliate for the benefit of the Issuer and the Guarantor the representations, warranties and undertakings contained in sub-paragraphs (a), (b) and (c).

4. ***Interpretation***

Terms used in paragraph 2 above have the meanings given to them by Regulation S under the Securities Act. Terms used in paragraph 3 above have the meanings given to them by the United States Internal Revenue Code and regulations thereunder, including the D Rules.

The Netherlands

Each Joint Lead Manager has represented and agreed that it will not offer any Notes in the Netherlands except to persons or entities which are qualified investors as defined in the Dutch Financial Supervision Act.

United Kingdom

Each Joint Lead Manager has represented, warranted and agreed that:

(a) *Financial promotion:* it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of the Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

(b) *General compliance:* it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Hong Kong

Each Joint Lead Manager has represented, warranted and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**") and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Singapore

Each Joint Lead Manager has acknowledged that this Offering Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented, warranted and agreed that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(c)(ii) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**FIEA**") and, accordingly, each Manager has represented, warranted and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan or to others for re-offering or resale, directly or indirectly, in Japan or to any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and other relevant laws and regulations of Japan. As used in this paragraph, "**resident of Japan**" means any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

The PRC

Each Joint Lead Manager has represented, warranted and agreed that the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the PRC, except as permitted by all applicable laws and regulations of the PRC.

British Virgin Islands

Each Joint Lead Manager has represented, warranted, and agreed that it has not made, and will not make, any invitation to the public in the British Virgin Islands to subscribe for or purchase the Notes.

PRC REGULATIONS

The following is a general description of certain currency controls in the PRC and is based on the law and relevant interpretations thereof in effect as at the date of this Offering Memorandum, all of which are subject to change, and does not constitute legal advice. It does not purport to be a complete analysis of all applicable currency controls in the PRC relating to the Notes. Prospective holders of Notes who are in any doubt as to PRC currency controls are advised to consult their own professional advisers.

Renminbi is not a freely convertible currency. The remittance of Renminbi into and outside the PRC is subject to control imposed under PRC law.

Current Account Items

Under PRC foreign exchange control regulations, current account items refer to any transaction for international receipts and payments involving goods, services, earnings and other frequent transfers.

Prior to July 2009, all current account items were required to be settled in foreign currencies with limited exceptions. In July 2009, the PRC commenced a pilot scheme pursuant to which Renminbi may be used for settlement of imports and exports of goods between approved pilot enterprises in five designated cities in the PRC including Shanghai, Guangzhou, Dongguan, Shenzhen and Zhuhai and enterprises in designated offshore jurisdictions including Hong Kong and Macau. On 17 June 2010, 27 July 2011, 3 February 2012 and 13 March 2014 respectively, the PRC Government promulgated the Circular on Issues concerning the Expansion of the Scope of the Pilot Programme of Renminbi Settlement of Cross-Border Trades (Yin Fa (2010) No. 186) (關於擴大跨境貿易人民幣結算試點有關問題的通知), the Circular on Expanding the Regions of Cross-border Trade Renminbi Settlement (關於擴大跨境貿易人民幣結算地區的通知), the Notice on Matters Relevant to the Administration of Enterprises Engaged in Renminbi Settlement of Export Trade in Goods (關於出口貨物貿易人民幣結算企業管理有關問題的通知) and the Notice on Matters Relevant to Simplifying the Administration of Enterprises Engaged in Renminbi Settlement of Export Trade in Goods (關於簡化出口貨物貿易人民幣結算企業管理有關事項的通知) (together as "Circulars"). Pursuant to these Circulars, (i) Renminbi settlement of imports and exports of goods and of services and other current account items became permissible, (ii) the list of designated pilot districts were expanded to cover all provinces and cities in the PRC, (iii) the restriction on designated offshore districts has been uplifted and (iv) any enterprise qualified for the export and import business is permitted to use Renminbi as settlement currency for exports of goods without obtaining the approval as previously required, provided that PBOC and five other PRC authorities have verified a list of key enterprises subject to supervision (the "**Supervision List**").

On 5 July 2013, PBOC promulgated the Circular on Policies related to Simplifying and Improving Cross-Border Renminbi Business Procedures (關於簡化跨境人民幣業務流程和完善有關政策的通知) (the "**2013 PBOC Circular**"), which, in particular, simplifies the procedures for cross border Renminbi trade settlement under current account items. For example, PRC banks may conduct settlement for PRC enterprises (excluding those on the Supervision List) upon the PRC enterprises presenting the payment instruction. PRC banks may also allow PRC enterprises to make/receive payments under current account items prior to the relevant PRC bank's verification of underlying transactions (noting that verification of underlying transactions is usually a precondition for cross border remittance).

On 31 December 2020, PBOC, NDRC, MOFCOM, the State-owned Assets Supervision and Administration Commission under the State Council, the China Banking and Insurance Regulatory Commission, and the SAFE jointly promulgated the Circular on Further Optimising Cross-Border RMB Policies to Support the Stability of Foreign Trade and Foreign Investment (關於進一步優化跨境人民幣政策 支持穩外貿穩外資的通知) (the "**2020 Circular**"), which, in particular, further simplifies the procedures for cross border RMB settlement. For example, optimising the formation mechanism of key supervision list of cross border RMB businesses, supporting electronic review of documents, and optimising the arrangements for centralised cross border RMB receipt and payment under the current accounts of a multinational enterprise groups.

The Circulars, the 2013 PBOC Circular and the 2020 Circular will be subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practises in applying the Circulars, the 2013 PBOC Circular and the 2020 Circular and impose conditions for settlement of current account items.

Capital Account Items

Under PRC foreign exchange control regulations, capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval of, and/or registration or filing with, the relevant PRC authorities.

Until recently, settlements for capital account items are generally required to be made in foreign currencies. For instance, foreign investors (including any Hong Kong investors) are required to make any capital contribution to foreign invested enterprises in a foreign currency in accordance with the terms set out in the relevant joint venture contracts and/or articles of association as approved by the relevant authorities. Foreign invested enterprises or relevant PRC parties are also generally required to make capital item payments including proceeds from liquidation, transfer of shares, reduction of capital, interest and principal repayment to foreign investors in a foreign currency.

On 3 June 2011, the PBOC promulgated the Circular on Clarifying Issues concerning Cross-border Renminbi Settlement (關於明確跨境人民幣業務相關問題的通知) (the "2011 PBOC Circular"). The 2011 PBOC Circular provides instructions to local PBOC authorities and relevant PRC banks on procedures for the approval of Renminbi settlement activities for non-financial foreign direct investment into the PRC. The 2011 PBOC Circular applies to all non-financial foreign direct investment into the PRC with Renminbi, which includes investment by way of establishing a new enterprise, acquiring an onshore enterprise (excluding round-trip investment), transferring the shares, increasing the registered capital of an existing enterprise, or providing shareholder loan facilities in Renminbi. The domestic settlement banks of foreign investors or foreign invested enterprises in the PRC are required to submit written applications (which include, inter alia, requisite approval letters issued by the relevant commerce authorities) to the relevant local PBOC authorities at sub-provincial level or above for approval. The PBOC will determine whether to grant such approval on a case by case basis. In addition, according to the 2011 PBOC Circular, application for direct investment with Renminbi in the projects which are restricted or specially controlled by the state will not be accepted at present as foreign direct investment with Renminbi is still at a trial stage.

On 13 October 2011, PBOC issued the Measures on Administration of the RMB Settlement in relation to Foreign Direct Investment (外商直接投資人民幣結算業務管理辦法) (the "PBOC RMB FDI Measures"), setting out procedures for PRC banking institutions to handle Renminbi settlement relating to Renminbi foreign direct investment and borrowing by foreign invested enterprises of offshore Renminbi loans. According to the PBOC RMB FDI Measures, special approval for Renminbi FDI and shareholder loans from the PBOC which was previously required is no longer mandatory.

On 11 May 2013, the State Administration of Foreign Exchange of the PRC (the "SAFE") promulgated the "Provisions on the Foreign Exchange Administration of Domestic Direct Investment by Foreign Investors" (外國投資者境內直接投資外匯管理規定) (the "SAFE Provisions"), which became effective on 13 May 2013. According to the SAFE Provisions, foreign investors can use cross-border Renminbi (including Renminbi inside and outside the PRC held in the capital accounts of non-PRC residents) to make a contribution to an onshore enterprise or make a payment for the transfer of an equity interest of an onshore enterprise by a PRC resident within the total investment amount approved by the competent authorities (for example, MOFCOM and/or its local counterparts as well as financial regulators). Capital account transactions in Renminbi must generally follow the current foreign exchange control regime applicable to foreign currencies.

On 5 July 2013, the PBOC promulgated the 2013 PBOC Circular, which simplifies the operating procedures on current account cross-border Renminbi settlement, provision of Renminbi outbound loans and Renminbi cross-border security in favour of offshore entities by onshore non-financial institutions, and further publishes policies with respect to bank card related cross-border Renminbi clearing and issuance of offshore Renminbi bonds by onshore non-financial institutions. The 2013 PBOC Circular intends to improve the efficiency of cross-border Renminbi settlement and facilitate the use of cross-border Renminbi settlement by banks and enterprises.

On 3 December 2013, MOFCOM promulgated the Circular on Issues in relation to Cross-border Renminbi Foreign Direct Investment (商務部關於跨境人民幣直接投資有關問題的公告) (the "MOFCOM Circular"), which became effective on 1 January 2014, to further facilitate FDI by simplifying and streamlining the applicable regulatory framework. Pursuant to the MOFCOM Circular, the appropriate office of MOFCOM and/or its local counterparts will grant written approval for each FDI and specify "Renminbi Foreign Direct Investment" and the amount of capital contribution in the approval. Unlike previous MOFCOM regulations on FDI, the MOFCOM Circular removes the approval requirement for foreign investors who intend to change the currency of its existing capital contribution from a foreign currency to Renminbi. In addition, the MOFCOM Circular also clearly prohibits the FDI funds from being used for any investment in securities and financial derivatives (except for investment in the PRC listed companies as strategic investors) or for entrustment loans in the PRC.

On 13 February 2015, the SAFE promulgated the Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving the Policies of Foreign Exchange Administration Applicable Direct Investment (關於進一步簡化和改進直接投資外匯管理政策的通知) (the "13 Notice"), which became effective on 1 June 2015. According to the 13 Notice, two administrative examination and approval items, such as the verification and approval of foreign exchange registration under domestic direct investment, and verification and approval of foreign exchange registration under overseas direct investment, shall be abolished. The 13 Notice also simplifies the procedures for handling certain foreign exchange services under direct investment.

On 30 March 2015, the SAFE promulgated the Notice of the State Administration of Foreign Exchange on Reforming the Administrative Approach Regarding the Settlement of the Foreign Exchange Capital of Foreign-invested Enterprises (關於改革外商投資企業外匯資本金結匯管理方式的通知) (the "19 Notice"), which became effective on 1 June 2015. According to the 19 Notice, foreign-invested enterprises shall be allowed to settle their foreign exchange capitals on a discretionary basis, which means that foreign-invested enterprise may, according to its actual business needs, settle with a bank the portion of the foreign exchange capital in its capital account for which the relevant foreign exchange bureau has confirmed monetary contribution rights and interests (or for which the bank has registered the account-crediting of monetary contribution).

On 9 June 2016, the SAFE promulgated the Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (關於改革和規範資本項目結匯管理政策的通知) (the "16 Notice"), which became effective on 9 June 2016. According to 16 Notice, the pilot reform of control approaches to foreign exchange settlement of foreign debts of enterprises is promoted nationwide, domestic enterprises (including Chinese-funded enterprises and foreign-invested enterprises, excluding financial institutions) may go through foreign exchange settlement formalities for their foreign debts at their discretion.

The above rules and regulations will be subject to interpretation and application by the relevant PRC authorities. Further, if any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the remittance of Renminbi for payment of transactions categorised as capital account items, then such remittances will need to be made subject to the specific requirements or restrictions set out in such rules.

NDRC Circular

The NDRC issued the NDRC Circular on 14 September 2015, which came into effect on the same day. According to the NDRC Circular, domestic enterprises and their overseas controlled entities shall procure the registration of any debt securities issued over one year outside the PRC with the NDRC prior to the issue of the securities and notify the particulars of the relevant issues within 10 working days after the completion of the issue of the securities. The NDRC shall decide whether to accept an application within five business days of receipt and shall issue a Certificate on the Recording and Registration of Foreign Debts Issued by Enterprises within seven business days of accepting the application.

The NDRC Circular does not expressly state the legal consequences of non-compliance with the pre-issue registration requirement as well as the post-issue notification requirement under the NDRC Circular. The NDRC Circular will be subject to interpretation and application by the NDRC from time to time.

TAXATION

The following summary of certain tax consequences of the purchase, ownership and disposition of the Notes is based upon applicable laws, regulations, rulings and decisions in effect as of the date of this Offering Memorandum, all of which are subject to change (possibly with retroactive effect). This summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Neither these statements nor any other statements in this Offering Memorandum are to be regarded as advice on the tax position of any holder of the Notes or any person acquiring, selling or otherwise dealing in the Notes or on any tax implications arising from the acquisition, sale or other dealings in respect of the Notes.

Persons considering the purchase of the Notes should consult their own tax advisers concerning the tax consequences of the purchase, ownership and disposition of the Notes.

British Virgin Islands

Payments of interest and principal on the Notes will not be subject to taxation in the British Virgin Islands and no withholding will be required on the payment of interest and principal to any holder of the Notes, nor will gains derived from the disposal of the Notes be subject to British Virgin Islands income or corporation tax. The British Virgin Islands currently have no corporation or capital gains tax and no estate duty, inheritance tax or gift tax.

Hong Kong

Withholding tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Notes or in respect of any capital gains arising from the sale of the Notes.

Profits tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

(a) interest on the Notes is derived from Hong Kong and is received by or accrues to a corporation carrying on a trade, profession or business in Hong Kong;

(b) interest on the Notes is derived from Hong Kong and is received by or accrues to a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business;

(c) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Cap. 112) of Hong Kong (the "**IRO**")) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

(d) interest on the Notes is received by or accrues to a corporation, other than a financial institution, and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO).

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of Notes will be subject to Hong Kong profits tax. Sums received by or accrued to a corporation, other than a financial institution, by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO) from the sale, disposal or other redemption of Notes will be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of the Notes will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source unless otherwise exempted. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed of.

In certain circumstances, Hong Kong profits tax exemptions (such as concessionary tax rates) may be available. Investors are advised to consult their own tax advisors to ascertain the applicability of any exemptions to their individual position.

Stamp duty

No Hong Kong stamp duty will be chargeable for the issue and transfer of the Notes for so long as the register of Holders is maintained outside Hong Kong or the Notes continue to be denominated in US dollars and are not repayable in any circumstances in the currency of Hong Kong.

PRC

The following summary sets out a description of the principal PRC tax consequences of ownership of the Notes by beneficial owners who, or which, are not residents of mainland China for PRC tax purposes. These beneficial owners are referred to as non-PRC Noteholders in this "PRC" section. In considering whether to invest in the Notes, investors should consult their individual tax advisors with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction. Reference is made to PRC taxes from the taxable year beginning on or after 1 January 2008.

Enterprise Income Tax

Pursuant to the EIT Law and its implementation regulations, enterprises that are established under laws of foreign countries and regions (including Hong Kong, Macau and Taiwan) but whose "de facto management organisation" are within the territory of the PRC shall be PRC tax resident enterprises for the purpose of the EIT Law and they shall pay enterprise income tax at the rate of 25% in respect of their income sourced from both within and outside the PRC. If the relevant PRC tax authorities determine, in accordance with applicable tax rules and regulations, that the Issuer's "de facto management organisation" is within the territory of the PRC, the Issuer may be held to be a PRC tax resident enterprise for the purpose of the EIT Law and shall be subject to enterprise income tax at the rate of 25% for its income sourced from both within and outside the PRC. As at the date of this Offering Memorandum, the Issuer confirms that it has not been notified by the PRC tax authorities that it is considered as a PRC tax resident enterprise for the purpose of the EIT Law, nor has the Issuer submitted to such authorities any application seeking clarification in this regard. Based on the foregoing, non-PRC Noteholders will not be subject to withholding tax, income tax or any other taxes or duties (including stamp duty) imposed by any governmental authority in the PRC in respect of the holding of the Notes or any repayment of principal and payment of interest made thereon.

However, there is no assurance that the Issuer will not be treated as a PRC tax resident enterprise under the EIT Law and related implementation regulations in the future. Pursuant to the EIT Law and its implementation regulations, any non-resident enterprise without an establishment within the PRC or whose income has no actual connection to its establishment within the PRC, shall be required to pay

PRC income tax at the rate of up to 10% on income sourced inside the PRC. Similarly, pursuant to the PRC Individual Income Tax Law (which was amended on 31 August 2018 and took effect on 1 January 2019) and its implementation regulations (which was amended on 18 December 2018 and took effect on 1 January 2019), any Noteholders who are non-resident individuals shall be required to pay PRC income tax at the rate of up to 20% on income sourced inside the PRC. Such income tax shall be withheld by the PRC payer that is acting as the obligatory withholder and such PRC payer shall withhold the tax amount from each payment or payment due. Although as confirmed by the Issuer, as at the date of this Offering Memorandum, the Issuer has not been noticed or informed by the PRC tax authorities that it is considered as a PRC tax resident enterprise for the purpose of the EIT Law, in the event the Issuer is deemed to be a PRC tax resident enterprise by the PRC tax authorities in the future, it will be required to withhold income tax from the payments of interest in respect of the Notes for any non-PRC Noteholder. However, despite the potential withholding of the PRC tax by the Issuer, the Issuer has, subject to certain exceptions, agreed to pay additional amounts to holders of the Notes so that holders of the Notes would receive the full amount of the scheduled payment, as further set out in the "*Terms and Conditions of the Notes*".

According to the double taxation arrangement between China and Hong Kong and relevant PRC tax regulations, residents of Hong Kong will not be subject to PRC tax on any capital gains from a sale or exchange of the Notes. Separately, other non-PRC Noteholders will also not be subject to PRC tax on any capital gains derived from a sale or exchange of Notes consummated outside the PRC between non-PRC Noteholders, except however, if the Issuer is treated as a PRC tax resident enterprise under the EIT Law and related implementation regulations in the future, then any gain realised by the non-PRC Noteholders from the transfer of the Notes may be regarded as being derived from sources within the PRC and accordingly would be subject to up to PRC withholding tax of up to 10% for enterprises and up to 20% for individuals. No PRC stamp duty will be imposed on non-PRC Noteholders either upon issuance of the Notes or upon a subsequent transfer of Notes (for so long as the register of Noteholders is maintained outside the PRC), provided that any such transfer is not consummated within the PRC.

Value Added Tax

On 23 March 2016, the Ministry of Finance and the SAT jointly issued the Circular 36 which confirms that business tax will be completely replaced by VAT from 1 May 2016. With effect from 1 May 2016, the income derived from the provision of financial services which previously attracted business tax are entirely replaced by, and subject to, VAT.

According to Circular 36, the entities and individuals providing the services within PRC shall be subject to VAT. The services are treated as being provided within PRC where either the service provider or the service recipient is located in PRC. The services subject to VAT include the provision of financial services such as the provision of loans. It is further clarified under Circular 36 that the "loans" refers to the activity of lending capital for another's use and receiving the interest income thereon. Based on the interpretation of "loans" under the Circular 36, the issuance of Notes may be treated as the holders of the Notes providing loans to the Issuer, which thus could be regarded as the provision of financial services that could be subject to VAT. If the PRC tax authorities take the view that the holders of the Notes are providing loans within the PRC (due to the Issuer being treated as a PRC tax resident), then the holders of the Notes could be regarded as providing financial services within PRC and consequently, the holders of the Notes shall be subject to VAT at the rate up to 6 per cent. when receiving the interest payments under the Notes. In addition, the holders of the Notes shall be subject to the local levies at approximately 12 per cent of the VAT payment and consequently, the combined rate of VAT and local levies would be around 6.72 per cent. Hence, if the Issuer pays interest income to Noteholders who are located outside the PRC, the Issuer (if VAT applicable), acting as the obligatory withholder in accordance with applicable law, shall withhold VAT and local levies from the payment of interest income to Noteholders who are located outside of the PRC.

Where a holder of the Notes who is an entity or individual located outside of the PRC resells the Notes to an entity or individual located outside of the PRC and derives any gain, since neither the service provider nor the service recipient is located in the PRC, theoretically Circular 36 does not apply and the Issuer does not have the obligation to withhold the VAT or the local levies. However, there is uncertainty as to the applicability of VAT if either the seller or buyer of Notes is located within the PRC.

The above disclosure may be subject to further change upon the issuance of further clarification rules and/or different interpretation by the competent tax authority. There is uncertainty as to the application of the Circular 36.

Pursuant to the EIT Law, the VAT reform detailed above, the Issuer may need to withhold EIT (should such tax apply) from the payments of interest in respect of the Notes for any non-PRC Noteholder and the Issuer may need to withhold VAT (should such tax apply) from the payments of interest in respect of the Notes for any Noteholders located outside the PRC.

Stamp duty

No PRC stamp tax will be chargeable upon the issue or transfer (for so long as the register of holders of the Notes is maintained outside the PRC) of a Note, provided that any such transfer is not consummated within the PRC.

FATCA

Pursuant to certain provisions of the US Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("foreign passthru payments") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("IGAs"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, such withholding would not apply prior to the date that is two years after the publication of the final regulations defining "foreign passthru payment" and Notes issued on or prior to the date that is six months after the date on which final regulations defining "foreign passthru payments" are filed with the US Federal Register generally would be "grandfathered" for purposes of FATCA withholding unless materially modified after such date. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes.

RATINGS

The Notes are expected to be rated "Baa1" by Moody's. The credit ratings accorded to the Notes are not a recommendation to purchase, hold or sell the Notes inasmuch as such ratings do not comment as to market price or suitability for a particular investor. There can be no assurance that the ratings will remain in effect for any given period or that the ratings will not be revised by the rating agencies in the future if, in their judgement, circumstances so warrant.

GENERAL INFORMATION

1. **Clearing Systems:** The Notes have been accepted for clearance through Euroclear and Clearstream.

   The securities codes for the Notes are as follows:

   Common Code: 247791884

   ISIN: XS2477918846

2. **Legal Entity Identifier**: The Legal Entity Identifier of the Issuer is 549300KTVUL1BXLNPZ11.

3. **Authorisations:** The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue of and performance of its obligations under the Notes, the Fiscal Agency Agreement and the Deed of Covenant. The issue of the Notes was authorised by resolutions of the board of directors of the Issuer passed on 20 May 2022. The Guarantor has obtained all consents, approvals and authorisations in connection with the giving of the Guarantee of the Notes and the performance of its obligations under the Fiscal Agency Agreement and the Deed of Guarantee. The giving of the Guarantee of the Notes was authorised by resolutions of the board of directors of the Guarantor passed on 20 May 2022.

4. **Registrations and Filings:** Pursuant to the NDRC Circular issued by the NDRC on 14 September 2015 which came into effect on the same day, the NDRC has issued a certificate on 26 April 2022 evidencing such registration and the Guarantor undertakes to provide the requisite information on the issuance of the Notes to the NDRC within the prescribed timeframe.

5. **Listing of the Notes:** Application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Notes issued to Professional Investors only. It is expected that dealing in, and listing of, the Notes on the Hong Kong Stock Exchange will commence on [●] 2022.

6. **No Material Adverse Change:** Except as disclosed in this Offering Memorandum, there has been no material adverse change since 31 December 2021 in the financial or trading position, prospects or results of operations of the Issuer, the Guarantor or the Group.

7. **Litigation:** From time to time, the Issuer, the Guarantor and other members of the Group may be involved in litigation or other disputes that arise in the ordinary course of business. However, none of the Issuer, the Guarantor or any member of the Group is currently involved in any litigation, disputes or arbitration proceedings which the Group believes are material in the context of the Notes and the giving of the Guarantee of the Notes, and the Issuer and the Guarantor are not aware of any material litigation, disputes or arbitration proceedings that are currently pending or threatened.

8. **Legend:** The Notes and Coupons will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the United States Internal Revenue Code."

9. **Available Documents:** As long as any of the Notes are outstanding, copies of the following documents will be available for inspection during normal business hours (being between 9:00 a.m. to 3:00 p.m. Monday to Friday except for public holidays) upon prior written request and satisfactory proof of holding and identity by Noteholders (i) at the registered office for the time

being of the Fiscal Agent (being Level 24, HSBC Main Building, 1 Queen's Road Central, Hong Kong) and at the specified office of the Principal Paying Agent at (being Level 24, HSBC Main Building, 1 Queen's Road Central, Hong Kong) or (ii) electronically via email from the Fiscal Agent:

(a) the Fiscal Agency Agreement;

(b) the Deed of Covenant; and

(c) the Deed of Guarantee.

As long as any of the Notes are outstanding, copies of the Guarantor's Financial Statements will be available for inspection and may be obtained at the Guarantor's specified office (being 38/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong) during normal business hours (being between 9:00 a.m. to 3:00 p.m.) upon prior written request and satisfactory proof of holding to the satisfaction of the Issuer and/or Guarantor).

10. **Auditor:** The Guarantor's Financial Statements have been audited by Deloitte, as stated in its reports appearing therein. The Guarantor's Financial Statements are prepared in accordance with HKFRS. These consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practises generally accepted in other countries and jurisdictions.

    Deloitte has not performed an assurance engagement in accordance with any assurance standard on the financial statements of the Guarantor for any period subsequent to 31 December 2021.

11. **Issuer's Financial Statements:** Under British Virgin Islands law, the Issuer is not required to publish interim or annual financial statements. The Issuer has not published, and does not propose to publish, any of its financial statements. The Issuer is, however, required to keep records and underlying documentation in such forms as are sufficient to show and to explain its transactions and which will, at any time, enable the financial position of the Issuer to be determined with reasonable accuracy.

INDEX TO THE GUARANTOR'S CONSOLIDATED FINANCIAL STATEMENTS

Note:

(1) The audited consolidated financial statements of the Guarantor set out herein have been reproduced from the Guarantor's annual reports for the years ended 31 December 2020 and 2021 and page references are references to pages set out in such annual reports.

Independent Auditor's Report

Deloitte. 德勤

TO THE MEMBERS OF
CHINA MERCHANTS PORT HOLDINGS COMPANY LIMITED
招商局港口控股有限公司
(incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of China Merchants Port Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 77 to 205, which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Accounting for the Group's interests in associates	
We identified the accounting for the Group's interests in associates as a key audit matter due to the significance of these investments to the Group's consolidated financial statements as a whole. The Group invested in a number of associates whose principal activities include ports and other relevant operations as set out in note 43 to the consolidated financial statements. The Group's share of profits of associates for the year ended 31 December 2021 was HK$7,103 million, representing approximately 76% of the profit for the year of the Group as disclosed in the consolidated statement of profit or loss and the Group's interests in its associates were HK$75,209 million as at 31 December 2021, representing approximately 60% of the net assets of the Group as set out in the consolidated statement of financial position.	Our procedures in relation to the accounting for the Group's interests in associates included: • Obtaining an understanding of the associates by reading those financial information collected by the Group from its associates and discussing with their respective management about the financial performance, significant events occurred in the year and the key areas of judgement made in preparing the financial information to identify and assess the risks that are significant to the audit of the Group's consolidated financial statements; • Meeting with the respective auditors of the associates to discuss their assessment of risks and identification of areas of audit focus to evaluate the appropriateness of its planned work procedures; • Discussing with the respective auditors on their findings from the execution of their planned work procedures and the conclusion from their completion of audit; and • Evaluating the appropriateness of significant consolidation adjustments made by the management of the Group to conform the accounting policies of the associates to those of the Group for like transactions and events in similar circumstances.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill attributable to ports operation in Mega Shekou Container Terminals Limited ("MSCT") and TCP Participações S.A. ("TCP")	
We identified the impairment assessment of goodwill attributable to the Group's ports operation in MSCT and TCP as a key audit matter due to the involvement of significant management judgement and assumptions in this assessment. As disclosed in note 15(b) to the consolidated financial statements, the carrying amount of goodwill attributable to the Group's ports operation amounted to HK$5,641 million as at 31 December 2021, among which HK$5,127 million is attributable to MSCT and TCP. For the purpose of assessing impairment, the recoverable amounts of the cash-generating units of the Group's port operations in MSCT and TCP have been determined by the management of the Group based on value in use calculations using financial budgets based on past performance and expectation for market development, where the key input parameters include growth rates and discount rates. Based on the management's assessment, there is no impairment of goodwill attributable to any of the Group's ports operation in MSCT and TCP as at 31 December 2021 based on the calculations of value in use.	Our procedures in relation to the impairment assessment of goodwill of the Group's ports operation in MSCT and TCP included: • Understanding the Group's impairment testing process, assumptions used and the extent of involvement of a valuer; • Evaluating the historical accuracy and reasonableness of financial budgets by checking to current year financial information; • Evaluating the reasonableness of the management's estimate of growth rates in determining the value in use with reference to the historical performance, the latest budgets of the Group and relevant market data; • Working with our internal valuation specialists to assess the appropriateness of basis of calculation of the value in use prepared by the management, including the reasonableness of the discount rates and terminal growth rate with reference to the current market risk-free rate of interest, national specific risk factor and the industry specific risk factor; • Checking the mathematical accuracy of the value in use calculation of the recoverable amount of the cash-generating units of the Group's ports operation in MSCT and TCP prepared by the management; and • Evaluating the disclosure of the impairment assessment of goodwill attributable to the Group's ports operation.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Woo King Wa.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

30 March 2022

Consolidated Statement of Profit or Loss

For the year ended 31 December 2021

	Note	2021 HK$'million	2020 HK$'million
Revenue	4	11,850	8,945
Cost of sales		(6,493)	(5,201)
Gross profit		5,357	3,744
Other income and other gains, net	7	981	1,852
Administrative expenses		(1,551)	(1,371)
Finance income	11	400	298
Finance costs	11	(1,815)	(1,822)
Finance costs, net	11	(1,415)	(1,524)
Share of profits less losses of			
Associates		7,103	4,117
Joint ventures		151	340
		7,254	4,457
Profit before taxation		10,626	7,158
Taxation	12	(1,241)	(1,077)
Profit for the year	6	9,385	6,081
Attributable to:			
Equity holders of the Company		8,144	5,151
Holders of perpetual capital securities		227	52
Non-controlling interests		1,014	878
Profit for the year		9,385	6,081
Earnings per share for profit attributable to equity holders of the Company	14		
Basic (HK cents)		219.87	146.25

Consolidated Statement of Profit or Loss and other Comprehensive Income

For the year ended 31 December 2021

	2021 HK$'million	2020 HK$'million
Profit for the year	9,385	6,081
Other comprehensive income/(expense)		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences from retranslation of investments in subsidiaries, associates and joint ventures	2,690	4,407
Release of reserves upon obtaining control of a non-wholly owned subsidiary	—	(87)
Release of reserves upon deemed disposal of a subsidiary	(3)	—
Release of reserves upon deemed disposal of partial interest in associates	(35)	—
Share of other reserve of a joint venture	5	6
Items that will not be reclassified subsequently to profit or loss:		
Net actuarial (loss)/gain on defined benefit plans of subsidiaries	(36)	29
Surplus on revaluation of an owner occupied property upon change of use to investment property	61	—
Share of other reserves of associates	356	6
Share of net actuarial loss on defined benefit plans of associates	(1)	(35)
Total other comprehensive income for the year, net of tax	3,037	4,326
Total comprehensive income for the year	12,422	10,407
Total comprehensive income attributable to:		
Equity holders of the Company	11,101	8,992
Holders of perpetual capital securities	227	52
Non-controlling interests	1,094	1,363
	12,422	10,407

Consolidated Statement of Financial Position

As at 31 December 2021

	Note	2021 HK$'million	2020 HK$'million
ASSETS			
Non-current assets			
Goodwill	15	5,641	5,759
Intangible assets	15	8,607	9,369
Property, plant and equipment	16	26,846	26,509
Right-of-use assets	17	17,650	16,553
Investment properties	18	9,034	8,918
Interests in associates	20	75,209	67,426
Interests in joint ventures	21	8,874	9,091
Other financial assets	22	10,516	7,258
Other non-current assets	23	203	1,305
Deferred tax assets	35	394	420
		162,974	152,608
Current assets			
Inventories	24	166	179
Other financial assets	22	3,016	81
Debtors, deposits and prepayments	25	2,134	5,493
Taxation recoverable		3	8
Cash and bank balances	26	9,980	11,290
		15,299	17,051
Non-current assets held for sale	27	417	405
		15,716	17,456
Total assets		178,690	170,064

Consolidated Statement of Financial Position

As at 31 December 2021

	Note	2021 HK$'million	2020 HK$'million
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	28	44,017	42,521
Reserves		51,519	43,501
Proposed dividend	13	2,726	1,867
		98,262	87,889
Perpetual capital securities	29	6,241	6,237
Non-controlling interests	19(d)	20,295	19,509
Total equity		124,798	113,635
LIABILITIES			
Non-current liabilities			
Bank and other borrowings	32	22,231	30,240
Lease liabilities	33	886	886
Other non-current liabilities	34	4,735	5,229
Deferred tax liabilities	35	4,851	4,482
		32,703	40,837
Current liabilities			
Creditors and accruals	36	4,304	4,152
Bank and other borrowings	32	14,551	8,952
Lease liabilities	33	40	76
Taxation payable		2,294	2,412
		21,189	15,592
Total liabilities		53,892	56,429
Total equity and liabilities		178,690	170,064
Net current (liabilities)/assets		(5,473)	1,864
Total assets less current liabilities		157,501	154,472

The consolidated financial statements on pages 77 to 205 were approved and authorised for issue by the Board of Directors on 30 March 2022 and are signed on its behalf by:

Mr. Deng Renjie
DIRECTOR

Mr. Wang Xiufeng
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

	Note	Attributable to equity holders of the Company				Perpetual capital securities	Non-controlling interests	Total
		Share capital HK$'million	Other reserves HK$'million (note 31)	Retained earnings HK$'million	Total HK$'million	HK$'million (note 29)	HK$'million	HK$'million
As at 1 January 2021		42,521	4,922	40,446	87,889	6,237	19,509	113,635
COMPREHENSIVE INCOME								
Profit for the year		—	—	8,144	8,144	227	1,014	9,385
Other comprehensive income								
Exchange differences from retranslation of investments in subsidiaries, associates and joint ventures		—	2,595	—	2,595	—	95	2,690
Release of reserves upon deemed disposal of a subsidiary	20	—	(10)	7	(3)	—	—	(3)
Release of reserves upon deemed disposal of partial interest in associates	20	—	(62)	27	(35)	—	—	(35)
Surplus on revaluation of an owner occupied property upon change of use to investment property		—	61	—	61	—	—	61
Share of other reserves of associates and a joint venture		—	361	—	361	—	—	361
Net actuarial loss on defined benefit plans of subsidiaries		—	—	(21)	(21)	—	(15)	(36)
Share of net actuarial loss on defined benefit plans of associates		—	—	(1)	(1)	—	—	(1)
Total other comprehensive income for the year, net of tax		—	2,945	12	2,957	—	80	3,037
Total comprehensive income for the year		—	2,945	8,156	11,101	227	1,094	12,422
TRANSACTIONS WITH OWNERS								
Issue of shares in lieu of dividends	28	1,496	—	—	1,496	—	—	1,496
Transfer to statutory reserve		—	99	(99)	—	—	—	—
Deemed disposal of a subsidiary	20	—	—	—	—	—	(25)	(25)
Contribution from immediate holding company		—	20	—	20	—	—	20
Reversal of contribution from immediate holding company		—	(22)	—	(22)	—	—	(22)
Share of other changes in equity attributable to equity holders of associates		—	468	—	468	—	—	468
Distribution to holders of perpetual capital securities		—	—	—	—	(223)	—	(223)
Dividends		—	—	(2,690)	(2,690)	—	(283)	(2,973)
Total transactions with owners for the year		1,496	565	(2,789)	(728)	(223)	(308)	(1,259)
As at 31 December 2021		44,017	8,432	45,813	98,262	6,241	20,295	124,798

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

	Note	Attributable to equity holders of the Company				Perpetual capital securities	Non-controlling interests	Total
		Share capital HK$'million	Other reserves HK$'million (note 31)	Retained earnings HK$'million	Total HK$'million	HK$'million	HK$'million	HK$'million
As at 1 January 2020		40,614	1,017	38,152	79,783	—	14,351	94,134
COMPREHENSIVE INCOME								
Profit for the year		—	—	5,151	5,151	52	878	6,081
Other comprehensive income/(expense)								
Exchange differences from retranslation of investments in subsidiaries, associates and joint ventures		—	3,934	—	3,934	—	473	4,407
Release of reserves upon obtaining control of a non-wholly owned subsidiary	39	—	(87)	—	(87)	—	—	(87)
Share of other reserves of associates and a joint venture		—	12	—	12	—	—	12
Net actuarial gain on defined benefit plans of subsidiaries		—	—	17	17	—	12	29
Share of net actuarial loss on defined benefit plans of associates		—	—	(35)	(35)	—	—	(35)
Total other comprehensive income/(expense) for the year, net of tax		—	3,859	(18)	3,841	—	485	4,326
Total comprehensive income for the year		—	3,859	5,133	8,992	52	1,363	10,407
TRANSACTIONS WITH OWNERS								
Issue of shares in lieu of dividends	28	1,907	—	—	1,907	—	—	1,907
Issue of perpetual capital securities	29	—	—	—	—	6,185	—	6,185
Transfer to statutory reserve		—	348	(348)	—	—	—	—
Acquisition of additional interests in subsidiaries	19(b)	—	(588)	(3)	(591)	—	591	—
Disposal of interests in subsidiaries to non-controlling equity holders without losing control therein	19(c)	—	296	77	373	—	1,704	2,077
Obtaining control of a non-wholly owned subsidiary	39	—	(84)	84	—	—	2,171	2,171
Contribution from immediate holding company		—	17	—	17	—	—	17
Share of other changes in equity attributable to equity holders of associates		—	57	—	57	—	—	57
Dividends		—	—	(2,649)	(2,649)	—	(671)	(3,320)
Total transactions with owners for the year		1,907	46	(2,839)	(886)	6,185	3,795	9,094
As at 31 December 2020		42,521	4,922	40,446	87,889	6,237	19,509	113,635

Consolidated Statement of Cash Flows

For the year ended 31 December 2021

	Note	2021 HK$'million	2020 HK$'million
Cash flows from operating activities			
Net cash inflow from operations	38(a)	6,551	4,536
Hong Kong Profits Tax paid		(2)	(5)
PRC corporate income tax paid		(652)	(313)
Overseas Profits Tax paid		(310)	(4)
Withholding tax paid on dividends received		(149)	(154)
Dividends received from associates and joint ventures		3,347	1,762
Net cash generated from operating activities		8,785	5,822
Cash flows used in investing activities			
Deemed disposal of a subsidiary	20	(38)	—
Repayment from associates		39	37
Proceeds from an associate		102	209
Interest income received		307	252
Investments in associates and joint ventures		(1)	(4)
Purchase of property, plant and equipment and port operating rights		(1,834)	(1,789)
Placement of other deposits and structured deposits		(9,678)	(5,138)
Proceeds from withdrawal of other deposits and structured deposits		6,938	5,951
Capital contribution to an associate	20	—	(3,055)
Loans to associates	20	—	(3,303)
Cash and bank balances acquired through obtaining control of a non-wholly owned subsidiary	39	—	367
Proceeds from disposal of property, plant and equipment		23	25
Compensation received for resumption of land parcels at Shantou		60	180
Proceeds from share reduction in registered capital of an associate		—	105
Net cash used in investing activities		(4,082)	(6,163)
Net cash inflow/(outflow) before financing activities carried forward		4,703	(341)

Consolidated Statement of Cash Flows

For the year ended 31 December 2021

	Note	2021 HK$'million	2020 HK$'million
Net cash inflow/(outflow) before financing activities brought forward		4,703	(341)
Cash flows (used in)/from financing activities			
Proceeds from bank loans		5,906	18,976
Advance from an associate		200	—
Loans from fellow subsidiaries		368	224
Loan from immediate holding company		299	491
Repayment of bank loans		(8,768)	(17,019)
Interests paid		(1,522)	(1,782)
Dividends paid to ordinary shareholders		(1,194)	(742)
Dividends paid to non-controlling equity holders of subsidiaries		(386)	(687)
Distribution paid to holders of perpetual capital securities		(223)	—
Repayment of advance from an associate		(145)	—
Repayment of loans from fellow subsidiaries		(376)	(828)
Repayment of notes payable		(185)	(1,551)
Repayment of lease liabilities		(103)	(134)
Acquisition of additional interests in subsidiaries	19(b)	—	(835)
Proceeds from disposal of partial interests in subsidiaries	19(c)	—	2,077
Net proceeds on issue of perpetual capital securities	29	—	6,185
Net cash (used in)/generated from financing activities		(6,129)	4,375
(Decrease)/increase in cash and cash equivalents		(1,426)	4,034
Cash and cash equivalents at 1 January		11,217	6,939
Effect of foreign exchange rate changes		183	244
Cash and cash equivalents at 31 December,represented by cash and bank balances		9,974	11,217

1. GENERAL INFORMATION

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

The Company is a limited liability company incorporated in Hong Kong and has its shares listed on The Stock Exchange of Hong Kong Limited (the "HKSE").

As at 31 December 2021, China Merchants Port Group Co., Ltd. ("CMPG", a company established in the People's Republic of China ("PRC") and whose shares are listed on the Shenzhen Stock Exchange. CMPG, together with its subsidiaries, the "CMPG Group") directly held 43.18% of the total issued share capital of the Company. Pursuant to an entrustment agreement with China Merchants Holdings (Hong Kong) Company Limited ("CMHK", a company incorporated in Hong Kong and an indirect subsidiary of China Merchants Group Limited ("CMG")) (the "Acting in Concert Agreement"), CMPG has the power to direct the voting right over approximately 21.98% of the total issued share capital of the Company held by China Merchants Union (BVI) Limited ("CMU", a company incorporated in the British Virgin Islands held as to 50% by CMG), and accordingly, has the power to direct the voting right over 65.16% of the total issued share capital of the Company. The directors of the Company regard therefore CMPG as immediate holding company.

CMG, directly and indirectly, including through CMPG Group as described above, and its other subsidiaries held an effective interest of approximately 41.61% of the issued share capital of the Company. CMG therefore, directly and indirectly, including through CMPG and its subsidiaries, and CMU, has the power to direct voting right over approximately 65.86% of the total issued share capital of the Company. Accordingly, the directors of the Company regard CMG as being the ultimate holding company.

CMG is a state-owned enterprise registered in the PRC and regulated and directly managed by the State-owned Assets Supervision and Administration Commission of the State Council, the PRC government.

The address of the Company's registered office is 38/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

The consolidated financial statements are presented in Hong Kong dollar ("HK$") which is the Company's functional currency.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the Hong Kong Companies Ordinance. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the HKSE (the "Listing Rules").

The directors of the Company have, at the time of approving the consolidated financial statements, a reasonable expectation the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

The consolidated financial statements have been prepared on the historical cost basis, as modified by the revaluation of investment properties, financial assets at fair value through profit or loss ("FVTPL"), equity instruments at fair value through other comprehensive income ("FVTOCI") and financial liabilities at FVTPL which are carried at fair value at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment" ("HKFRS 2"), leasing transactions that are accounted for in accordance with HKFRS 16 "Leases" ("HKFRS 16"), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets" ("HKAS 36").

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments and investment properties which are transacted at fair value and a valuation technique that unobservable inputs are to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the result of the valuation technique equals the transaction price.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

In addition, for financial reporting purpose, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

(i) Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the consolidated financial statements:

Amendment to HKFRS 16	COVID-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform - Phase 2

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(ii) New and amendments to HKFRSs in issue but are not yet effective for the financial year beginning on 1 January 2021 and have not been early adopted by the Group

		Effective for annual periods beginning on or after
HKFRS 17	Insurance Contracts and the related Amendments	1 January 2023
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Note
Amendment to HKFRS 16	COVID-19-Related Rent Concessions beyond 30 June 2021	1 April 2021
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)	1 January 2023
Amendments to HKAS 1 and HKFRS Practise Statement 2	Disclosure of Accounting Policies	1 January 2023
Amendments to HKAS 8	Definition of Accounting Estimates	1 January 2023
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to HKAS 16	Property, Plant and Equipment - Proceeds before Intended Use	1 January 2022
Amendments to HKAS 37	Onerous Contracts - Costs of Fulfilling a Contract	1 January 2022
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 - 2020	1 January 2022

Note: Effective for annual periods beginning on or after a date to be determined.

The directors of the Company anticipate that the application of the new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries as at 31 December.

(i) Subsidiaries

Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its investment with the investee; and
- has the ability to use its power to affect the returns of the investee.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it the power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation (continued)

(i) Subsidiaries (continued)

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated in full on consolidation.

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

(a) Business combinations

The Group applies the acquisition method of account for business combinations, other than business combination under common control. The consideration transferred for the acquisition of a subsidiary is the aggregate fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Except for certain recognition exemptions, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the Framework for the Preparation and Presentation of Financial Statements (replaced by the Conceptual Framework for Financial Reporting issued in October 2010).

2.2 Consolidation (continued)

(i) Subsidiaries (continued)

(a) Business combinations (continued)

At the acquisition date, identifiable assets acquired and liabilities and contingent liabilities assumed are initially recognised at their fair values, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" ("HKAS 12") and HKAS 19 "Employee Benefits" respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 at the acquisition date;
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard; and
- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which the lease term ends within 12 months of the acquisition date. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

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

The subsequent accounting for contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in the consolidated statement of profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation (continued)

(i) Subsidiaries (continued)

(a) Business combinations (continued)

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Acquisition-related costs are expensed as incurred.

When a business combination is achieved in stages, the acquirer's previously held interest in the acquiree is remeasured to fair value at the latest acquisition date and the resulting gain or loss, if any, is recognised in the profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income and measured under HKFRS 9 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of net assets attributable to non-controlling interests over the net identifiable assets acquired and liabilities assumed as at acquisition date. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the consolidated statement of profit or loss as a bargain purchase gain after reassessment of all identifiable assets and liabilities.

(b) Asset acquisitions

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to investment properties which are subsequently measured under fair value model and financial assets and financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

(c) Optional concentration test

The Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation (continued)

(i) Subsidiaries (continued)

(d) Changes in ownership interests in existing subsidiaries without change of control

Transactions with non-controlling interests that do not result in change of control are accounted for as equity transactions - that is, as transactions with the owners in their capacity as owners. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interest in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interest's proportional interests. Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

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

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, a joint venture or a financial asset. Difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill) and liabilities of the subsidiary attributable to the owners of the Company is recognised in the consolidated statement of profit or loss. In addition, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the consolidated statement of profit or loss, or transferred to another category of equity as specified/ permitted by applicable HKFRSs.

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

(ii) Associates and joint ventures

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating party has unilateral control over the economic activity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation (continued)

(ii) Associates and joint ventures (continued)

The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. For associates and joint ventures using accounting policies that differ from those of the Group for like transactions and events in similar circumstances, appropriate adjustments have been made to conform the accounting policies of the associates and/or the joint ventures to those of the Group. Under the equity method, an investment is initially recognised at cost from the date on which the investee becomes an associate or a joint venture, and the carrying amount is increased or decreased to adjust for the post-acquisition changes in the investor's share of the net assets of the investee after the date of acquisition. The Group's interests in associates and joint ventures include goodwill identified on acquisition.

The Group's share of profits or losses of associates and joint ventures is recognised in the consolidated statement of profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate or joint venture equals or exceeds its interest in that associate or joint venture, including any long-term interests that in substance, form part of the Group's net investment in the associate or joint venture, the Group discontinues recognising its shares of further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation (continued)

(ii) Associates and joint ventures (continued)

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Group retain an interest of the former associate or joint venture and the retained interest is a financial asset within the scope of HKFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the previous carrying amount of the associate or joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to the consolidated statement of profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

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

2.3 Segment reporting

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

2.4 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Foreign currency translation (continued)

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in consolidated statement of profit or loss, except for exchange differences on foreign currency borrowing relating to assets under construction for future productive use, which are included in the cost of those assets and are regarded as an adjustment to interest costs on those foreign currency borrowings.

All foreign exchange gains and losses are presented in the consolidated statement of profit or loss within "other income and other gains, net".

Translation differences on non-monetary financial assets, such as equity investments classified as FVTOCI, are included in other comprehensive income.

(iii) Group companies

The results and financial position of all group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the year end exchange rate;
- income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the year end exchange rate. Exchange differences arising therefrom are recognised in other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Foreign currency translation (continued)

(iv) Disposal and partial disposal of foreign operation

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to consolidated statement of profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in the consolidated statement of profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to consolidated statement of profit or loss.

2.5 Property, plant and equipment

Property, plant and equipment comprise mainly leasehold land and buildings, harbour works, buildings and dockyard, plant, machinery, furniture and equipment, vessels and ships, motor vehicles and leasehold improvements. All property, plant and equipment other than assets under construction are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of profit or loss during the period in which they are incurred.

Buildings in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "right-of-use assets" in the consolidated statement of financial position except for those that are classified and accounted for as investment properties under the fair value model. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Property, plant and equipment (continued)

Leasehold land commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land and depreciation of other assets is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Leasehold land	Shorter of remaining lease term of 50 years or useful life
Buildings	Shorter of the lease term or 30 years
Harbour works, buildings and dockyard	8 to 50 years
Plant and machinery	3 to 20 years
Furniture and equipment	3 to 20 years
Vessels and ships	10 to 25 years
Motor vehicles	5 to 10 years
Leasehold improvements	Shorter of the lease term or 5 to 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of the reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other income and other gains, net" in the consolidated statement of profit or loss.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in equity. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained earnings.

2.6 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under construction for such purposes). Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose. Investment properties also include leased properties which are being recognised as right-of-use assets and subleased by the Group under operating leases.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair value, adjusted to exclude any prepaid or accrued operating lease income. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recognised in the consolidated statement of profit or loss as part of a valuation gain or loss in "other income and other gains, net".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Investment properties (continued)

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

An investment property is transferred to property, plant and equipment at the fair value when there is a change of use, as evidenced by commencement of owner-occupation of the relevant properties.

2.7 Goodwill and intangible assets

(i) Goodwill

Goodwill arising on the acquisition of a business represents the excess of the aggregate of the consideration transferred and the fair value of net assets attributable to non-controlling interest (see the accounting policy above) over the net identifiable assets acquired and, liabilities and contingent liabilities assumed as at acquisition date.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of CGUs).

(ii) Port operating rights

Port operating right primarily resulted from the entering of agreement for the right to construct, operate, manage and develop container terminals. Operating right is carried at cost less accumulated amortisation and impairment. Amortisation is calculated using an economic usage basis which is based on the ratio of minimum guaranteed output volume compared to the total minimum guaranteed output volume over the periods which the Group is granted the operating rights on the relevant container terminals. When the pattern of consumption of future economic benefits of the asset cannot be determined reliably, the straight-line method over the period in which the Group operates the relevant terminals is used. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Goodwill and intangible assets (continued)

(iii) Other intangible assets

Other intangible assets acquired are recognised at fair value at the acquisition date. For those items having finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method over the expected life of 5 to 50 years. Those with indefinite useful lives that are acquired in a business combination are carried at cost less any subsequent accumulated impairment losses.

Intangible assets are derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of intangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of profit or loss in the period when the asset is derecognised.

2.8 Impairment of property, plant and equipment, right-of-use assets and intangible assets other than goodwill

Property, plant and equipment, right-of-use assets and intangible assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, the recoverable amount of tangible and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the CGU to which the asset belongs. In addition, corporate assets are allocated to individual CGUs when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be established. The Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, the recoverable amount is determined for the CGU or group of CGUs to which the corporate asset belongs, and is compared with the carrying amount of the relevant CGU or group of CGUs.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a CGU, the Group compares the carrying amount of a group of CGUs, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of CGUs, with the recoverable amount of the group of CGUs. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of CGUs. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro-rata to the other assets of the unit or the group of CGUs. An impairment loss is recognised immediately in profit or loss. Property, plant and equipment, right-of-use assets and intangible assets other than goodwill that suffered from an impairment are reviewed for possible reversal of the impairment at each reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Impairment of property, plant and equipment, right-of-use assets and intangible assets other than goodwill (continued)

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

2.9 Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

2.10 Financial assets

(i) Classification

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets (continued)

(i) Classification (continued)

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

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

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

A financial asset is held for trading if:

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

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

(ii) Recognition and measurement

Amortised cost and interest income

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets (continued)

(ii) Recognition and measurement (continued)

Equity instruments designated as at FVTOCI

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

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

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

Financial assets at FVTPL

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

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

(iii) Derecognition of financial assets

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Impairment of financial assets and financial guarantee contracts

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets and financial guarantee contracts which are subject to impairment assessment under HKFRS 9 (including trade debtors, other debtors and other financial assets). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

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

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

Significant increase in credit risk

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Impairment of financial assets and financial guarantee contracts (continued)

Significant increase in credit risk (continued)

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

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

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

Definition of default

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

Credit-impaired financial assets

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Impairment of financial assets and financial guarantee contracts (continued)

Write-off policy

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

Measurement and recognition of ECL

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

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

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

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

- Nature of financial instruments (i.e. the Group's trade debtors and other debtors are assessed as a separate group. Amounts due from/advances to immediate holding company/fellow subsidiaries/associates/joint ventures, compensation receivable from Shantou Land Reserve Centre ("SLRC") and dividend receivables are assessed for ECL on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Impairment of financial assets and financial guarantee contracts (continued)

Measurement and recognition of ECL (continued)

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

Except for financial guarantee contracts, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade debtors where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in other comprehensive income and accumulated in reserve without reducing the carrying amount of these debt instruments/receivables. Such amount represents the changes in reserve in relation to accumulated loss allowance.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories is determined using the weighted average cost method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less all estimated costs of completion and costs necessary to make the sale.

2.13 Debtors

Trade debtors are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection from debtors are expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

2.14 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Perpetual instruments, which include no contractual obligation for the Group to deliver cash or other financial assets or the Group has the sole discretion to defer payment of distribution and redemption of principal amount indefinitely are classified as equity instruments.

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

Financial liabilities

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

Financial liabilities at FVTPL

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

A financial liability is held for trading if:

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Financial liabilities and equity (continued)

Financial liabilities at FVTPL (continued)

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

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

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

Other financial liabilities at amortised cost

Other financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Financial liabilities including bank and other borrowings and creditors and accruals are subsequently measured at amortised cost, using the effective interest method.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Financial guarantee contract liabilities are measured initially at their fair values. It is subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with HKFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Financial liabilities and equity (continued)

Derecognition/modification of financial liabilities

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

When the contractual terms of a financial liability are modified, the Group assess whether the revised terms result in a substantial modification from original terms taking into account all relevant facts and circumstances including qualitative factors. If qualitative assessment is not conclusive, the Group considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received, and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

2.16 Creditors

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Creditors are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer), is held primarily for trading, or the Group has no unconditional right to defer the settlement for at least 12 months after the end of the reporting period. If not, they are presented as non-current liabilities.

Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated statement of profit or loss in the period in which they are incurred.

2.18 Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the consolidated statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(i) Current income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of reporting period in the countries where the Company and its subsidiaries, associates and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Current and deferred income tax (continued)

(ii) Deferred tax

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

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

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

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

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Current and deferred income tax (continued)

(ii) Deferred tax (continued)

Deferred tax is provided on temporary differences arising on interests in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

(iii) Offsetting

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes assets and liabilities relate to income taxes levied to the same taxable entity by the same taxation authority.

2.19 Employee benefits

(i) Pension obligations

Group companies operate various pension schemes contribution. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined contribution and defined benefit plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group contributes to defined contribution provident funds, including the scheme set up under the Hong Kong Mandatory Provident Fund Schemes Ordinance ("MPF Scheme"), which are available to all employees in Hong Kong. In accordance with the terms of the provident funds, contributions to the schemes by the Group and the employees are calculated as a percentage of the employees' basic salaries. For the MPF Scheme, both the employees and the employer are required to contribute 5% of the employees' monthly salaries up to a specified maximum amount ("mandatory contribution") and employees can choose to make additional contributions. The employees are entitled to 100% of the employer's mandatory contributions upon their retirement age of 65 years old, death or total incapacity. For the schemes other than the MPF Scheme, the unvested benefits of employees forfeited upon termination of employment can be utilised by the Group to reduce future levels of contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, is reflected immediately in the consolidated statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Employee benefits (continued)

(i) Pension obligations (continued)

Past service cost is recognised in profit or loss in the period of a plan amendment or curtailment and a gain or loss on settlement is recognised when settlement occurs. When determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability or asset using the current fair value of plan assets and current actuarial assumptions, reflecting the benefits offered under the plan and the plan assets before and after the plan amendment, curtailment or settlement, without considering the effect of asset ceiling (i.e. the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan).

Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. However, if the Group remeasures the net defined benefit liability or asset before plan amendment, curtailment or settlement, the Group determines net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the benefits offered under the plan and the plan assets after the plan amendment, curtailment or settlement and the discount rate used to remeasure such net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period resulting from contributions or benefit payments.

Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

The Group presents the first two components of defined benefit costs in profit or loss. Curtailment gains and losses are accounted for as past service costs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Employee benefits (continued)

(ii) Other post-employment obligations

The Group also participates in the employee retirement benefits plan of the respective governments in various jurisdiction where the Group operates. The Group is required to make monthly contributions calculated as a percentage of the monthly payroll costs and the respective municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group.

The Group's contributions to the schemes are expensed as incurred.

(iii) Termination obligations

A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring costs. Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

(iv) Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset. A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

2.20 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise provision for assets relocation and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering all similar obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the best estimate of the consideration required to settle the present obligation at the end of the reporting period using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Contingent liabilities

A contingent liability is a present obligation arising from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Where the Group is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as contingent liability of the Group and it is not recognised in the consolidated financial statements.

The Group assesses continually to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the consolidated financial statements in the reporting period in which the change in probability occurs, except in the extremely rare circumstances where no reliable estimate can be made.

2.22 Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Revenue from contracts with customers (continued)

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

Output method

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

As a practical expedient, if the Group has a right to consideration in an amount that corresponds directly with the value of the Group's performance completed to date, the Group recognises revenue in the amount to which the Group has the right to invoice.

Variable consideration

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

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

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

2.23 Leases

(i) Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Leases (continued)

(ii) The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the consolidated financial statements would not differ materially from individual leases within the portfolio.

Short-term leases

The Group applies the short-term lease recognition exemption to leases of plant, machinery, furniture and equipment, that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Except for those that are classified as investment properties and measured under fair value model, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful lives and the lease terms.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Leases (continued)

(ii) The Group as a lessee (continued)

Right-of-use assets (continued)

When the Group obtains ownership of the underlying leased assets at the end of the lease term, upon exercising purchase option, the cost of the relevant right-of-use assets and the related accumulated depreciation and impairment loss are transferred to property, plant and equipment.

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the consolidated statement of financial position. Right-of-use assets that meet the definition of investment property are presented within "investment properties".

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Leases (continued)

(ii) The Group as a lessee (continued)

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

(iii) The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

Rental income which are derived from the Group's ordinary course of business are presented as revenue.

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies HKFRS 15 to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Leases (continued)

(iii) The Group as a lessor (continued)

Refundable rental deposits

Refundable rental deposits received are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Lease modification

Changes in considerations of lease contracts that were not part of the original terms and conditions are accounted for as lease modifications, including lease incentives provided through forgiveness or reduction of rentals. The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

2.24 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are authorised by the Company's shareholders.

Dividends proposed before the consolidated financial statements were authorised for issue but not yet authorised by the Company's shareholders during the period is presented separately as proposed dividend under equity.

2.25 Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Government grants relating to compensation of expenses are deducted from the related expenses, other government grants are presented under "other income and other gains, net".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 Non-current assets held for sale

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

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in the relevant subsidiary after the sale. When a sale plan involves disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale from the time when the investment (or a portion of the investment) is classified as held for sale.

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

2.27 Share-based payments

Equity-settled share-based payments transactions

Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based payments reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve.

When share options are exercised, the amount previously recognised in share-based payments reserve will be transferred to share capital. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based payments reserve will be transferred to retained profits.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

3.1 Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Control over investees accounted for as subsidiaries

Certain entities are considered to be subsidiaries of the Company despite the interests therein are not more than 50% of the issued share capital/registered capital of the relevant entities. Based on the contractual power pursuant to the relevant shareholders' agreements between the Group and the other shareholders, the Group has voting rights in the respective investees sufficient to give it the practical ability to direct the relevant activities of each of these investees unilaterally, and hence has control over these investees. Accordingly, those entities are accounted for as subsidiaries of the Company. Further details are set out in notes 39 and 42.

3.2 Key sources of estimation uncertainty

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimated impairment of goodwill

The Group tests, at least annually, whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2.7. The recoverable amounts of CGUs (or group of CGUs) have been determined based on value in use calculations, where the key input parameters include future growth rates and discount rates which are determined based on the valuation performed by independent professional valuer. These calculations require the use of estimates. Where the actual future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, an impairment loss may arise. Details of the impairment loss calculation are set out in note 15(b).

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

3.2 Key sources of estimation uncertainty (continued)

Deferred tax asset

As at 31 December 2021, a deferred tax asset of HK$95 million (2020: HK$145 million) in relation to unused tax losses has been recognised in the consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses of HK$2,286 million (2020: HK$2,076 million) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future, which is a key source of estimation uncertainty. In cases where the actual future taxable profits generated are less or more than expected, or change in facts and circumstances which result in revision of future taxable profits estimation, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place.

Useful lives of property, plant and equipment

The management of the Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and expected actions by competitors or potential competitors in response to changes in market demands. The management will increase the depreciation charge where useful lives are less than previously estimated lives, or will write down or write off technically obsolete or non-strategic assets that have been abandoned or sold.

4. REVENUE

The principal activities of the Group comprise ports operation, bonded logistics operation and property investment. The following is an analysis of the Group's revenue from its major services offered during the year.

	2021 HK$'million	2020 HK$'million
Terminal handling charge, representing loading of cargos and containers on and off vessels at the Group's port terminals, stevedoring and the auxiliary services	11,069	8,304
Warehousing services income, representing temporary storage of cargos and containers, customs clearance services and the auxiliary services	560	469
Revenue from contracts with customers	11,629	8,773
Gross rental income from investment properties (Note)	221	172
	11,850	8,945

Note: Direct operating expenses incurred for gross rental income from investment properties amounted to HK$55 million (2020: HK$54 million) during the year ended 31 December 2021.

Performance obligations for contracts with customers

Terminal handling services

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

Warehousing services

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

5. SEGMENT INFORMATION

The key management team of the Company is regarded as the CODM, who reviews the Group's internal reports in order to assess performance, allocate resources and determine the operating segments. The CODM manages the Group's operations by divisions from both business and geographic perspectives.

Individual operating segments for which discrete financial information is available are identified by the CODM and are operated by their respective management teams. These individual operating segments are aggregated in arriving at the reporting segments of the Group.

From business and financial perspectives, management assesses the performance of the Group's business operations including ports operation, bonded logistics operation and other operations.

(i) Ports operation includes container terminal operation, bulk and general cargo terminal operation operated by the Group and its associates and joint ventures.

The Group's ports operation are presented as follows:

(a) Mainland China, Hong Kong and Taiwan

- Pearl River Delta
- Yangtze River Delta
- Bohai Rim
- Others

(b) Other locations outside of Mainland China, Hong Kong and Taiwan

(ii) Bonded logistics operation includes logistic park operation, ports transportation and airport cargo handling operated by the Group and its associates and joint ventures.

(iii) Other operations mainly include property development and investment and logistics operation operated by the Group's associates, property investment operated by the Group and corporate function.

5. SEGMENT INFORMATION (CONTINUED)

Each of the segments under ports operation includes the operations of a number of ports in various locations within the geographic locations. For the purpose of segment reporting, these individual operating segments have been aggregated into reporting segments on geographic basis as these individual operating segments have similar economic characteristics, and they present a more systematic and structured segment information. To give details of each of the operating segments, in the opinion of the directors of the Company, would result in particulars of excessive length.

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

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

During the current year, one (2020: one) customer has accounted for over 10% of the Group's total revenue amounting to HK$1,745 million (2020: HK$1,471 million).

The Group's revenue by geographical areas of operations and information about its non-current assets other than other financial assets set out in note 22 and deferred tax assets presented based on the geographical areas in which the assets are located are as follows:

	Revenue		Non-current assets	
	2021 HK$'million	2020 HK$'million	**2021 HK$'million**	2020 HK$'million
Mainland China, Hong Kong and Taiwan	**7,352**	5,009	**108,106**	98,321
Brazil	**1,521**	1,388	**8,117**	8,818
Other locations	**2,977**	2,548	**35,841**	37,791
	11,850	8,945	**152,064**	144,930

5. SEGMENT INFORMATION (CONTINUED)

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

	For the year ended 31 December 2021										
	Ports operation						Bonded logistics operation	Other operations			Total
	Mainland China, Hong Kong and Taiwan				Other locations	Sub-total		Other investments	Corporate function	Sub-total	
	Pearl River Delta	Yangtze River Delta	Bohai Rim	Others							
	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
Revenue	4,330	1,152	83	1,052	4,452	11,069	560	221	–	221	11,850
Earnings/(losses) before finance costs, net, taxation and share of profits less losses of associates and joint ventures	1,711	410	462	39	2,120	4,742	126	152	(233)	(81)	4,787
Share of profits less losses of											
– Associates	263	4,961	219	191	479	6,113	(16)	1,006	–	1,006	7,103
– Joint ventures	(2)	–	66	11	74	149	1	1	–	1	151
	1,972	5,371	747	241	2,673	11,004	111	1,159	(233)	926	12,041
Finance costs, net	(12)	2	–	(31)	(166)	(207)	(17)	(36)	(1,155)	(1,191)	(1,415)
Taxation	(405)	(272)	(61)	(46)	(370)	(1,154)	(14)	(73)	–	(73)	(1,241)
Profit/(loss) for the year	1,555	5,101	686	164	2,137	9,643	80	1,050	(1,388)	(338)	9,385
Holders of perpetual capital securities	–	–	–	–	–	–	–	–	(227)	(227)	(227)
Non-controlling interests	(260)	(173)	–	(17)	(547)	(997)	(17)	–	–	–	(1,014)
Profit/(loss) attributable to equity holders of the Company	1,295	4,928	686	147	1,590	8,646	63	1,050	(1,615)	(565)	8,144
Other information:											
Depreciation and amortisation	653	237	1	328	924	2,143	88	2	53	55	2,286
Capital expenditure	1,129	352	–	166	224	1,871	13	29	6	35	1,919

5. SEGMENT INFORMATION (CONTINUED)

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

	For the year ended 31 December 2020										
	Ports operation						Bonded logistics operation	Other operations			Total
	Mainland China, Hong Kong and Taiwan				Other locations	Sub-total		Other investments	Corporate function	Sub-total	
	Pearl River Delta	Yangtze River Delta	Bohai Rim	Others							
	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
Revenue	3,432	83	70	812	3,907	8,304	469	172	—	172	8,945
Earnings/(losses) before finance costs, net, taxation and share of profits less losses of associates and joint ventures	1,184	1,217	133	1,097	345	3,976	135	193	(79)	114	4,225
Share of profits less losses of											
– Associates	136	2,510	216	74	330	3,266	21	830	—	830	4,117
– Joint ventures	1	125	145	(1)	66	336	1	3	—	3	340
	1,321	3,852	494	1,170	741	7,578	157	1,026	(79)	947	8,682
Finance costs, net	(2)	2	3	(32)	(123)	(152)	(21)	(38)	(1,313)	(1,351)	(1,524)
Taxation	(273)	(192)	(69)	(529)	59	(1,004)	(17)	(56)	—	(56)	(1,077)
Profit/(loss) for the year	1,046	3,662	428	609	677	6,422	119	932	(1,392)	(460)	6,081
Holders of perpetual capital securities	—	—	—	—	—	—	—	—	(52)	(52)	(52)
Non-controlling interests	(176)	(15)	—	(516)	(145)	(852)	(25)	(1)	—	(1)	(878)
Profit/(loss) attributable to equity holders of the Company	870	3,647	428	93	532	5,570	94	931	(1,444)	(513)	5,151
Other information:											
Depreciation and amortisation	612	19	2	317	947	1,897	110	2	24	26	2,033
Capital expenditure	1,185	88	—	377	362	2,012	24	15	10	25	2,061

5. SEGMENT INFORMATION (CONTINUED)

For the purposes of monitoring segment performances and allocating resources between segments, all assets other than taxation recoverable and deferred tax assets are allocated to reporting segments, and all liabilities other than taxation payable and deferred tax liabilities are allocated to reporting segments.

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

	As at 31 December 2021										
	Ports operation						Bonded logistics operation	Other operations			Total
	Mainland China, Hong Kong and Taiwan				Other locations	Sub-total		Other investments	Corporate function	Sub-total	
	Pearl River Delta	Yangtze River Delta	Bohai Rim	Others							
	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
ASSETS											
Segment assets (excluding interests in associates and joint ventures)	20,092	6,938	1,040	12,077	35,599	75,746	3,393	8,928	5,726	14,654	93,793
Interests in associates	2,960	36,076	5,186	3,353	9,380	56,955	817	17,437	–	17,437	75,209
Interests in joint ventures	10	–	3,047	378	5,409	8,844	7	23	–	23	8,874
Non-current assets held for sale	–	–	–	417	–	417	–	–	–	–	417
Total segment assets	23,062	43,014	9,273	16,225	50,388	141,962	4,217	26,388	5,726	32,114	178,293
Taxation recoverable											3
Deferred tax assets											394
Total assets											178,690
LIABILITIES											
Segment liabilities	3,945	214	18	1,888	8,676	14,741	648	1,006	30,352	31,358	46,747
Taxation payable											2,294
Deferred tax liabilities											4,851
Total liabilities											53,892

5. SEGMENT INFORMATION (CONTINUED)

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

	As at 31 December 2020										
	Ports operation						Bonded logistics operation	Other operations			Total
	Mainland China, Hong Kong and Taiwan				Other locations	Sub-total		Other investments	Corporate function	Sub-total	
	Pearl River Delta	Yangtze River Delta	Bohai Rim	Others							
	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
ASSETS											
Segment assets (excluding interests in associates and joint ventures)	18,158	6,985	1,153	12,114	36,863	75,273	3,061	8,889	5,491	14,380	92,714
Interests in associates	2,581	30,597	4,437	3,108	10,244	50,967	869	15,590	—	15,590	67,426
Interests in joint ventures	6	—	3,020	360	5,677	9,063	6	22	—	22	9,091
Non-current assets held for sale	—	—	—	405	—	405	—	—	—	—	405
Total segment assets	20,745	37,582	8,610	15,987	52,784	135,708	3,936	24,501	5,491	29,992	169,636
Taxation recoverable											8
Deferred tax assets											420
Total assets											170,064
LIABILITIES											
Segment liabilities	3,040	321	38	1,934	10,525	15,858	692	1,445	31,540	32,985	49,535
Taxation payable											2,412
Deferred tax liabilities											4,482
Total liabilities											56,429

6. PROFIT FOR THE YEAR

	2021 HK$'million	2020 HK$'million
Profit for the year has been arrived at after charging:		
Staff costs (including Directors' emoluments) (note 8)	2,218	1,800
Depreciation of property, plant and equipment	1,511	1,296
Depreciation of right-of-use assets	500	478
Amortisation of intangible assets	275	259
Auditor's remuneration (including fees for non-audit services)	10	11

7. OTHER INCOME AND OTHER GAINS, NET

	2021 HK$'million	2020 HK$'million
Gain on modification of contract terms for a concession arrangement (note 34(a))	944	—
Net gain on deemed disposal of partial interest in associates (note 20)	454	—
Gain/(loss) on disposal of property, plant and equipment	10	(120)
Gain on resumption of land parcels at Shantou (Note)	—	1,722
Gain on deemed disposal of a subsidiary (note 20)	17	—
Net changes in fair value of financial liabilities at FVTPL	(575)	(765)
Net changes in fair value of financial assets at FVTPL	(30)	256
Net changes in fair value of investment properties (note 18)	21	149
Net allowance for credit losses of trade debtors and other debtors	(291)	(510)
Impairment loss recognised in respect of goodwill (note 15)	—	(621)
Gain on discontinuance of equity accounting for a joint venture (note 39)	—	960
Net exchange gain	8	446
Dividend income from equity investments	88	87
Government grants	268	190
Others	67	58
	981	1,852

Note: The land use rights at Shantou owned by the Group as at 31 December 2019 classified as non-current assets held for sale were resumed by SLRC during the year ended 31 December 2020. The total compensation for the resumption of those related assets were RMB2,381 million (equivalent to approximately HK$2,655 million), resulting in a gain on the resumption of HK$1,722 million, net of resumption costs amounting to HK$158 million.

8. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2021 HK$'million	2020 HK$'million
Wages, salaries and bonus	1,790	1,494
Equity-settled share based payment	(2)	17
Retirement benefit scheme contributions	430	289
	2,218	1,800

9. DIRECTORS' EMOLUMENTS

Directors' emoluments comprise payments to the following directors by the Group in connection with their service to and management of the affairs of the Group. The amount paid to each director was as follows:

Name of Director	Fees HK$'million	Salary HK$'million	Discretionary bonus HK$'million (Note (i))	Employer's contribution to pension scheme HK$'million	2021 Total HK$'million	2020 Total HK$'million
Executive Directors:						
Deng Renjie	—	—	—	—	—	—
Su Jian (Note (ii))	—	—	—	—	—	—
Xiong Xianliang (Note (iii))	—	—	—	—	—	—
Bai Jingtao (Note (iv))	—	1.08	0.57	0.27	1.92	3.35
Wang Xiufeng (Note (iv))	—	0.58	0.15	0.07	0.80	N/A
Ge Lefu (Note (v))	—	1.02	0.30	0.20	1.52	2.99
Wang Zhixian	—	1.46	0.67	0.30	2.43	2.75
Zheng Shaoping (Note (vi))	—	0.91	—	0.20	1.11	2.86
Liu Weiwu (Note (ii))	—	—	—	—	—	N/A
Deng Weidong (Note (iii))	—	—	—	—	—	N/A
Yim Kong (Note (vii))	—	0.25	—	—	0.25	N/A
Independent non-executive Directors:						
Kut Ying Hay	0.28	—	—	—	0.28	0.28
Lee Yip Wah Peter	0.28	—	—	—	0.28	0.28
Li Ka Fai David	0.28	—	—	—	0.28	0.28
Bong Shu Ying Francis	0.28	—	—	—	0.28	0.28
Total for the year ended 31 December 2021	1.12	5.30	1.69	1.04	9.15	
Total for the year ended 31 December 2020	1.12	6.20	4.22	1.53	13.07	

9. DIRECTORS' EMOLUMENTS (CONTINUED)

The executive directors' emoluments shown above were paid for their services in connection with the management of the affairs of the Company and the Group.

The independent non-executive directors' emoluments shown above were paid for their services as directors of the Company.

Notes:

(i) Bonus is recommended by the Remuneration Committee and is approved by the Board of Directors, having regard to the Group's operating results, individual performance and comparable market statistics.

(ii) Mr. Su Jian resigned as an executive director of the Company and Mr. Liu Weiwu was appointed as an executive director of the Company on 22 March 2021.

(iii) Mr. Xiong Xianliang resigned as executive director of the Company and Mr. Deng Weidong was appointed as executive director of the Company on 28 October 2021.

(iv) Mr. Bai Jingtao resigned as the Managing Director of the Company and Mr. Wang Xiufeng was appointed as the Managing Director of the Company on 26 August 2021. Mr. Wang Xiufeng has been redesignated from the Managing Director to the Vice Chairman of the Board of Directors of the Company and the Chief Executive Officer of the Company on 3 November 2021.

(v) Mr. Ge Lefu resigned as an executive director of the Company on 26 August 2021.

(vi) Mr. Zheng Shaoping resigned as an executive director of the Company on 10 August 2021.

(vii) Mr. Yim Kong was appointed as the Managing Director of the Company on 3 November 2021.

(viii) There was no arrangement under which a director agreed to waive any remuneration during the year. No remuneration or director's fee from the Company were paid to the executive directors who had not entered into employment contract with the Company.

10. EMPLOYEES' EMOLUMENTS

(a) Emoluments of senior management

Of the thirteen (2020: eight) senior management of the Company for the year ended 31 December 2021, six (2020: four) of them are directors of the Company and their remuneration has been disclosed in note 9. The total emoluments of the remaining seven (2020: four) senior management is as follows:

	2021 HK$'million	2020 HK$'million
Salaries, other allowances and benefit-in-kinds	8	7
Performance related incentive payments	3	5
	11	12

The emoluments fell within the following bands:

	Number of senior management	
	2021	2020
Below HK$1,500,000	3	—
HK$1,500,001 - HK$2,000,000	2	—
HK$2,000,001 - HK$2,500,000	2	1
HK$2,500,001 - HK$3,000,000	—	2
HK$3,000,000 - HK$3,500,000	—	1
	7	4

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, two (2020: three) are directors and three (2020: two) are senior management of the Company whose emoluments are included in notes 9 and 10(a), respectively.

During the years ended 31 December 2021 and 2020, no emoluments were paid by the Group to any of the directors of the Company or the chief executive of the Group or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company or the chief executive of the Group waived any emoluments during the years ended 31 December 2021 and 2020.

11. FINANCE INCOME AND COSTS

	2021 HK$'million	2020 HK$'million
Finance income from:		
Interest income from bank and other deposits	123	80
Interest income from advance to a joint venture	77	69
Interest income from advances to associates	200	149
	400	298
Interest expense on:		
Bank loans	(312)	(474)
Notes payable	(1,219)	(1,215)
Loans from:		
– a non-controlling equity holder of a subsidiary	(23)	(21)
– fellow subsidiaries	(16)	(23)
– immediate holding company	(47)	(22)
Lease liabilities	(50)	(54)
Others	(179)	(54)
Total borrowing costs incurred	(1,846)	(1,863)
Less: amount capitalised on qualifying assets (Note)	31	41
Finance costs	(1,815)	(1,822)
Finance costs, net	(1,415)	(1,524)

Note: Apart from the interest expenses incurred on borrowings specifically for the purposes of obtaining qualifying assets, those incurred from the general borrowing pool used for the purpose of obtaining qualifying assets are also capitalised in the consolidated statement of financial position. Capitalisation rate of 3.87% per annum (2020: 4.21% per annum) was applied, representing the weighted average rate of the costs of borrowings used to finance the qualifying assets.

12. TAXATION

Hong Kong Profits Tax has been provided for at the rate of 16.5% (2020: 16.5%) on the estimated assessable profit for the year.

The Group's operations in Mainland China are subject to corporate income tax law of the PRC ("PRC corporate income tax"). The standard PRC corporate income tax rate is 25%. Certain of the Group's subsidiaries enjoy the preferential tax rate of 15% upon the fulfilment of the criteria of the PRC tax laws. Further, 10% withholding income tax is generally imposed on dividends relating to any profits earned commencing from 2008 to foreign investors, while for some PRC entities held by companies incorporated in certain places, including Hong Kong and Singapore, preferential tax rate of 5% will be applied according to the PRC tax regulations if such companies are the beneficial owner of over 25% of these PRC entities.

Taxation outside of Hong Kong and Mainland China has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates. Certain of the Group's overseas subsidiaries are exempted from the corporate income tax in the relevant countries.

12. TAXATION (CONTINUED)

The amount of taxation charged to the consolidated statement of profit or loss represents:

	2021 HK$'million	2020 HK$'million
Current taxation		
Hong Kong Profits Tax	**1**	4
PRC corporate income tax (Note)	**479**	841
Overseas profits tax	**275**	—
Withholding income tax	**176**	146
Deferred taxation		
Origination and reversal of temporary differences	**310**	86
	1,241	1,077

Note: Included in the amount for the year ended 31 December 2020 was the PRC corporate income tax of HK$431 million levied on the Group for the gain on resumption of land parcels at Shantou. Further details are set out in note 7.

The tax on the Group's profit before taxation differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the group entities as follows:

	2021 HK$'million	2020 HK$'million
Profit before taxation (excluding share of profits less losses of associates and joint ventures)	**3,372**	2,701
Expected tax calculated at the weighted average applicable tax rate	**1,034**	700
Income not subject to tax	**(588)**	(560)
Expenses not deductible for tax purposes	**293**	512
Tax losses and other temporary differences not recognised	**65**	70
Utilisation of previously unrecognised tax losses	**(17)**	(11)
Withholding tax on earnings of subsidiaries, associates and joint ventures	**454**	366
Tax charge	**1,241**	1,077

The weighted average applicable tax rate was 30.7% (2020: 25.9%).

13. DIVIDENDS

	2021 HK$'million	2020 HK$'million
Interim, paid, of 22 HK cents (2020: 18 HK cents) per ordinary share	823	649
Final, proposed, of 72 HK cents (2020: 51 HK cents) per ordinary share	2,726	1,867
	3,549	2,516

Details of scrip dividends are set out in note 28.

At a meeting held on 30 March 2022, the Board of Directors proposed a final dividend of 72 HK cents (2020: 51 HK cents) per ordinary share, which will be satisfied by allotment of new shares of the Company, credited as fully paid, by way of scrip dividend, with an alternative to shareholders to elect to receive such final dividend (or part thereof) in cash in lieu of such allotment. This proposed dividend is not reflected as a dividend payable in the consolidated financial statements.

The amount of proposed final dividend for 2021 was based on 3,785,619,729 (2020: 3,661,088,416) shares in issue as at 30 March 2022.

14. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the equity holders of the Company is based on the following data:

	2021	2020
Basic		
Profit attributable to equity holders of the Company (HK$'million)	8,144	5,151
Weighted average number of ordinary shares in issue	3,703,860,052	3,522,492,505

No diluted earnings per share for both 2021 and 2020 were presented as there were no potential dilutive ordinary shares in issue for both 2021 and 2020.

15. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Intangible assets		
		Port operating rights	Others	Total
	HK$'million (Note (b))	HK$'million (Note (c))	HK$'million (Note (d))	HK$'million
Year ended 31 December 2021				
As at 1 January 2021	5,759	8,974	395	9,369
Exchange adjustments	(118)	(498)	(18)	(516)
Addition	—	29	—	29
Amortisation (Note (a))	—	(275)	—	(275)
As at 31 December 2021	5,641	8,230	377	8,607
As at 31 December 2021				
Cost	6,317	10,091	384	10,475
Accumulated amortisation and impairment	(676)	(1,861)	(7)	(1,868)
Net book value	5,641	8,230	377	8,607
Year ended 31 December 2020				
As at 1 January 2020	6,931	9,759	485	10,244
Exchange adjustments	(769)	(642)	(90)	(732)
Addition	—	116	—	116
Obtaining control of a non-wholly owned subsidiary (note 39)	218	—	—	—
Amortisation (Note (a))	—	(259)	—	(259)
Impairment loss	(621)	—	—	—
As at 31 December 2020	5,759	8,974	395	9,369
As at 31 December 2020				
Cost	6,380	10,689	402	11,091
Accumulated amortisation and impairment	(621)	(1,715)	(7)	(1,722)
Net book value	5,759	8,974	395	9,369

15. GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

Notes:

(a) Amortisation expenses charged for the year are included in cost of sales in the consolidated statement of profit or loss.

(b) Goodwill is allocated to 8 groups of CGUs identified according to location of operation and business segment. The goodwill analysed by operating segment is as follows:

	2021 HK$'million	2020 HK$'million
Ports operation		
– Mainland China, Hong Kong and Taiwan		
– Pearl River Delta (comprising 5 groups of CGUs)	2,547	2,479
– Others (comprising 2 groups of CGUs)	241	235
	2,788	2,714
– Brazil	2,853	3,045
	5,641	5,759

Included in the ports operation in Pearl River Delta and Brazil as at 31 December 2021 are the goodwill attributable to Mega Shekou Container Terminals Limited and TCP Participações S.A. ("TCP") amounting to HK$2,274 million (2020: HK$2,207 million) and HK$2,853 million (2020: HK$3,045 million), respectively.

In addition to goodwill and intangible assets above, property, plant and equipment and right-of-use assets (including allocation of corporate assets) that generate cash flows together with the related goodwill and intangible assets are also included in the respective CGU for the purpose of impairment assessment.

The recoverable amount of a CGU is determined based on the higher of fair value less costs of disposal and value in use calculations. The value in use calculations use pre-tax cash flow projections based on financial budgets approved by management covering periods ranging from 5 years to 10 years (2020: 5 years to 10 years) and 27 years (2020: 28 years) for ports operation in Mainland China, Hong Kong and Taiwan and in Brazil, respectively, and discounted by rates specific to the relevant CGUs taking into consideration of the operating period of concession right and development plans. Management determines the financial budgets based on past performance and its expectations for market development, including the expected economic growth in developed and emerging economies in the short-term and medium-term, prospective GDP growth rates of respective regions, future developments of the ports, among others. The cash flow projections, growth rates and discount rate have been reassessed as at 31 December 2021 taking into consideration higher degree of estimation uncertainties in the current year due to how the COVID-19 pandemic may progress and evolve and volatility in financial markets, including potential disruptions of the Group's operation. Cash flows beyond the budgeted period are extrapolated using the estimated growth rate stated below.

The Group engages an independent qualified valuer, Greater China Appraisal Limited, to determine the future growth rates and discount rates used in the value in use calculations prepared by the management of the Group.

15. GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

Notes: (continued)

(b) (continued)

The key assumptions used for value in use calculations are as follows:

	Growth rate (Note (i))		Discount rate (Note (ii))	
	2021	2020	**2021**	2020
Ports operation				
– Mainland China, Hong Kong and Taiwan				
– Pearl River Delta	**2.24% - 2.36%**	2.70% - 3.00%	**7.43% - 12.86%**	6.50% - 12.74%
– Others	**2.24%**	2.70%	**11.45% - 11.53%**	11.19% - 11.97%
– Brazil	**3.00%**	3.00%	**17.45%**	16.78%

Notes:

(i) Weighted average growth rates are used to extrapolate cash flows beyond the budgeted period which do not exceed the historical trend of the respective CGUs nor the industry growth rate.

(ii) Pre-tax discount rate has been applied to the cash flow projections. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

In prior year, an impairment loss of goodwill allocated to ports operation in Mainland China amounted to HK$621 million has been recognised.

In addition to impairment testing using the base case assumption, separate sensitivity analyses were performed. The sensitivity analysis using a higher/lower discount rate of 0.3% (2020: 0.3%) indicated that the recoverable amount of ports operation in Mainland China, Hong Kong and Taiwan, and Brazil would have been decreased/increased by approximately HK$662 million (2020: HK$706 million) and HK$290 million (2020: HK$309 million) respectively.

The sensitivity analysis using a higher/lower growth rate of 0.1% (2020: 0.1%) indicated that the recoverable amount of ports operation in Mainland China, Hong Kong and Taiwan, and Brazil would have been increased/decreased by approximately HK$161 million (2020: HK$288 million) and HK$33 million (2020: HK$4 million) respectively.

(c) Included in port operating rights as at 31 December 2021 is an amount of HK$4,097 million (2020: HK$4,517 million) related to the concession for operation of a terminal in the Port of Lomé in Togo for a concession period of 35 years commencing from 2011 granted by the government of Togolese Republic. The carrying amount of the concession represents the aggregate of the fair value as at the date of the business combination under which the Group acquired the concession and the fair value of the construction services carried out to-date less their accumulated amortisation. Amortisation is provided for over the period in which the Group operates the relevant terminals on a straight-line basis.

Included in port operating rights as at 31 December 2021 is also an amount of HK$3,128 million (2020: HK$3,423 million) related to the concession for operation of a terminal in Brazil for an concession period of 50 years commencing from 1998 granted by the Brazilian Federal Government. The carrying amount of the concession represents the fair value as at the date of the business combination under which the Group acquired the concession less its accumulated amortisation. Amortisation is provided for over the period in which the Group operates the relevant terminals on an economic usage basis.

The remaining amount of port operating rights amounting to HK$1,005 million (2020: HK$1,034 million) relates to the concession for operation of a terminal built in Colombo of Sri Lanka for a concession period of 35 years commencing from 2011 granted by the government of the Republic of Sri Lanka. The carrying amount of the concession represents the fair value as at the date of the acquisition of the relevant business by the Group less its accumulated amortisation, which is calculated using the economic usage basis.

(d) Balance mainly represents trademark used in Brazil port operation having an indefinite useful live.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'million	Harbour works, buildings and dockyard HK$'million	Plant, machinery, furniture and equipment HK$'million	Others HK$'million (Note (b))	Assets under construction HK$'million (Note (a))	Total HK$'million
Year ended 31 December 2021						
As at 1 January 2021	1,068	15,990	4,925	1,003	3,523	26,509
Exchange adjustments	29	253	16	10	42	350
Additions	2	59	217	39	1,083	1,400
Deemed disposal of a subsidiary	—	—	(8)	(2)	—	(10)
Disposals	—	(9)	(14)	(2)	—	(25)
Transfers	61	1,559	1,303	50	(2,973)	—
Transfers from investment properties	281	—	—	—	—	281
Transfers to investment properties	(13)	—	—	—	—	(13)
Transfers to right-of-use assets	—	—	—	—	(135)	(135)
Depreciation (Note (c))	(56)	(753)	(619)	(83)	—	(1,511)
As at 31 December 2021	1,372	17,099	5,820	1,015	1,540	26,846
As at 31 December 2021						
Cost	1,884	24,475	13,510	1,698	1,540	43,107
Accumulated depreciation and impairment	(512)	(7,376)	(7,690)	(683)	—	(16,261)
Net book value	1,372	17,099	5,820	1,015	1,540	26,846
Year ended 31 December 2020						
As at 1 January 2020	871	12,734	4,398	1,023	4,844	23,870
Exchange adjustments	42	94	93	9	105	343
Additions	1	116	92	22	1,291	1,522
Obtaining control of a non-wholly owned subsidiary	208	2,123	428	4	26	2,789
Disposals	(5)	(220)	(35)	(1)	—	(261)
Transfers	(8)	1,878	397	20	(2,287)	—
Transfers from/(to) right-of-use assets	—	—	116	10	(456)	(330)
Transfers to non-current assets held for sale	—	(128)	—	—	—	(128)
Depreciation (Note (c))	(41)	(607)	(564)	(84)	—	(1,296)
As at 31 December 2020	1,068	15,990	4,925	1,003	3,523	26,509
As at 31 December 2020						
Cost	1,524	22,517	12,018	1,621	3,523	41,203
Accumulated depreciation and impairment	(456)	(6,527)	(7,093)	(618)	—	(14,694)
Net book value	1,068	15,990	4,925	1,003	3,523	26,509

16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes:

(a) Included in assets under construction is capitalised interest of HK$18 million (2020: HK$69 million).

(b) Others comprise vessels and ships, motor vehicles and leasehold improvements with net book values of HK$755 million (2020: HK$749 million), HK$51 million (2020: HK$60 million) and HK$209 million (2020: HK$194 million) respectively as at 31 December 2021.

(c) Depreciation expenses charged for the year are included in the consolidated statement of profit or loss as follows:

	2021 HK$'million	2020 HK$'million
Cost of sales	1,459	1,247
Administrative expenses	52	49
	1,511	1,296

(d) As at 31 December 2021, harbour works, buildings and dockyard and assets under construction with aggregate net book value of HK$356 million (2020: HK$458 million) were pledged as security for the Group's bank borrowings (note 32(a)).

17. RIGHT-OF-USE ASSETS

	Land use rights HK$'million	Leasehold land and buildings HK$'million	Harbour works, buildings and dockyard HK$'million	Plant, machinery, furniture and equipment HK$'million	Others HK$'million	Total HK$'million
As at 31 December 2021						
Carrying amount	10,656	133	6,235	3	623	17,650
As at 31 December 2020						
Carrying amount	9,542	141	6,214	5	651	16,553
For the year ended 31 December 2021						
Depreciation charge	258	11	196	1	34	500
For the year ended 31 December 2020						
Depreciation charge	226	15	183	22	32	478

17. RIGHT-OF-USE ASSETS (CONTINUED)

	2021 HK$'million	2020 HK$'million
Expenses relating to short-term leases	53	54
Total cash outflow for the leases	152	220
Additions to right-of-use assets	1,340	515

Lease terms are negotiated by the Group on an individual basis and contain a wide range of different terms and conditions. The terms are fixed various period, from 12 months to 99 years. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

The Group regularly entered into short-term leases mainly for plant, machinery, furniture and equipment. As at 31 December 2021, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

As at 31 December 2021, right-of-use assets with a net book value of HK$230 million (2020: HK$230 million) were pledged as security for the Group's bank borrowings (note 32(a)).

18. INVESTMENT PROPERTIES

The Group leases out various offices, residential and other commercial properties under operating leases with rentals payable monthly. Lease contracts run for an initial period of 1 month to 15 years.

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities. The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

	2021 HK$'million	2020 HK$'million
As at 1 January	8,918	8,246
Exchange adjustments	271	539
Increase in fair value (note 7)	21	149
Additions	2	—
Transfers from right-of-use assets	9	—
Transfers to property, plant and equipment	(281)	—
Transfers from property, plant and equipment	94	—
Transfers to non-current assets held for sale	—	(16)
As at 31 December	9,034	8,918

18. INVESTMENT PROPERTIES (CONTINUED)

The investment properties were revalued at the end of each reporting period by independent and professional qualified valuers not connected to the Group. In determining the fair value of the relevant properties, the management of the Company determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique or level of fair value hierarchy during the year.

The fair value measurements for all of the Group's investment properties are categorised as level 3 (see note 2.1). The valuation techniques and inputs used of the Group's significant investment properties are set out below.

Description	Valuation techniques	Significant unobservable inputs	Relationship of non-observable inputs to fair value
Commercial and residential complex in Shenzhen, the PRC 2021: HK$3,484 million 2020: HK$3,379 million	Income approach	Monthly market rent, taking into account the growth rate and rent of comparables, at a weighted average of HK$92 (2020: HK$85) per square metre ("sqm") per month.	A significant increase in the monthly market rent would result in a significant increase in the fair value, and vice versa.
		Capitalisation rate, at an average of 6.5% (2020: 6.5%).	A significant increase in the capitalisation rate would result in a significant decrease in the fair value, and vice versa.
Commercial properties in Shenzhen, the PRC 2021: HK$5,009 million 2020: HK$5,029 million	Market comparison approach	Market unit rate, taking into account the transaction dates, floor areas, locations and conditions of the property, which ranged from HK$87,642 to HK$91,013 (2020: HK$85,029 to HK$88,041) per sqm.	A significant increase in the market unit rate used would result in a significant increase in the fair value, and vice versa.

19. INTERESTS IN SUBSIDIARIES

(a) Composition of the Group

Particulars of the Company's principal subsidiaries at 31 December 2021 are set out in note 42.

(b) Exercise of put option issued to non-controlling equity holders of TCP

In February 2020, certain non-controlling equity holders of TCP (together with its subsidiaries, the "TCP Group") (the "Sellers") exercised put option, pursuant to which the Sellers have the right to sell to, and require the Group to acquire all of the Sellers' remaining equity interest of the TCP Group in total of 845,703 shares at a cash consideration.

During the year ended 31 December 2020, the Group made payment amounting to US$107 million (equivalent to approximately HK$835 million) to the Sellers and the Sellers simultaneously completed the transfer of the shares to the Group, free and clear of any liens. The Group's effective interest in TCP increased from 67.45% to 77.45% immediately after the transaction.

(c) Disposal of interests in Gainpro Resources Limited ("Gainpro") without losing control

In June 2020, the Company entered into a share transfer deed, pursuant to which the Company has agreed to disposed of its 23.52941% interest in, and 23.52941% of the shareholder's loan advanced by the Company to, Gainpro (together with its subsidiaries, the "Gainpro Group"), a wholly-owned subsidiary of the Company whose principal asset was its interest in 85% of the issued share capital of Hambantota International Port Group (Private) Limited ("HIPG", together with its subsidiary, the "HIPG Group") to an independent third party, for a total cash consideration of US$268 million (equivalent to approximately HK$2,077 million). The Group's effective interest in HIPG decreased from 85% to 65% after the disposal.

An amount of HK$1,704 million, being the proportionate share of the carrying amount of the net liabilities of the Gainpro Group and the shareholder's loan assigned, had been transferred to non-controlling interests. The difference of HK$373 million between the increase in the non-controlling interests and the consideration received had been credited to relevant reserves.

19. INTERESTS IN SUBSIDIARIES (CONTINUED)

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

The table below shows non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiaries	Proportion of effective ownership interests held by non-controlling interests		Proportion of effective voting rights held by non-controlling interests		Accumulated non-controlling interests	
	2021	2020	**2021**	2020	**2021** HK$'million	2020 HK$'million
Shantou China Merchants Port Group Co., Ltd. ("SPG")	**40.00%**	40.00%	**40.00%**	40.00%	**4,797**	4,677
Gainpro Group	**35.00%**	35.00%	**35.00%**	35.00%	**4,855**	4,874
Individually immaterial subsidiaries with non-controlling interests					**10,643**	9,958
					20,295	19,509

The summarised financial information of SPG and its subsidiaries (the "SPG Group") and the Gainpro Group is prepared in accordance with the significant accounting policies of the Group.

19. INTERESTS IN SUBSIDIARIES (CONTINUED)

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

Summarised financial information of the consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows in respect of the SPG Group and the Gainpro Group is set out below:

	2021	
	SPG Group HK$'million	Gainpro Group HK$'million
Financial information of the consolidated statement of profit or loss and other comprehensive income		
Revenue	460	262
Other income and other gains	113	1
Expenses and taxation	(593)	(355)
Loss and other comprehensive expense for the year	(20)	(92)
Loss for the year, attributable to:		
Equity holders of the Company	(12)	(44)
Non-controlling interests of the Group	(8)	(48)
	(20)	(92)
Total comprehensive expense for the year, attributable to:		
Equity holders of the Company	(12)	(44)
Non-controlling interests of the Group	(8)	(48)
	(20)	(92)
Dividends paid to non-controlling interests of the Group	—	—
Financial information of the consolidated statement of cash flows		
Net cash (outflow)/inflow from operating activities	(140)	107
Net cash outflow from investing activities	(126)	(43)
Net cash outflow from financing activities	—	(63)
Net cash (outflow)/inflow	(266)	1

19. INTERESTS IN SUBSIDIARIES (CONTINUED)

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

	2020	
	SPG Group HK$'million	Gainpro Group HK$'million
Financial information of the consolidated statement of profit or loss and other comprehensive income		
Revenue	400	205
Other income and other gains	2,411	1
Expenses and taxation	(1,103)	(329)
Profit/(loss) and other comprehensive income/(expense) for the year	1,708	(123)
Profit/(loss) for the year, attributable to:		
Equity holders of the Company	1,025	(64)
Non-controlling interests of the Group	683	(59)
	1,708	(123)
Total comprehensive income/(expense) for the year, attributable to:		
Equity holders of the Company	1,025	(64)
Non-controlling interests of the Group	683	(59)
	1,708	(123)
Dividends paid to non-controlling interests of the Group	—	—
Financial information of the consolidated statement of cash flows		
Net cash inflow from operating activities	23	90
Net cash inflow/(outflow) from investing activities	503	(61)
Net cash (outflow)/inflow from financing activities	(627)	16
Net cash (outflow)/inflow	(101)	45

19. INTERESTS IN SUBSIDIARIES (CONTINUED)

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

Summarised financial information of the consolidated statement of financial position of the SPG Group and the Gainpro Group is set out below:

	2021		2020	
	SPG Group HK$'million	**Gainpro Group HK$'million**	SPG Group HK$'million	Gainpro Group HK$'million
Non-current assets	**9,040**	**10,358**	5,693	10,464
Current assets	**4,811**	**103**	8,322	92
Current liabilities	**(990)**	**(101)**	(1,447)	(165)
Non-current liabilities	**(1,019)**	**(1)**	(1,021)	(1)
	11,842	**10,359**	11,547	10,390
Equity attributable to:				
Equity holders of the Company	**7,045**	**5,504**	6,870	5,516
Non-controlling interests of the Group	**4,797**	**4,855**	4,677	4,874
	11,842	**10,359**	11,547	10,390

(e) At no time had there been any significant restriction imposed on the Group on its ability to access or use the assets or settle the liabilities of any entities of the Group.

20. INTERESTS IN ASSOCIATES

	2021 HK$'million	2020 HK$'million
Share of net assets of associates, net of impairment:		
Listed associates	**38,329**	32,155
Unlisted associates	**31,531**	30,002
	69,860	62,157
Goodwill:		
Listed associates	**2,611**	2,548
Unlisted associates	**2,738**	2,721
	5,349	5,269
Total	**75,209**	67,426
Fair value of the listed associates owned by the Group (Note)	**43,556**	35,372

Note: The fair value of the listed associates is determined based on the quoted market bid price multiplied by the quantity of shares held by the Group.

20. INTERESTS IN ASSOCIATES (CONTINUED)

In prior years, the directors of the Company conducted a review of the Group's interest in a listed associate with reference to its economic outlooks and assessed its recoverable amount, with reference to its value in use and fair value less costs of disposal. The recoverable amount was determined to be the then fair value less costs of disposal (where the fair value was valued based on quoted prices in active markets for the identical asset directly and categorised as level 1 of the fair value measurement hierarchy) and was less than the carrying amount of the Group's interest in the said listed associate by HK$739 million. Accordingly, impairment loss of the same account was recognised in profit or loss in prior years. During the year ended 31 December 2021, upon dilution of the Group's equity interest in the listed associate, the proportionated carrying amount of the interest in the listed associate was used in calculating the gain on deemed disposal.

The management of the Group carried out an assessment as at 31 December 2021 and 2020 for whether there is any indication that the impairment loss recognised in prior years for the listed associate may no longer exist or may be decreased. The management of the Group concluded that the indications of impairment previously identified still existed as at 31 December 2021 and 2020, no reversal of impairment loss has been recognised.

Deemed disposal of a subsidiary engaged in providing technology solutions

In December 2020, the Company, CMPG and certain relevant parties entered into equity subscription and capital injection agreement (the "Injection Agreement"), pursuant to which the Company and CMPG agreed to waive any pre-emptive rights they might have in subscribing for any equity interests in China Merchants International Technology Company Limited (formerly known as "China Merchants Holdings (International) Information Technology Company Limited", hereinafter referred to as "CMIT"), a non-wholly owned subsidiary of the Company.

During the year ended 31 December 2021, with reference to the Injection Agreement, Dalian Port Container Development Co., Ltd. ("Dalian Port Container"), Dalian Port Jifa Logistics Co., Ltd. ("Dalian Port Jifa") and Yingkou Port Group Co., Ltd. ("Yingkou Port Group"), each a fellow subsidiary of the Group, have made capital contribution to CMIT by way of equity interests in Dalian Port Net Co., Ltd. (49.63%-owned by Dalian Port Container and 29.40%-owned by Dalian Port Jifa) and Yingkou Gangxin Technology Co., Ltd., a wholly-owned subsidiary of Yingkou Port Group. The registered capital of CMIT increased from RMB50 million (equivalent to approximately HK$59 million) to RMB88 million (equivalent to approximately HK$104 million). Accordingly, the Company's equity interest in CMIT was diluted from 76.84% to 43.74%, resulting in a gain on deemed disposal of HK$17 million, and ceased to be a subsidiary of the Company after the capital injection by the new subscribers. Hence, the investment in CMIT is accounted for as an interest in an associate as the directors consider the Group has significant influence over the investee.

Deemed disposal of partial interest in an associate engaged in port operation in Dalian, the PRC

In January 2021, the merger by absorption through share swap (the "Merger") between Liaoning Port Co., Ltd. ("Liaoning Port"), a listed associate of the Group, and a related party and fundraising and connected transactions have been approved by the China Securities Regulatory Commission.

Upon completion of the Merger in February 2021, Liaoning Port's total share capital increased from RMB12,895 million (equivalent to approximately HK$15,322 million) to RMB22,623 million (equivalent to approximately HK$26,881 million). Accordingly, the Group's equity interest in Liaoning Port was diluted from 21.05% to 12%, resulting in a gain on deemed disposal of HK$500 million. The investment in Liaoning Port continues to account for as an interest in an associate as there is no change in the directorship appointed by the Group and the directors consider the Group has significant influence over the investee.

20. INTERESTS IN ASSOCIATES (CONTINUED)

Deemed disposal of partial interest in an associate engaged in port operation in Dalian, the PRC (continued)

In November 2021, the additional shares issued ("Private Placement") have been registered in the Shanghai Branch of China Securities Depository and Clearing Corporation Limited. The additional shares issued are shares with trading moratorium and a lock-up period of 6 months. An additional of 1,363,636,363 shares were issued to the 8 independent third parties. Upon completion of the Private Placement, Liaoning Port's total share capital increased from RMB22,623 million (equivalent to approximately HK$26,881 million) to RMB23,987 million (equivalent to approximately HK$29,167 million). Accordingly, the Group's equity interest in Liaoning Port was diluted from 12% to 11.32%, resulting in a gain on deemed disposal of HK$18 million. The investment in Liaoning Port continues to account for as an interest in an associate as there is no change in directorship appointed by the Group and the directors consider the Group has significant influence over the investee.

Deemed disposal of partial interest in an associate engaged in port operation in Shanghai, the PRC

In July 2021, Shanghai International Port (Group) Co., Ltd. ("SIPG"), a listed associate of the Group, approved a share award scheme to its employees ("SIPG Share Award Scheme"). An additional of 105,005,100 shares have been registered in the Shanghai Branch of China Securities Depository and Clearing Corporation Limited. The additional shares issued are shares with trading moratorium and a lock-up period ranging from 3 years to 5 years. Upon completion of the SIPG Share Award Scheme, SIPG's total share capital increased from RMB23,174 million (equivalent to approximately HK$28,382 million) to RMB23,279 million (equivalent to approximately HK$28,510 million). Accordingly, the Group's equity interest in SIPG was diluted from 26.77% to 26.64%, resulting in a loss on deemed disposal of HK$64 million. The investment in SIPG continues to account for as an interest in an associate as there is no change in directorship appointed by the Group and the directors consider the Group has significant influence over the investee.

Subscription of Mandatory Convertible Bonds issued by and loan to Terminal Link SAS ("Terminal Link")

In November 2019, the Company entered into a memorandum of agreement with an existing shareholder who indirectly holds 51% of Terminal Link, pursuant to which the Company proposed to subscribe for the mandatory convertible bonds ("Mandatory Convertible Bonds") issued by, and to grant a term loan with a 8-year repayment term and 6% interest rate per annum ("Term Loan") to, Terminal Link for a total amount of US$468 million and US$500 million, respectively (equivalent to approximately HK$3,644 million and HK$3,894 million, respectively) to finance the proposed acquisition by Terminal Link of interests in a portfolio of ten terminals owned by the third party and its affiliates ("Proposed Acquisition").

During the year ended 31 December 2020, the initial closing of the Proposed Acquisition with respect to eight of these target terminals was completed. The Group completed the subscription of the corresponding amount of the Mandatory Convertible Bonds and granted the corresponding amount of the Term Loan amounting to US$394 million and US$421 million, respectively (equivalent to approximately HK$3,055 million and HK$3,264 million, respectively). Mandatory Convertible Bonds amounted to HK$3,055 million was accounted for as interests in associates and the Term Loan amounted to HK$3,264 million was accounted for as advance to associates and was included in other financial assets.

20. INTERESTS IN ASSOCIATES (CONTINUED)

Particulars of the Group's principal associates at 31 December 2021 are set out in note 43.

The Group's material associate at the end of the reporting period includes SIPG. All of the Group's associates are accounted for using equity method in the consolidated financial statements.

Summarised financial information in respect of SIPG and its subsidiaries (the "SIPG Group") is set out below. Other associates invested by the Group are not individually material. The summarised financial information below represents the financial information of the SIPG Group prepared in accordance with the significant accounting policies of the Group.

(a) Material associate

	SIPG Group	
	2021 HK$'million	2020 HK$'million
Financial information of the consolidated statement of profit or loss and other comprehensive income		
Revenue	**41,312**	29,364
Profit for the year, attributable to equity holders of the associate	**18,531**	9,375
Other comprehensive income for the year, attributable to equity holders of the associate	**1,804**	597
Total comprehensive income for the year, attributable to equity holders of the associate	**20,335**	9,972
Dividends received from the associate by the Group during the year	**959**	1,023
Financial information of consolidated statement of financial position		
Non-current assets	**151,212**	137,009
Current assets	**61,820**	51,779
Current liabilities	**(35,868)**	(26,628)
Non-current liabilities	**(41,710)**	(47,308)
Net assets of the associate	**135,454**	114,852

20. INTERESTS IN ASSOCIATES (CONTINUED)

(a) Material associate (continued)

	SIPG Group	
	2021 **HK$'million**	2020 HK$'million
Reconciliation to the carrying amounts of interests in the associate:		
Net assets of the associate	**135,454**	114,852
Less: non-controlling interests	**(9,827)**	(10,054)
Net assets attributable to equity holders of the associate	**125,627**	104,798
Proportion of the Group's interests in the associate	**26.64%**	26.77%
Net assets attributable to the Group's interests in the associate	**33,467**	28,054
Goodwill	**2,608**	2,543
Carrying amount of the Group's interests in the associate	**36,075**	30,597
Market value of the listed associate, valued based on the quoted prices in active market for the identical asset directly, and categorised as level 1 of the fair value hierarchy of the Group's interests in the associate	**41,629**	33,681

(b) Aggregate of other associates that are not individually material

	2021 **HK$'million**	2020 HK$'million
The Group's share of:		
Profit for the year	**2,142**	1,607
Other comprehensive income	**393**	112
Total comprehensive income	**2,535**	1,719
Aggregate carrying amount of the Group's interests in these associates	**39,134**	36,829

21. INTERESTS IN JOINT VENTURES

	2021 HK$'million	2020 HK$'million
Share of net assets of joint ventures	**8,874**	9,091

Particulars of the Group's principal joint ventures at 31 December 2021 are set out in note 44.

As at 31 December 2021 and 2020, in the opinion of the directors of the Company, the Group has no individually material joint venture and no individual financial information of individually material joint venture is disclosed. All of the Group's joint ventures are accounted for using equity method in the consolidated financial statements.

Summarised financial information in respect of the aggregate of the Group's joint ventures, each of which is not individually material, is set out below:

	2021 HK$'million	2020 HK$'million
The Group's share of:		
Profit for the year	**151**	340
Other comprehensive (expense)/income	**(12)**	433
Total comprehensive income	**139**	773

22. OTHER FINANCIAL ASSETS

	2021 HK$'million	2020 HK$'million
Financial assets at FVTPL (Note (a))	**5,835**	2,955
Equity instruments at FVTOCI (Note (b))	**32**	31
Advances to associates (Note (c))	**3,376**	3,365
Advance to a joint venture (Note (d))	**992**	988
Compensation receivable from SLRC (note 25(i))	**3,297**	—
	13,532	7,339
Analysed as:		
Non-current	**10,516**	7,258
Current	**3,016**	81
	13,532	7,339

22. OTHER FINANCIAL ASSETS (CONTINUED)

Notes:

(a) Financial assets at FVTPL

	2021 HK$'million	2020 HK$'million
Listed equity investment in Hong Kong	178	198
Listed equity investments in Mainland China	2,763	2,754
Structured deposits	2,891	—
Other unlisted equity investments	3	3
	5,835	2,955

(b) Equity instruments at FVTOCI

	2021 HK$'million	2020 HK$'million
Unlisted equity investments in Mainland China	32	31

(c) Included in the amount of the Term Loan of US$428 million (equivalent to approximately HK$3,334 million) for the year ended 31 December 2021 is interest-bearing at a rate of 6% per annum and repayable in 2028.

Included in the amount for the remaining balance of an advance to another associate of RMB34 million (equivalent to approximately HK$42 million) for the year ended 31 December 2021 is interest-bearing at a rate of 4.75% per annum and repayable in 2023.

(d) The amount is denominated in Australian dollar, unsecured, interest-bearing at a rate of 0.5% plus the weighted average of the interest rates applicable under certain facilities provided to the joint venture per annum and repayable in 2023.

23. OTHER NON-CURRENT ASSETS

	2021 HK$'million	2020 HK$'million
Prepayments and deposits for purchase of other non-current assets	122	127
Right to receive a land use right from Shenzhen Qianhai Shenzhen-Hong Kong Modern Services Commission ("QHSH") (Note)	—	1,089
Others	81	89
	203	1,305

Note: Amount being the land use right for a land parcel in Shenzhen, the PRC, receivable from QHSH as part of the compensation for the resumption of certain land parcels at Qianhai, Shenzhen, the PRC. The said land parcel was received during the year ended 31 December 2021, this amount was reclassified and included in right-of-use assets.

24. INVENTORIES

	2021 HK$'million	2020 HK$'million
Raw materials	149	128
Spare parts and consumables	17	51
	166	179

25. DEBTORS, DEPOSITS AND PREPAYMENTS

	2021 HK$'million	2020 HK$'million
Trade debtors from contracts with customers	1,082	1,076
Less: allowance for credit losses (Note (a))	(59)	(58)
Trade debtors, net (Notes (b), (c), (d) and (e))	1,023	1,018
Amounts due from fellow subsidiaries (Note (f))	31	15
Amount due from immediate holding company (Note (f))	2	2
Amounts due from associates (Note (g))	83	98
Amounts due from joint ventures (Note (f))	1	1
Dividend receivables	250	290
	1,390	1,424
Other debtors, deposits and prepayments (Note (i))	744	4,069
	2,134	5,493

Notes:

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

	2021 HK$'million	2020 HK$'million
As at 1 January	58	85
Allowance for credit losses	4	12
Reversal of allowance	(1)	(38)
Written-off	(2)	(4)
Exchange adjustments	—	3
As at 31 December	59	58

The allowance for credit losses have been included in other income and other gains, net in the consolidated statement of profit or loss.

(b) No bill receivables (2020: HK$1 million) is included in trade debtors as at 31 December 2021 with a maturity period of less than one year.

25. DEBTORS, DEPOSITS AND PREPAYMENTS (CONTINUED)

Notes: (continued)

(c) The Group has a credit policy of allowing an average credit period of 90 days (2020: 90 days) to its trade debtors. The ageing analysis of trade debtors, based on the invoice date, net of allowance for credit losses of trade debtors, is as follows:

	2021 HK$'million	2020 HK$'million
0 - 90 days	904	996
91 - 180 days	61	8
181 - 365 days	39	4
Over 365 days	19	10
	1,023	1,018

(d) As at 31 December 2021, trade debtors of HK$683 million (2020: HK$910 million) are neither past due nor impaired and are fully performing.

(e) As at 31 December 2021, included in the Group's trade debtors balance are debtors with aggregate carrying amount (before any allowance for credit losses) of HK$399 million (2020: HK$163 million) which are past due as at the reporting date. Out of the past due balances, HK$92 million (2020: HK$20 million) has been past due 90 days or more and is not considered as in default as these are related to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered.

(f) The amounts are unsecured, interest-free and expected to be repayable in accordance with the credit term.

(g) The balances are unsecured, interest-free and repayable in accordance with the credit term.

(h) As at 31 December 2021, the amounts due from related parties and dividend receivables, in aggregate, of HK$367 million (2020: HK$406 million) are neither past due nor impaired and are fully performing.

(i) Included in the amount as at 31 December 2020 was an indemnification receivable from the holding companies of a non-controlling shareholder of a subsidiary amounting to HK$239 million and the compensation receivable from SLRC for the resumption of land parcels at Shantou amounting to HK$3,258 million.

During the year ended 31 December 2021, the remaining balance of the indemnification receivable was fully impaired, and a supplement agreement was entered into with SLRC for the settlement of the compensation receivable, which was scheduled to be completed after 12 months from 31 December 2021. As such, the amount of HK$3,297 million as at 31 December 2021 was reclassified as non-current asset and included in other financial assets.

26. CASH AND BANK BALANCES

	2021 HK$'million	2020 HK$'million
Cash at bank and in hand	7,314	7,167
Short-term time and other deposits (Note (a))	2,660	4,050
Cash and cash equivalents	9,974	11,217
Other deposits (Note (b))	6	73
	9,980	11,290

Notes:

(a) The weighted average effective interest rate on the balances as at the end of the reporting period is approximately 0.93% (2020: 0.99%) per annum. These deposits can be readily convertible to cash before maturity.

(b) The weighted average effective interest rate on the balances as at 31 December 2020 was approximately 3.61% per annum. These deposits are not convertible to cash until maturity.

27. NON-CURRENT ASSETS HELD FOR SALE

During the year ended 31 December 2020, the Group commenced the negotiation with a municipal PRC government, pursuant to which the counter-party agreed to resume a piece of land and harbour works, buildings and dockyard (previously included in investment properties, right-of-use assets and property, plant and equipment respectively in the consolidated statement of financial position) in Mainland China. As at 31 December 2021 and 2020, the compensation for resumption are expected to exceed the carrying amount of the relevant assets and, accordingly, no impairment loss has been recognised. The transaction is expected to be completed in 2022.

28. SHARE CAPITAL

	Company			
	Number of shares		Share capital	
	2021	2020	**2021 HK$'million**	2020 HK$'million
Issued and fully paid:				
As at 1 January	**3,661,088,416**	3,448,947,770	**42,521**	40,614
Issue of scrip dividend shares (Note)	**124,531,313**	212,140,646	**1,496**	1,907
As at 31 December	**3,785,619,729**	3,661,088,416	**44,017**	42,521

Note: The Company distributed dividends to its shareholders by way of scrip dividends, with a cash alternative to shareholders. Details of ordinary shares issued by the Company as dividends are as follows:

	Date of issue	Number of shares issued
2020 final dividend	16 July 2021	**82,054,406**
2021 interim dividend	18 November 2021	**42,476,907**
2021 Total		**124,531,313**
2020 Total		212,140,646

29. PERPETUAL CAPITAL SECURITIES

In October 2020, CMHI Finance (BVI) Co., Ltd ("CMFBVI"), a wholly-owned subsidiary of the Company, issued US$600 million 3.5% and US$200 million 3.875% guaranteed perpetual capital securities ("2020 Perpetual Capital Securities"). Any amount payable arising from distribution or redemption were unconditionally and irrevocably guaranteed by the Company. Distribution on 2020 Perpetual Capital Securities are payable semi-annually in arrears on April and October each year ("Distributions Payment Date") and can be deferred at the discretion of CMFBVI and is not subject to any limit as to the number of times distributions. The 2020 Perpetual Capital Securities have no fixed maturity. US$600 million 3.5% guaranteed perpetual capital securities are redeemable at CMFBVI's option on 9 October 2023 or any Distributions Payment Date at their principal amounts, and US$200 million 3.875% guaranteed perpetual capital securities are redeemable at CMFBVI's option on 9 October 2025 or any Distributions Payment Date at their principal amounts. While any distributions are unpaid or deferred, the Company and CMFBVI cannot declare or, pay dividends or make distributions or similar periodic payments in respect of, or repurchase, redeem or otherwise acquire any securities of lower or equal rank, which includes the ordinary shares of the Company and CMFBVI.

The 2020 Perpetual Capital Securities are classified as equity instrument. Any distributions made by CMFBVI to the holders are recognised in equity in the consolidated financial statements of the Company. During the year ended 31 December 2020, a net proceeds amounted to US$799 million (equivalent to approximately HK$6,185 million) was received.

During the year, distributions amounted to HK$223 million, representing 3.6% of the perpetual capital securities issued, was paid to the holders of the perpetual capital securities.

30. SHARE OPTION SCHEME

The existing share option scheme was approved by the shareholders' resolutions of the Company and adopted on 9 December 2011 (the "New Scheme"), under which the Company's directors may, at their discretion, grant to any director or employee of the Company, the intermediate holding company of the Company or any of its subsidiaries or associates at a price of not less than the higher of (i) the closing price of shares as stated in the daily quotation sheet of the HKSE on the date of the offer of grant; and (ii) the average closing price of shares as stated in the daily quotation sheets of the HKSE for the five trading days immediately preceding the date of the offer of grant. The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the old scheme and any other share option schemes adopted must not in aggregate exceed 30% of the share capital of the Company in issue from time to time. The New Scheme is valid and effective for a period of 10 years and expired in December 2021.

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

31. OTHER RESERVES

	Capital reserve HK$'million	Investment revaluation reserve HK$'million	Translation reserve HK$'million	Statutory reserves HK$'million (Note)	Total HK$'million
As at 1 January 2021	436	291	950	3,245	4,922
OTHER COMPREHENSIVE INCOME/(EXPENSE)					
Exchange differences from retranslation of investments in subsidiaries, associates and joint ventures	—	—	2,595	—	2,595
Release of reserves upon deemed disposal of a subsidiary	—	—	(3)	(7)	(10)
Release of reserves upon deemed disposal of partial interest in associates	(4)	(4)	(35)	(19)	(62)
Surplus on revaluation of an owner occupied property upon change of use to investment property	—	61	—	—	61
Share of reserves of associates and a joint venture	—	361	—	—	361
Other comprehensive income/(expense) for the year, net of tax	(4)	418	2,557	(26)	2,945
TRANSACTIONS WITH OWNERS					
Transfer from retained earnings	—	—	—	99	99
Contribution from immediate holding company	20	—	—	—	20
Reversal of contribution from immediate holding company	(22)	—	—	—	(22)
Share of other changes in equity attributable to equity holders of associates	468	—	—	—	468
Total transactions with owners for the year	466	—	—	99	565
As at 31 December 2021	898	709	3,507	3,318	8,432

31. OTHER RESERVES (CONTINUED)

	Capital reserve HK$'million	Investment revaluation reserve HK$'million	Translation reserve HK$'million	Statutory reserves HK$'million (Note)	Total HK$'million
As at 1 January 2020	597	279	(2,836)	2,977	1,017
OTHER COMPREHENSIVE INCOME					
Exchange differences from retranslation of investments in subsidiaries, associates and joint ventures	—	—	3,934	—	3,934
Release of reserves upon obtaining control of a non-wholly owned subsidiary	—	—	(87)	—	(87)
Share of reserves of associates and a joint venture	—	12	—	—	12
Other comprehensive income for the year, net of tax	—	12	3,847	—	3,859
TRANSACTIONS WITH OWNERS					
Transfer from retained earnings	—	—	—	348	348
Disposal of interests in subsidiaries to non-controlling equity holders without losing control therein	296	—	—	—	296
Acquisition of additional interests in subsidiaries	(527)	—	(61)	—	(588)
Obtaining control of a non-wholly owned subsidiary	(4)	—	—	(80)	(84)
Contribution from immediate holding company	17	—	—	—	17
Share of other changes in equity attributable to equity holders of associates	57	—	—	—	57
Total transactions with owners for the year	(161)	—	(61)	268	46
As at 31 December 2020	436	291	950	3,245	4,922

Note: Amount mainly represents statutory reserve of the Group's subsidiaries in the PRC. According to the relevant laws in the PRC, the Group's subsidiaries established in the PRC are required to transfer at least 10% of their net profit after taxation, as determined under the PRC accounting regulations, to a non-distributable reserve fund until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to equity owners. Such reserve fund can be used to offset the previous years' losses, if any, and is non-distributable other than upon liquidation.

32. BANK AND OTHER BORROWINGS

	2021 HK$'million	2020 HK$'million
Bank loans		
Unsecured short-term bank loans		
– variable rate	4,629	5,014
– fixed rate	61	772
Unsecured long-term fixed rate bank loans	851	826
Long-term variable rate bank loans		
– unsecured	3,767	4,864
– secured (Note (a))	2,307	2,941
	11,615	14,417
Loan from a non-controlling equity holder of a subsidiary (Note (b))	504	520
Loans from a fellow subsidiary (Note (c))	461	455
Loan from immediate holding company (Note (d))	1,314	934
Notes payable (Note (e))		
– US$500 million, 5% guaranteed listed notes maturing in 2022	3,896	3,865
– US$900 million, 4.375% guaranteed listed notes maturing in 2023	6,998	6,944
– US$500 million, 4.75% guaranteed listed notes maturing in 2025	3,888	3,863
– US$600 million, 5% guaranteed listed notes maturing in 2028	4,633	4,602
– Brazilian Real 300 million (2020: Brazilian Real 428 million), Brazil's Extended National Consumer Price Index ("IPCA") +7.82% listed notes maturing in 2021 and 2022	411	621
– RMB2,500 million, 4.89% unlisted notes maturing in 2022	3,062	2,971
	22,888	22,866
Total	36,782	39,192
Less: amounts due within one year included under current liabilities	(14,551)	(8,952)
Non-current portion	22,231	30,240

32. BANK AND OTHER BORROWINGS (CONTINUED)

Notes:

(a) As at 31 December 2021 and 2020, the following assets are pledged against the Group's secured bank loans:

	2021 HK$'million	2020 HK$'million
Property, plant and equipment (note 16)	356	458
Right-of-use assets (note 17)	230	230
	586	688

In addition to the above, the entire shareholdings in two subsidiaries, owned by the Group as at 31 December 2021 and 2020, are also pledged to various banks for bank facilities granted to the relevant subsidiaries.

(b) The amount is unsecured, interest-bearing at 4.65% (2020: 4.65%) per annum.

(c) Included in the amount as at 31 December 2021 and 2020 is loans from a fellow subsidiary which is a financial institution approved and regulated by the People's Bank of China and the China Banking Regulatory Commission. These amounts are unsecured, interest-bearing at 1.20% to 4.41% (2020: 1.20% to 4.80%) per annum.

(d) The amount is unsecured, interest-bearing at 5% discount to the People's Bank of China Benchmark Interest Rate per annum.

(e) Listed notes issued by subsidiaries of the Company amounting to HK$19,415 million (2020: HK$19,274 million) are secured by corporate guarantees provided by the Company.

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

	2021	2020
US$500 million, 5% guaranteed listed notes maturing in 2022	5.22%	5.22%
US$900 million, 4.375% guaranteed listed notes maturing in 2023	4.57%	4.57%
US$500 million, 4.75% guaranteed listed notes maturing in 2025	4.83%	4.83%
US$600 million, 5% guaranteed listed notes maturing in 2028	5.18%	5.18%
Brazilian Real 300 million (2020: Brazilian Real 428 million),		
IPCA +7.82% listed notes maturing in 2021 and 2022	14.66%	14.66%
RMB2,500 million, 4.89% unlisted notes maturing in 2022	4.94%	4.94%

The fair values of the listed notes payable and the unlisted notes payable were HK$21,259 million (2020: HK$22,152 million) and HK$3,017 million (2020: HK$2,971 million) respectively. The fair value of unlisted notes payable were determined by discounting the future cash flows at the current market interest rate available to the Group and the fair value of the listed notes payable was determined with reference to quoted market price. Other than the listed and unlisted notes payable, the carrying amounts of the bank and other borrowings approximate their fair values as at 31 December 2021 and 2020.

(f) The Group is required to comply with certain financial covenants and non-financial covenants throughout the continuance of the relevant loans. The Group has complied with the covenants throughout the reporting period.

32. BANK AND OTHER BORROWINGS (CONTINUED)

Notes: (continued)

(g) As at 31 December 2021, the Group has undrawn facilities of bank loan and other debt financing instruments amounting to HK$17,215 million (2020: HK$27,806 million), of which HK$10,663 million (2020: HK$19,174 million) and HK$6,552 million (2020: HK$8,632 million) are committed and uncommitted credit facilities respectively.

(h) The bank and other borrowings as at 31 December 2021 and 2020 are repayable as follows:

	Bank loans		Loan from a non-controlling equity holder of a subsidiary		Loans from a fellow subsidiary		Loan from immediate holding company		Notes payable		Total	
	2021 HK$'million	2020 HK$'million	2021 HK$'million	2020 HK$'million	2021 HK$'million	2020 HK$'million	2021 HK$'million	2020 HK$'million	2021 HK$'million	2020 HK$'million	2021 HK$'million	2020 HK$'million
Within 1 year	5,791	7,688	—	—	77	148	1,314	934	7,369	182	14,551	8,952
Between 1 and 2 years	1,989	1,123	—	—	—	—	—	—	6,998	7,275	8,987	8,398
Between 2 and 5 years	2,897	4,589	—	—	239	152	—	—	3,888	10,807	7,024	15,548
Within 5 years	10,677	13,400	—	—	316	300	1,314	934	18,255	18,264	30,562	32,898
More than 5 years	938	1,017	504	520	145	155	—	—	4,633	4,602	6,220	6,294
	11,615	14,417	504	520	461	455	1,314	934	22,888	22,866	36,782	39,192

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

	2021	2020
Hong Kong dollar	0.66% to 0.81%	0.63% to 0.93%
Renminbi	1.20% to 4.66%	1.20% to 4.98%
Euro	3.72% to 5.78%	3.72% to 5.17%
United States dollar	0.65% to 2.51%	0.69% to 2.59%
Brazilian Real	5.67%	4.00% to 4.85%

33. LEASE LIABILITIES

	2021 HK$'million	2020 HK$'million
Lease liabilities payable:		
Within 1 year	40	76
Between 1 and 2 years	7	3
Between 2 and 5 years	25	16
More than 5 years	854	867
	926	962
Less: Amount due for settlement with 12 months shown under current liabilities	(40)	(76)
Amount due for settlement after 12 months shown under non-current liabilities	886	886

The lease liabilities ranged from 1 to 35 years, depending on the classes of assets rented. The Group does not have a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function.

The Group's weighted average incremental borrowing rate for lease liabilities as at 31 December 2021 is 5.30% (2020: 5.28%).

Lease liabilities of HK$926 million (2020: HK$962 million) are recognised with related right-of-use assets of HK$673 million (2020: HK$729 million) as at 31 December 2021. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor and the relevant leased assets may not be used as security for borrowing purposes.

Details of the lease maturity analysis of the Group's lease liabilities are set out in note 37.1 (iii).

34. OTHER NON-CURRENT LIABILITIES

	2021 HK$'million	2020 HK$'million
Concession liabilities (Note (a))	2,772	3,352
Royalty provision (Note (b))	887	891
Net deferred benefit obligations (Note (c))	599	496
Deferred income	437	437
Others	40	53
	4,735	5,229

34. OTHER NON-CURRENT LIABILITIES (CONTINUED)

Notes:

(a) Amount represents the liabilities arising from the concession arrangements for a port located in Brazil with the local port authority due by the TCP Group (the "TCP Concession Liabilities"). The relevant concession arrangement allows for operations in the relevant port for up to 2048. Pursuant to the said concession arrangements, including the amendments thereto, with the relevant authority, concession payment is payable on a monthly basis and is adjusted from time to time, among other conditions, with reference to an official inflation index in Brazil. The TCP Concession Liabilities are designated as FVTPL at initial recognition and subsequently measured at fair value, with any gains or losses arising on remeasurement (other than those attributable to changes in credit risks of these liabilities) recognised in profit or loss. The current portion of the TCP Concession Liabilities amounting to HK$82 million (2020: HK$80 million) is included in creditors and accruals under current liabilities.

In September 2021, TCP has entered into supplemental agreement to the concession agreement by changing the inflation index from General Market Price Index ("IGP-M") to IPCA.

The modification was assessed to be substantial modification and was accounted for as an extinguishment of the existing TCP Concession Liabilities and the recognition of a new financial liability. The gain on modification of contract terms amounted to HK$944 million has been included in other income and other gains, net.

(b) Amount represents the minimum guaranteed royalty and premium provision (the "Royalty Provision") under a Build-Operate-Transfer Agreement (the "BOT Agreement") with Sri Lanka Ports Authority ("SLPA") due by a non-wholly-owned subsidiary, Colombo International Container Terminals Limited, to SLPA.

The BOT Agreement was entered into in 2011 for the right to construct, operate, manage and develop Colombo South Container Terminal for 35 years.

The current portion of the Royalty Provision amounting to HK$87 million (2020: HK$79 million) is included in creditors and accruals under current liabilities. The initial recognition of the Royalty Provision is determined by discounting the future annual guaranteed cash flows at the then market rate.

(c) Amount represents the net defined benefit obligations for defined benefit plans.

The present value of the defined benefit plan liabilities is calculated by reference to the best estimate of the mortality rate of plan participants both during and after their employment and future salaries of plan participants. An increase in the life expectancy and future salaries of the plan participants will both increase the plan's liability.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligations were carried out as at 31 December 2021 by an independent qualified professional valuer. The present value of the defined benefit obligations, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

Of the expense for the year, HK$27 million (2020: HK$24 million) has been included in administrative expenses.

The remeasurement of the net defined benefit liabilities is included in other comprehensive income.

35. DEFERRED TAXATION

The movement in the net deferred tax liabilities is as follows:

	2021 HK$'million	2020 HK$'million
As at 1 January	4,062	3,408
Exchange adjustments	65	83
Obtaining control of a non-wholly owned subsidiary (note 39)	—	485
Charged to consolidated statement of profit or loss (note 12)	310	86
Charged to other comprehensive income	20	—
As at 31 December	4,457	4,062

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK$2,286 million (2020: HK$2,076 million) to be carried forward against future taxable income. These amount expire in the following years:

	2021 HK$'million	2020 HK$'million
2021	—	158
2022	471	473
2023	646	685
2024	474	468
2025	359	292
2026	336	—
	2,286	2,076

35. DEFERRED TAXATION (CONTINUED)

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax liabilities

	Withholding tax relating to unremitted earnings		Accelerated tax depreciation allowance		Fair value gains and others		Total	
	2021 HK$'million	2020 HK$'million	2021 HK$'million	2020 HK$'million	2021 HK$'million	2020 HK$'million	2021 HK$'million	2020 HK$'million
As at 1 January	(1,836)	(1,516)	(1,909)	(1,578)	(737)	(574)	(4,482)	(3,668)
Exchange adjustments	(56)	(100)	9	48	(19)	(29)	(66)	(81)
Obtaining control of a non-wholly owned subsidiary (note 39)	—	—	—	(485)	—	—	—	(485)
(Charged)/credited to profit or loss	(278)	(220)	37	106	(42)	(134)	(283)	(248)
Charged to other comprehensive income	—	—	—	—	(20)	—	(20)	—
As at 31 December	(2,170)	(1,836)	(1,863)	(1,909)	(818)	(737)	(4,851)	(4,482)

Deferred tax assets

	Provision		Others		Total	
	2021 HK$'million	2020 HK$'million	2021 HK$'million	2020 HK$'million	2021 HK$'million	2020 HK$'million
As at 1 January	12	20	408	240	420	260
Exchange adjustments	—	—	1	(2)	1	(2)
Credited/(charged) to profit or loss	14	(8)	(41)	170	(27)	162
As at 31 December	26	12	368	408	394	420

As at 31 December 2021, the Group has deductible temporary difference of HK$766 million (2020: HK$180 million). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

36. CREDITORS AND ACCRUALS

	2021 HK$'million	2020 HK$'million
Trade creditors (Note (a))	546	312
Contract liabilities	122	115
Amounts due to fellow subsidiaries (Note (b))	42	51
Amounts due to associates (Note (b))	501	364
Other payables and accruals	3,093	3,310
	4,304	4,152

Notes:

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

	2021 HK$'million	2020 HK$'million
0 - 90 days	473	260
91 - 180 days	25	15
181 - 365 days	4	—
Over 365 days	44	37
	546	312

(b) The balances are unsecured, interest-free and repayable in accordance with the credit term.

37. FINANCIAL RISK MANAGEMENT

37.1 Financial risk factors

The Group's principal activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk, fair value interest rate risk and cash flow interest rate risk), credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise any potential adverse effects on the Group's financial performance. Risk management is carried out by senior management of the Group under policies approved by the directors of the Company.

(i) Market risk

(a) Foreign exchange risk

Majority of the subsidiaries of the Company operate in Mainland China and most of their transactions are denominated in Renminbi, Hong Kong dollar or United States dollar. The Group is exposed to foreign exchange risk primarily through sales and purchases, capital expenditure and expenses transactions that are denominated in currencies other than the functional currency of the subsidiaries.

The Group considers its foreign currency exposure is mainly arising from the exposure of Hong Kong dollar against Renminbi, United States dollar, Euro and Brazilian Real.

The Group manages its exposures to foreign currency transactions by monitoring the level of foreign currency receipts and payments. The Group ensures that the net exposure to foreign exchange risk is kept to an acceptable level from time to time. The Group is presently not using forward exchange contracts to hedge foreign exchange risk arising from sales and purchase, capital expenditure and expenses transactions.

The Group also regularly monitors its portfolio of local and international customers and the currencies in which the transactions are denominated so as to minimise the Group's exposure to foreign exchange risk.

As at 31 December 2021, 61% (2020: 59%) of the Group's borrowings are denominated in United States dollar, 23% (2020: 24%) are denominated in Renminbi, 3% (2020: 4%) are denominated in Euro, 2% (2020: 3%) are denominated in Brazilian Real and 11% (2020: 10%) are denominated in Hong Kong dollar. Majority of the Group's operating subsidiaries draw loans in their functional currencies to finance their funding requirements and no significant foreign exchange risk is expected to arise from these borrowings. The Group also utilised its United States dollar and Renminbi denominated notes payable to finance its capital investments and working capital.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.1 Financial risk factors (continued)

(i) Market risk (continued)

(a) Foreign exchange risk (continued)

At 31 December 2021, if Renminbi had strengthened/weakened against the other currencies by 3% (2020: 3%) with all other variables held constant, profit before taxation would have been approximately HK$101 million lower/higher (2020: HK$91 million lower/higher) mainly as a result of decrease/increase (2020: decrease/increase) in net foreign exchange gains on translation of cash and cash equivalents, debtors, creditors and bank and other borrowings denominated in non-functional currencies of the relevant group companies.

At 31 December 2021, if United States dollar had strengthened/weakened against the other currencies by 0.5% (2020: 0.5%) with all other variables held constant, profit before taxation would have been approximately HK$99 million lower/higher (2020: HK$129 million lower/higher) mainly as a result of decrease/increase (2020: decrease/increase) in net foreign exchange gains on translation of cash and cash equivalents, debtors, creditors and bank and other borrowings denominated in non-functional currencies of the relevant group companies.

(b) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group that are classified on the consolidated statement of financial position as financial assets at FVTPL and equity instruments at FVTOCI. At 31 December 2021, if there had been a 10% (2020: 10%) increase/decrease in the prices of the respective equity instruments with all other variables held constant, (i) profit before taxation would increase/decrease by HK$294 million (2020: HK$296 million) as a result of the changes in fair value of the financial assets at FVTPL and (ii) other comprehensive income for the year ended 31 December 2021 would increase/decrease by HK$3 million (2020: HK$3 million) as a result of the changes in fair value of the equity instruments at FVTOCI. The Group is not exposed to commodity price risks and has not entered into any derivatives to manage exposures of price risk.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.1 Financial risk factors (continued)

(i) Market risk (continued)

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

The Group's interest rate risk mainly arises from interest-bearing borrowings. Financial assets and financial liabilities issued at variable rates expose the Group to cash flow interest rate risk whilst borrowings issued and lease liabilities at fixed rates expose the Group to fair value interest rate risk.

The Group adopts a policy of maintaining an appropriate mix of fixed and floating rate borrowings which is achieved primarily through the contractual terms of borrowings. The position is regularly monitored and evaluated by reference of anticipated changes in market interest rate. The Group did not use any interest rate swap to hedge its interest rate risk during the year.

Other than advances to associates and a joint venture and bank deposits as at 31 December 2021, the Group has no significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Accordingly, management does not anticipate any significant impact resulting from changes in interest rates on interest-bearing assets.

At 31 December 2021, if interest rates on borrowings had been 100 basis points (2020: 100 basis points) higher/lower with all other variables held constant, profit before taxation would have been HK$124 million (2020: HK$143 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.1 Financial risk factors (continued)

(ii) Credit risk and impairment assessment

Credit risk arises if a customer or other counterparty fails to meet its contractual obligations. As at 31 December 2021, other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk, the Group's maximum exposure to credit risk which will cause a financial loss to the Group arising from the amount of contingent liabilities in relation to financial guarantees provided by the Group is disclosed in note 40(d).

Credit risk on trade debtors is managed by the management of the individual business units and monitored by the Group's management on a group basis. The Group's trade debtors are mainly contributed by ports operation where their customers are mainly sizable and renowned international liners or market leaders in their industries with manageable credit risk. Management assesses, reviews and updates credit profile of the Group's trade debtors by considering its financial position, past experience and other relevant factors, in order to identify if any are of higher risks of default. For trade debtors spotted as of higher credit risks, management of the Group also implemented measures such as tightened credit terms and closer monitoring of the settlement patterns. Debtors with overdue balances will be requested to settle their outstanding balance. In addition, the Group performs impairment assessment under ECL model on trade balances individually for trade debtors with significant balances and collectively for others based on appropriate groupings. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Regarding amount due from fellow subsidiaries and immediate holding company, and amount due from/ advance to associates and joint ventures, the management of the Group assesses the recoverability by reviewing the financial position and results of the related parties periodically and considers the credit risk to be insignificant.

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

Regarding financial guarantee contracts, the management of the Group performs impairment assessments by reviewing the financial position and results of the related parties periodically and considers the credit risk to be insignificant.

The Group has policies that limit the amount of credit exposure to any financial institutions. The Group's bank deposits are all deposited in reputable banks or financial institutions. Management considers that the credit risk associated with the deposits with these banks and financial institutions is low.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.1 Financial risk factors (continued)

(ii) Credit risk and impairment assessment (continued)

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

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

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.1 Financial risk factors (continued)

(ii) Credit risk and impairment assessment (continued)

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

	Note	External credit rating	Internal credit rating	12m or lifetime ECL	2021 Gross carrying amount HK$'million	2021 Gross carrying amount HK$'million	2020 Gross carrying amount HK$'million	2020 Gross carrying amount HK$'million
Financial assets at amortised cost								
Trade debtors(Note (a))	25	N/A	A	Lifetime ECL (not credit-impaired)	668		583	
			B	Lifetime ECL (not credit-impaired)	302		367	
			C	Lifetime ECL (not credit-impaired)	53		59	
			D	Lifetime ECL (credit-impaired)	59	1,082	67	1,076
Amounts due from fellow subsidiaries (Note (b))	25	N/A	B	12m ECL	31	31	15	15
Amount due from immediate holding company (Note (b))	25	N/A	B	12m ECL	2	2	2	2
Amounts due from associates (Note (b))	25	N/A	B	12m ECL	83	83	98	98
Advances to associates (Note (b))	22	N/A	B	12m ECL	3,376	3,376*	3,365	3,365*
Amounts due from joint ventures (Note (b))	25	N/A	B	12m ECL	1	1	1	1
Advance to a joint venture (Note (b))	22	N/A	B	12m ECL	992	992*	988	988*

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.1 Financial risk factors (continued)

(ii) Credit risk and impairment assessment (continued)

	Note	External credit rating	Internal credit rating	12m or lifetime ECL	2021 Gross carrying amount HK$'million	2021 Gross carrying amount HK$'million	2020 Gross carrying amount HK$'million	2020 Gross carrying amount HK$'million
Dividend receivables (Note (b))	25	N/A	A	12m ECL	250	250	290	290
Other debtors/compensation receivable from SLRC (Note (b))	25/22	N/A	B	12m ECL	3,816		3,702	
			D	Lifetime ECL (credit-impaired)	926	4,742	857	4,559
Cash and bank balances (Note (b))	26	Aa3 to Ba2	N/A	12m ECL	9,980	9,980	11,290	11,290
Other item								
Financial guarantee contracts (Note (c))	40(d)	N/A	A	12m ECL	305	305	307	307

* The gross carrying amounts disclosed above include the relevant interest receivables which are also included in notes 22 and 25.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.1 Financial risk factors (continued)

(ii) Credit risk and impairment assessment (continued)

Notes:

(a) For the trade debtors, the Group applied the simplified approach in HKFRS 9 to measure loss allowance at lifetime ECL. Except for debtors with significant outstanding balances, the Group determines the expected credit losses on these items by internal credit rating with appropriate groupings.

(b) For the purposes of internal credit risk management, the Group uses past due information and relevant credit information to assess whether credit risk has increased significantly since initial recognition.

	Past due HK$'million	Not past due/ no fixed repayment terms HK$'million	Total HK$'million
2021			
Amounts due from fellow subsidiaries	—	31	31
Amounts due from immediate holding company	—	2	2
Amounts due from associates	—	83	83
Advances to associates	—	3,376	3,376
Amounts due from joint ventures	—	1	1
Advance to a joint venture	—	992	992
Dividend receivables	—	250	250
Other debtors/compensation receivable from SLRC	926	3,816	4,742
Cash and bank balances	—	9,980	9,980
2020			
Amounts due from fellow subsidiaries	—	15	15
Amounts due from immediate holding company	—	2	2
Amounts due from associates	—	98	98
Advances to associates	—	3,365	3,365
Amounts due from joint ventures	—	1	1
Advance to a joint venture	—	988	988
Dividend receivables	—	290	290
Other debtors	857	3,702	4,559
Cash and bank balances	—	11,290	11,290

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

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.1 Financial risk factors (continued)

(ii) Credit risk and impairment assessment (continued)

The following table summarises average loss rates of each internal credit rating of trade debtors:

Internal credit rating	Average loss rate 2021	Average loss rate 2020
A	**0.01%**	0.06%
B	**0.26%**	0.21%
C	**4.72%**	2.36%
D	**94.79%**	81.86%

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

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

	Lifetime ECL (not credit-impaired) HK$'million	Lifetime ECL (credit-impaired) HK$'million	Total HK$'million
As at 1 January 2020	4	81	85
Impairment losses recognised	—	12	12
Impairment losses reversed	(1)	(37)	(38)
Written-off	—	(4)	(4)
Exchange adjustments	—	3	3
As at 31 December 2020	3	55	58
Impairment losses recognised	**2**	**2**	**4**
Impairment losses reversed	—	**(1)**	**(1)**
Written-off	—	**(2)**	**(2)**
Exchange adjustments	**(2)**	**2**	—
As at 31 December 2021	**3**	**56**	**59**

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

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.1 Financial risk factors (continued)

(ii) Credit risk and impairment assessment (continued)

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

	Lifetime ECL (credit-impaired) HK$'million
As at 1 January 2020	38
Impairment loss recognised	536
Exchange adjustments	44
As at 31 December 2020	618
Impairment loss recognised	**288**
Exchange adjustments	**20**
As at 31 December 2021	**926**

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

For financial guarantee contracts, the maximum amount that the Group has guaranteed under the respective contracts was HK$305 million as at 31 December 2021 (2020: HK$307 million). As at 31 December 2021 and 2020, the directors of the Company have performed impairment assessment, and concluded that the loss allowance for financial guarantee contracts, if any, should not be material to these consolidated financial statements.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.1 Financial risk factors (continued)

(iii) Liquidity risk

Cash flow forecasts are prepared by management. Management monitors rolling forecasts on the Group's liquidity requirements to ensure the Group maintains sufficient liquidity reserve to support sustainability and growth of the Group's business. Currently, the Group and the Company finance the working capital requirements through a combination of funds generated from operations and borrowings.

The rolling forecasts of the Group's liquidity reserve comprise undrawn facilities of bank loans and other debt financing instruments (note 32(g)) and cash and bank balances (note 26) on the basis of expected cash flow. The Group aims to maintain flexibility in funding while minimising its overall costs by keeping a mix of committed and uncommitted credit lines available.

In preparing the consolidated financial statements of the Group, the directors of the Company has given careful consideration to the future liquidity of the Group in light of the fact that the Group's current liabilities exceeded its current assets by HK$5,473 million as at 31 December 2021. In the opinion of the directors of the Company, the Group will be able to continue as a going concern at least in the coming twelve months taking into consideration the working capital estimated to be generated from operating activities and the undrawn facilities of bank loans and other debt financing instruments. Based on this, the directors of the Company are satisfied that the Group will have sufficient financial resources to meet in full its financial obligations as and when they fall due for the foreseeable future. Accordingly, the directors of the Company consider that it is appropriate to prepare these consolidated financial statements on a going concern basis.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management also monitors the utilisation of bank borrowings, ensures compliance with loan covenants and renews bank borrowings, if necessary.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows including both interest and principal.

	Within 1 year		Between 1 and 2 years		Between 2 and 5 years		More than 5 years		Total	
	2021 HK$'million	2020 HK$'million	2021 HK$'million	2020 HK$'million	2021 HK$'million	2020 HK$'million	2021 HK$'million	2020 HK$'million	2021 HK$'million	2020 HK$'million
Interest-bearing debts	15,875	10,394	9,898	9,501	8,246	17,292	6,752	7,063	40,771	44,250
Other financial liabilities	3,626	3,496	167	176	530	555	5,472	6,078	9,795	10,305
	19,501	13,890	10,065	9,677	8,776	17,847	12,224	13,141	50,566	54,555
Lease liabilities	88	125	54	54	163	158	1,438	1,485	1,743	1,822
Financial guarantee contracts	—	—	—	—	—	—	305	307	305	307

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.1 Financial risk factors (continued)

(iv) Interest rate benchmark reform

Several of the Group's LIBOR bank loans will or may be subject to the interest rate benchmark reform. The Group is closely monitoring the market and managing the transition to new benchmark interest rates, including announcements made by the relevant IBOR regulators and acknowledgements from the banks.

The amendments have had no impact on the consolidated financial statements as none of the relevant LIBOR bank loans has been transitioned to the relevant replacement rates or discontinued during the year.

LIBOR

The Financial Conduct Authority has confirmed all LIBOR settings will either cease to be provided by any administrator or no longer be representative:

- immediately after 31 December 2021, in the case of all sterling, euro, Swiss franc and Japanese yen settings, and the 1-week and 2-month US dollar settings; and
- immediately after 30 June 2023, in the case of the remaining US dollar settings.

Risks arising from the interest rate benchmark reform

The following are the key risks for the Group arising from the transition:

Interest rate related risks

For contracts which have not been transitioned to the relevant alternative benchmark rates and without detailed fallback clauses, if the bilateral negotiations with the Group's counterparties are not successfully concluded before the cessation of LIBORs, there are significant uncertainties with regard to the interest rate that would apply. This gives rise to additional interest rate risk that was not anticipated when the contracts were entered into, but the Group is working closely with all counterparties to avoid a huge increase of the interest rate.

There are fundamental differences between IBORs and the various alternative benchmark rates. IBORs are forward looking term rates published for a period (e.g. 3 months) at the beginning of that period and include an inter-bank credit spread, whereas alternative benchmark rates are typically risk-free overnight rates published at the end of the overnight period with no embedded credit spread. These differences will result in additional uncertainty regarding floating rate interest payments.

Liquidity risk

The additional uncertainty on various alternative rates which are typically published on overnight basis will require additional liquidity management. The Group's liquidity risk management policy has been updated to ensure sufficient liquid resources to accommodate unexpected increases in overnight rates.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the overall cost of capital.

The Group prepares a five-year rolling forecast on its capital requirement in anticipation of funding requirement of new capital investments, capital expenditures of existing projects and repayment of borrowings. In order to maintain or adjust the capital structure, the Group may raise additional short-term or long-term borrowings, issue new shares or sell assets of non-core operations to reduce debts.

The Group monitors capital with reference to, inter alia, the net gearing ratios. These ratios are calculated as the aggregate of net interest-bearing debts and lease liabilities divided by equity attributable to the Company's equity holders and total equity.

During the year, the Group's strategy was to maintain desired levels of net gearing ratios and based on which the Group's credit ratings had, inter alia, been reaffirmed at Baa1 by Moody's Asia Pacific Limited and BBB by Standard and Poor's. The net gearing ratios at 31 December 2021 and 2020 were as follows:

	2021 HK$'million	2020 HK$'million
Total interest-bearing debts and lease liabilities (notes 32 and 33)	**37,708**	40,154
Less: cash and bank balances (note 26)	**(9,980)**	(11,290)
Net interest-bearing debts and lease liabilities	**27,728**	28,864
Net gearing ratio:		
Net interest-bearing debts and lease liabilities divided by total equity	**22.2%**	25.4%

37.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value on a recurring basis by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The management engaged qualified external valuers to establish the appropriate valuation techniques and inputs to the models. Information about the valuation techniques and inputs used in determining the fair value of various assets is disclosed below.

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.3 Fair value estimation (continued)

(i) Fair value of financial instruments that are measured at fair value on a recurring basis

The following table presents the Group's financial instruments that are measured at fair value at 31 December 2021 and 2020:

	Level 1 HK$'million	Level 2 HK$'million	Level 3 HK$'million	Total HK$'million
At 31 December 2021				
Financial assets				
Financial assets at FVTPL	**2,941**	**2,891**	**3**	**5,835**
Equity instruments at FVTOCI	—	—	**32**	**32**
	2,941	**2,891**	**35**	**5,867**
At 31 December 2020				
Financial assets				
Financial assets at FVTPL	2,952	—	3	2,955
Equity instruments at FVTOCI	—	—	31	31
	2,952	—	34	2,986
Financial liabilities				
Financial liabilities at FVTPL	—	—	3,432	3,432

Set out below is the information about how the fair values of the above financial instruments are determined, including the valuation techniques and inputs used:

The fair value of the freely traded listed equity instruments that are accounted for as financial assets at FVTPL is valued based on the quoted prices in active markets for the identical assets directly.

The fair value of the structured deposits that are accounted for as financial assets at FVTPL is valued based on the foreign exchange rate and gold price. As at 31 December 2021, if the foreign exchange rate was 5% (31 December 2020: N/A) higher/lower while all the other variables were held constant, the changes in fair value of the structured deposit would be insignificant (31 December 2020: N/A). As at 31 December 2021, if the gold price was 5% (31 December 2020: N/A) higher/lower while all the other variables were held constant, the changes in fair value of the structured deposit would be insignificant (31 December 2020: N/A).

The fair value of other unlisted equity instruments that are accounted for as financial assets at FVTPL or equity instruments at FVTOCI is valued based on Guideline Publicly Traded Company method whereas the key inputs to the valuation models include the market multiples, share prices, volatilities and dividend yields of similar companies that are traded in a public market, discount of lack of marketability with reference to the share prices of listed enterprises in similar industries. As at 31 December 2021, if any of the significant unobservable input above was 5% (2020: 5%) higher/lower while all the other variables were held constant, the change in fair value of these unlisted equity instruments would be insignificant (2020: insignificant).

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.3 Fair value estimation (continued)

(i) Fair value of financial instruments that are measured at fair value on a recurring basis (continued)

In prior year, the fair value of the liabilities arising from the concession arrangements (see note 34(a)) that are accounted for as financial liabilities at FVTPL is valued at the present value of the expected future economic benefits that will flow out of the Group arising from such obligation by using discounted cash flow method. The significant unobservable inputs are the factor of inflation and probability-adjusted business volume. As at 31 December 2020, if factor of inflation was 5% higher/lower while all the other variables were held constant, the changes in fair value of the liabilities arising from the concession arrangements would be HK$165 million. As at 31 December 2020, if the probability-adjusted business volume was 5% higher/lower while all the other variables were held constant, the increase/decrease in fair value of the liabilities arising from the concession arrangements would be HK$132 million.

There were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets or any reclassification of financial assets in the year.

The following table presents the changes in level 3 instruments for the years ended 31 December 2021 and 2020:

	Financial assets at FVTPL HK$'million	Equity instruments at FVTOCI HK$'million	Financial liabilities at FVTPL HK$'million
Year ended 31 December 2021			
As at 1 January 2021	3	31	3,432
Exchange adjustments	—	1	(118)
Settlement	—	—	(77)
Fair value loss recognised in profit or loss	—	—	575
Extinguishment upon modification (note 34(a))	—	—	(3,812)
As at 31 December 2021	3	32	—

37. FINANCIAL RISK MANAGEMENT (CONTINUED)

37.3 Fair value estimation (continued)

(i) *Fair value of financial instruments that are measured at fair value on a recurring basis (continued)*

	Financial assets at FVTPL HK$'million	Equity instruments at FVTOCI HK$'million	Financial liabilities at FVTPL HK$'million
Year ended 31 December 2020			
As at 1 January 2020	3	9	4,532
Obtaining control of a non-wholly owned subsidiary (note 39)	—	21	—
Exchange adjustments	—	1	(935)
Settlement	—	—	(930)
Fair value loss recognised in profit or loss	—	—	765
As at 31 December 2020	3	31	3,432

(ii) *Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required).*

Except for notes payable stated in note 32, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values at the end of the reporting period.

38. INFORMATION OF THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit to net cash inflow from operations:

	2021 HK$'million	2020 HK$'million
Earnings before finance costs, net, taxation and share of profits less losses of associates and joint ventures	4,787	4,225
Adjustments for:		
Depreciation and amortisation	2,286	2,033
Net changes in fair value of investment properties	(21)	(149)
Net changes in fair value of financial assets at FVTPL	30	(256)
Net changes in fair value of financial liabilities at FVTPL	575	765
Impairment loss recognised in respect of goodwill	—	621
Net allowance for credit losses of trade debtors and other debtors	291	510
Gain on resumption of land parcels at Shantou	—	(1,722)
(Gain)/loss on disposal of property, plant and equipment	(10)	120
Gain on discontinuance of equity accounting for a joint venture	—	(960)
Gain on deemed disposal of a subsidiary	(17)	—
Net gain on deemed disposal of partial interest in associates	(454)	—
Gain on modification of contract terms for a concession arrangement	(944)	—
Operating profit before working capital changes	6,523	5,187
Increase in inventories	(18)	(51)
(Increase)/decrease in debtors, deposits and prepayments	(247)	163
Increase/(decrease) in creditors and accruals	293	(763)
Net cash inflow from operations	6,551	4,536

38. INFORMATION OF THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows used in financing activities.

	Bank and other borrowings												
	Bank loans HK$'million	Loans from a non-controlling equity holder of a subsidiary HK$'million	Loans from a fellow subsidiary HK$'million	Loan from immediate holding company HK$'million	Notes payable HK$'million	Lease liabilities HK$'million	Interest payable (included in creditors and accruals) HK$'million	Amount due to an associate (included in creditors and accruals) HK$'million	Dividend payable to non-controlling equity holders of subsidiaries (included in creditors and accruals) HK$'million	Dividend payable to equity holders of the Company HK$'million	Distribution payable to holders of perpetual capital securities HK$'million	Total HK$'million
At 1 January 2021	14,417	520	455	934	22,866	962	565	—	114	—	—	40,833
Financing cash flows	(2,862)	—	(8)	299	(185)	(137)	(1,488)	55	(386)	(1,194)	(223)	(6,129)
Non-cash changes												
Exchange adjustments	60	(16)	(2)	34	207	27	(234)	5	35	—	—	116
Deemed disposal of a subsidiary	—	—	—	—	—	—	—	112	—	—	—	112
Issue of shares in lieu of dividends	—	—	—	—	—	—	—	—	—	(1,496)	—	(1,496)
Interest expense	—	—	16	47	—	50	1,733	—	—	—	—	1,846
New leases entered/lease modified	—	—	—	—	—	24	—	—	—	—	—	24
Declaration of distribution	—	—	—	—	—	—	—	—	—	—	223	223
Declaration of dividend	—	—	—	—	—	—	—	—	283	2,690	—	2,973
At 31 December 2021	11,615	504	461	1,314	22,888	926	576	172	46	—	—	38,502
At 1 January 2020	12,091	454	1,027	366	24,476	1,002	597	—	145	—	—	40,158
Financing cash flows	1,957	—	(604)	491	(1,551)	(166)	(1,750)	—	(687)	(742)	—	(3,052)
Non-cash changes												
Obtaining control of a non-wholly owned subsidiary	173	—	—	—	—	—	—	—	—	—	—	173
Exchange adjustments	196	66	29	55	(59)	72	(66)	—	(15)	—	—	278
Issue of shares in lieu of dividends	—	—	—	—	—	—	—	—	—	(1,907)	—	(1,907)
Interest expense	—	—	3	22	—	54	1,784	—	—	—	—	1,863
Declaration of dividend	—	—	—	—	—	—	—	—	671	2,649	—	3,320
At 31 December 2020	14,417	520	455	934	22,866	962	565	—	114	—	—	40,833

39. OBTAINING CONTROL OF A NON-WHOLLY OWNED SUBSIDIARY

For the year ended 31 December 2020

In November 2020, a wholly-owned subsidiary of the Company and the other shareholders of Ningbo Daxie China Merchants International Terminals Co. Ltd. ("Daxie Port") resolved by way of shareholders' resolutions to establish the Budget Committee, and entered into a Cooperation Agreement with Ningbo Zhoushan Port Company Limited ("Ningbo Port"), a shareholder owned 35% interest of Daxie Port (the "Cooperation Agreement").

The Budget Committee shall comprise of three directors. Each of the shareholders of Daxie Port shall nominate one director to be a member of the Budget Committee, and the director nominated by the Group shall be the chairman. The Budget Committee is primarily responsible for approving Daxie Port's annual business plan, annual financial budget and final accounts, and after-tax profit distribution plan. Any matters to be considered by the Budget Committee shall be approved by a two-thirds majority.

Pursuant to the Cooperation Agreement, the Group and Ningbo Port will consult and communicate among themselves to reach consensus before exercising their shareholders' rights, and exercise their rights in their capacities as the directors of Daxie Port in the relevant decision-making process at board meetings. If the parties to the Cooperation Agreement cannot reach consensus, the matter shall be decided in accordance with the opinion of the Group. No consideration is payable by either party under the Cooperation Agreement.

Upon the completion of the Cooperation Agreement, the Group had over 50% of shareholders' rights, which had the power to direct the relevant activities of Daxie Port, and obtained effective control over Daxie Port. Accordingly, the Group no longer recognised its investment in Daxie Port as interest in joint venture, and able to account for and consolidate Daxie Port as a subsidiary into the consolidated financial statements.

Daxie Port is principally engaged in port and container terminal business in Ningbo, the PRC.

Further details of the Daxie Port are set out below:

Fair value of identifiable assets acquired and liabilities assumed:

	HK$'million
Property, plant and equipment (note 16)	2,789
Right-of-use assets	1,428
Inventories	10
Debtors, deposits and prepayments	146
Other financial assets	21
Cash and bank balances	367
Bank and other borrowings	(173)
Deferred tax liabilities	(485)
Creditors and accruals	(140)
Taxation payable	(16)
Total identifiable net assets	3,947

Trade debtors acquired with a fair value of HK$64 million at the date of obtaining control were also the gross contractual amount and best estimate contractual cash flows at the date of obtaining control.

39. OBTAINING CONTROL OF A NON-WHOLLY OWNED SUBSIDIARY (CONTINUED)

For the year ended 31 December 2020 (continued)

Net cash inflow arising on obtaining control of Daxie Port:

	HK$'million
Cash consideration	—
Less: Cash and bank balances acquired	367
Net cash inflow during the year ended 31 December 2020	367

The non-controlling interests in Daxie Port recognised were measured by reference to the fair values of the identifiable assets acquired and liabilities assumed at the date of obtaining control.

Goodwill arising on obtaining control of Daxie Port:

	HK$'million
Fair value of consideration transferred	—
Add: Non-controlling interests	2,171
Add: Fair values of previously-held interests	1,994
Less: Fair values of identifiable net assets acquired	(3,947)
Goodwill arising on obtaining control	218

Gain on discontinuance of equity accounting for a joint venture

	HK$'million
Fair values of previously-held interests	1,994
Less: Carrying values of previously-held interests	(1,121)
Add: Retranslation reserves reclassified to profit or loss	87
Gain on discontinuance of equity accounting for a joint venture	960

39. OBTAINING CONTROL OF A NON-WHOLLY OWNED SUBSIDIARY (CONTINUED)

For the year ended 31 December 2020 (continued)

Gain on discontinuance of equity accounting for a joint venture (continued)

Goodwill arose on obtaining control of Daxie Port because the cost of the combination included a control premium and the future profitability as at the date of obtaining control. These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

Included in the profit and revenue of the Group for the year ended 31 December 2020 were net profit of HK$31 million and revenue of HK$83 million generated by Daxie Port.

Had the above combination been completed on 1 January 2020, total group revenue for the year ended 31 December 2020 would have been HK$9,812 million, and profit for the year ended 31 December 2020 would have been HK$6,192 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the combination been completed on 1 January 2020, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had the combination been completed at the beginning of 2020, the directors of the Company had:

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

40. COMMITMENTS AND CONTINGENT LIABILITIES

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

	2021 HK$'million	2020 HK$'million
Group		
Property, plant and equipment and intangible assets	1,482	2,348
Joint ventures		
Property, plant and equipment	56	23
	1,538	2,371

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

	2021 HK$'million	2020 HK$'million
Group		
Ports projects	6	1,194
Joint Ventures		
Land development project	220	—

40. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(c) Future operating lease receivables where the Group as lessor

The Group has future aggregate lease receivables under non-cancellable operating leases for investment properties and property, plant and equipment as follows:

	2021 HK$'million	2020 HK$'million
Within one year	**278**	316
In the second year	**129**	146
In the third year	**91**	99
In the fourth year	**70**	81
In the fifth year	**68**	73
After the fifth year	**114**	184
	750	899

(d) Contingent liabilities

(i) As at 31 December 2021, TCP Group has significant contingent liabilities arising from pending legal proceedings in Brazil in respect of disputes with local tax authorities, employees or former employees of TCP Group and other parties, amounting to HK$255 million (2020: HK$253 million), which, based on the latest estimates of the management of the Group, is not probable that outflows of resources embodying economic benefits will be required to settle these obligations. Accordingly, no provision for litigation claims in respect of the above cases has been made in the consolidated financial statements. A counter indemnity in favour of the Group is executed by the Selling Shareholders pursuant to which the latter indemnify to the Group for the above contingent liabilities for and up to predetermined amounts and specified length of time.

(ii) As at 31 December 2021 and 2020, the other shareholder of an associate of which the Group held as to 49% of its issued share capital provided corporate guarantees to the full amount for certain loan facilities granted by banks to and other obligations borne by the relevant associate. A counter indemnity in favour of the other shareholder of the associate is executed pursuant to which the Group undertakes to indemnify the other shareholder 49% of the liabilities in the aggregate amount of HK$80 million (2020: HK$84 million) arising from the above loan facilities and other obligations.

In addition to above, the Group also provides guarantees for banking facilities granted to and other obligations borne by an associate of CMG. The total amount guaranteed by the Group is HK$225 million (2020: HK$223 million) and the aggregate amount utilised by the relevant related party amounted to HK$135 million (2020: HK$134 million).

The directors of the Company assessed the risk of default of the associate and the related party in serving the aforesaid loan facilities and other obligations at the end of the reporting period and considered the risk to be insignificant and it is not likely that any guaranteed amount will be claimed.

(iii) As at 31 December 2021 and 2020, the Company has been involved in a legal action involving dispute over the Group's overseas investment. Based on advice of legal counsel and information available to the Group, the directors of the Company are of the opinion that it is pre-mature to assess the possible outcome of the case and the Company is unable to ascertain the likelihood of the claim at the current stage and management of the Group considered that it is not probable that outflow of resources will be required.

41. RELATED PARTY TRANSACTIONS

The directors of the Company regard CMG, a state-owned enterprise registered in the PRC and is controlled by the PRC government, as being the ultimate holding company of the Company.

Related parties refer to entities in which CMG has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions, or directors or officers of the Company and its subsidiaries. Other than as disclosed elsewhere in these consolidated financial statements, a summary of significant related party transactions entered into in the normal course of business between the Group and its related parties during the year and balances arising from related transactions as at 31 December 2021 are as follows:

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

	Note	2021 HK$'million	2020 HK$'million
Rental income from	(i)		
– fellow subsidiaries		51	42
– an associate		—	1
– joint ventures		16	15
Interest expenses on lease liabilities	(i)		
– fellow subsidiaries		2	4
Expenses relating to short-term leases	(i)		
– fellow subsidiaries		4	7
Service income from	(ii)		
– immediate holding company		—	1
– fellow subsidiaries		261	134
– associates		43	59
– joint ventures		77	67
– related parties		1	—
Service fees paid to	(iii)		
– fellow subsidiaries		91	47
– associates		216	17
– joint ventures		23	18
– a related party		58	3

41. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	Note	2021 HK$'million	2020 HK$'million
Interest income from			
– a fellow subsidiary	(iv)	**19**	15
– associates	(v)	**200**	149
– a joint venture	(v)	**77**	69
– a related party	(vi)	**18**	16
Interest expenses and upfront fees paid to	(vii)		
– immediate holding company		**47**	22
– fellow subsidiaries		**16**	23

Notes:

(i) The Group rented certain vessels and properties from and leased office premises and residential units to fellow subsidiaries, an associate and a related party, and also leased warehouse to joint ventures. Lease payments were received or charged at a fixed amount per month in accordance with respective tenancy agreements.

During the year ended 31 December 2021, the Group has recognised an addition of right-of-use-assets of HK$25 million (2020: HK$90 million) and lease liabilities of HK$25 million (2020: HK$90 million) in relation to these leases.

(ii) The ports, logistics and information technology service fees were charged with reference to market rates.

(iii) These related parties provided barges to bring cargos into terminals operated by the Group and provided cargo management and information technology services to the Group. The service fees were charged with reference to market rates.

(iv) As at 31 December 2021, the Group placed deposits of HK$595 million (2020: HK$1,365 million) with China Merchants Group Finance Co., Ltd., a subsidiary of CMG, which is a financial institution approved and regulated by the People's Bank of China and the China Banking Regulatory Commission. The amounts are included in cash and bank balances.

Interest income was charged at interest rates ranging from 1.61% to 2.10% (2020: 1.61% to 1.76%) per annum.

(v) Interest income was charged at interest rates as specified in note 22 on the outstanding advances to associates and a joint venture.

(vi) As at 31 December 2021, the Group placed deposits of HK$1,306 million (2020: HK$1,200 million) with China Merchants Bank Co., Ltd. ("CMB"), an associate of CMG.

(vii) Interest expenses were charged at interest rates as specified in note 32 on the outstanding loans from immediate holding company and fellow subsidiaries.

(viii) In previous years, a subsidiary of the Company entered into a transaction with a related party for leasing of a parcel of land located in Djibouti. At inception of the lease, the Group had recognised a right-of-use asset amounting to HK$217 million. Lease payment of HK$217 million had been made by the Group during the previous years. As at 31 December 2021, the corresponding carrying amount of the right-of-use asset was HK$210 million (2020: HK$211 million).

(ix) During the year ended 31 December 2021, the Group acquire property, plant and equipment of HK$2 million (2020: HK$2 million) from fellow subsidiaries.

41. RELATED PARTY TRANSACTIONS (CONTINUED)

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

The balances with entities within CMG Group as at 31 December 2021 and 31 December 2020 are disclosed in notes 22, 25, 32 and 36.

Save and except for those connected transactions or continuing connected transactions under the Listing Rules set out under "Connected Transactions" in the section "Report of the Directors" in this annual report, the other transactions as set out in this note 41(a) were not regarded as connected transactions or continuing connected transactions under the Listing Rules or were exempt from reporting, announcement and shareholders' approval requirements under the Listing Rules.

(b) Transactions with other PRC state-controlled entities

A number of subsidiaries of the Company operate in Mainland China, an economic environment currently predominated by entities controlled, jointly controlled or significantly influenced by the PRC government. These PRC subsidiaries therefore have substantial volumes of transactions with other PRC state-controlled entities during their ordinary course of businesses including but not limited to the purchases of assets, construction of ports and related facilities, bank deposits and borrowings, among others.

(c) Key management compensation

	2021 HK$'million	2020 HK$'million
Salaries and other short-term employee benefits	19	24

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The table below lists only those subsidiaries of the Company which, in the opinion of the directors, principally affect the results for the year or form a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Particulars of the Company's principal subsidiaries are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of effective ownership interest held by the Company Directly		Indirectly		Principal activities
			2021 %	2020 %	2021 %	2020 %	
China Merchants Bonded Logistics Co., Limited (Note (b))	PRC	RMB700,000,000	—	—	60.00	60.00	Provision of container related logistics services
China Merchants Container Services Limited	Hong Kong	HK$500,000	—	—	100.00	100.00	Provision of container terminal services and ports transportation
China Merchants Finance Company Limited (Note (g))	British Virgin Islands	US$1	100.00	100.00	—	—	Provision of financial services
China Merchants International Container Terminal (Qingdao) Co., Ltd. (Note (a))	PRC	US$206,300,000	—	—	100.00	100.00	Provision of container terminal services and ports transportation
China Merchants International Technology Company Limited (formerly known as China Merchants Holding (International) Technology Company Limited) (Note (f))	PRC	RMB50,000,000	N/A	76.84	N/A	—	Provision of computer network services
China Merchants International Terminals (Ningbo) Limited	British Virgin Islands	US$1	100.00	100.00	—	—	Investment holding
China Merchants International Terminal (Qingdao) Company Ltd. (Note (b))	PRC	US$44,000,000	—	—	90.10	90.10	Port, container terminal and logistics business
China Merchants Port Services (Shenzhen) Company Limited (Note (a))	PRC	RMB550,000,000	—	—	100.00	100.00	Provision of terminal services and ports transportation

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of effective ownership interest held by the Company Directly 2021 %	Directly 2020 %	Indirectly 2021 %	Indirectly 2020 %	Principal activities
CMH International (China) Investment Co., Ltd. (Note (a))	PRC	US$67,400,000	100.00	100.00	—	—	Investment holding
CMHI Finance (BVI) Co., Ltd (Note (h))	British Virgin Islands	US$1	100.00	100.00	—	—	Provision of financial services
Colombo International Container Terminals Limited	Republic of Sri Lanka	US$150,000,088	85.00	85.00	—	—	Provision of container terminal services
Guangdong Yide Port Limited (Note (b))	PRC	RMB216,000,000	—	—	51.00	51.00	Port operations
Hambantota International Port Group (Private) Limited	Republic of Sri Lanka	US$1,145,480,000	—	—	65.00	65.00	Port development, management and operation
Hambantota International Port Services Company (Private) Limited (Note (d))	Republic of Sri Lanka	US$606,000,000	—	—	37.70	37.70	Port management
Lomé Container Terminal S.A. (Note (c))	Togolese Republic	XOF200,000,000	—	—	35.00	35.00	Provision of container terminal services
Mega Shekou Container Terminals Limited	British Virgin Islands	US$120	—	—	80.00	80.00	Investment holding

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of effective ownership interest held by the Company				Principal activities
			Directly		Indirectly		
			2021 %	2020 %	2021 %	2020 %	
Ningbo Daxie China Merchants International Terminals Co., Ltd. (Notes (b) and (e))	PRC	RMB1,209,090,000	—	—	45.00	45.00	Port and container terminal business
Shantou China Merchants Port Group Co., Ltd.	PRC	RMB125,000,000	—	—	60.00	60.00	Port operations
Shekou Container Terminals Ltd. (Note (a))	PRC	HK$618,201,150	—	—	80.00	80.00	Operation of berths No. 1 & 2 in Shekou, the PRC
Shekou Container Terminals (Phase II) Company Limited (Note (a))	PRC	RMB608,549,000	—	—	80.00	80.00	Operation of berths No. 3 & 4 in Shekou, the PRC
Shekou Container Terminals (Phase III) Company Limited (Note (a))	PRC	RMB1,276,000,000	—	—	80.00	80.00	Operation of berths No. 5 to 9 in Shekou, the PRC
Shenzhen China Merchants Qianhaiwan Property Company Limited	PRC	RMB200,000,000	—	—	100.00	100.00	Property holding
Shenzhen Haiqin Engineering Supervision & Management Co., Ltd. (Note (a))	PRC	RMB10,000,000	100.00	100.00	—	—	Provision of services on ports construction
Shenzhen Haixing Harbour Development Company Ltd. (Note (b))	PRC	RMB530,729,167	—	—	67.00	67.00	Provision of container terminal services
Shenzhen Jinyu Rongtai Investment Development Company Limited	PRC	RMB800,000,000	—	—	100.00	100.00	Property holding

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of effective ownership interest held by the Company				Principal activities
			Directly		Indirectly		
			2021 %	2020 %	2021 %	2020 %	
Shenzhen Mawan Terminals Co., Ltd. (Note (b))	PRC	RMB335,000,000	—	—	70.00	70.00	Operation of berths No. 5 to 7 in Mawan, Shenzhen, the PRC
Shenzhen Mawan Wharf Co., Ltd. (Note (b))	PRC	RMB200,000,000	—	—	70.00	70.00	Operation of berth No. 0 in Mawan, Shenzhen, the PRC
TCP Participações S.A. (Note (i))	Federative Republic of Brazil	Brazilian Real 68,851,561	—	—	77.45	77.45	Provision for container terminal services
Xia Men Bay China Merchants Terminals Co., Ltd. (Notes (b) and (d))	PRC	RMB444,500,000	—	—	31.00	31.00	Provision of terminal services and ports transportation
Zhangzhou China Merchants Port Co., Ltd. (Note (b))	PRC	RMB1,167,000,000	—	—	60.00	60.00	Operation of berths No. 3 to 6 in the Zhangzhou Economic Development Zone, Fujian Province, the PRC
Zhangzhou China Merchants Tugboat Company Limited (Note (b))	PRC	RMB15,000,000	—	—	70.00	70.00	Operation of tugboats in the Zhangzhou Economic Development Zone, Fujian Province, the PRC
安運捷碼頭倉儲服務(深圳)有限公司 (Note (a))	PRC	RMB60,600,000	—	—	80.00	80.00	Holding of certain pieces of land in Shekou, the PRC

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Notes:

(a) Foreign investment enterprises.

(b) Sino-foreign joint ventures.

(c) This entity is considered to be a subsidiary of the Company despite that the Group holds effective equity interest of 35% therein as the Group has the power to appoint and remove the majority of the executive committee of the entity, which is empowered to direct the relevant activities of control of the investee by virtue of the shareholders' agreement.

(d) These entities are considered to be subsidiaries of the Company despite that the Group holds less than half of the equity interest therein as the Group has the power to appoint and remove the majority of the Board of Directors of the relevant entities and holds more than half of the voting rights at the relevant Board of Directors' and shareholders' meetings of the respective entities by virtue of agreements with other investors.

(e) Further details are set out in note 39.

(f) Further details are set out in note 20.

(g) This entity has issued HK$7,784 million (2020: HK$7,728 million) of listed notes at the end of the year.

(h) This entity has issued HK$11,631 million (2020: HK$11,546 million) of listed notes and HK$6,241 million (2020: HK$6,237 million) of listed perpetual capital securities at the end of the year.

(i) This entity has issued HK$411 million (2020: HK$621 million) of listed notes at the end of the year.

43. PARTICULARS OF PRINCIPAL ASSOCIATES

Name of associate	Place of incorporation/ registration and operation	Proportion of effective ownership interest held by the Company		Principal activities
		2021	2020	
		%	%	
Asia Airfreight Terminal Company Limited	Hong Kong	20.00	20.00	Airfreight services
China Merchants International Technology Company Limited (formerly known as China Merchants Holdings (International) Technology Company Limited) (Note (c))	PRC	43.74	N/A	Provision of computer network services
China Nanshan Development (Group) Incorporation (Note (a))	PRC	37.01	37.01	Investment holding
Chiwan Container Terminal Co., Ltd. (Notes (a) and (b))	PRC	14.16	14.16	Ports and container terminal business
Chu Kong River Trade Terminal Co., Limited	British Virgin Islands	20.00	20.00	Provision of shuttle-barge ports services
Liaoning Port Company Limited (shares listed on the HKSE and the Shanghai Stock Exchange) (Notes (a), (b) and (c))	PRC	11.32	21.05	Provision of terminal business and logistic services
Modern Terminals Limited	Hong Kong	27.01	27.01	Provision of container terminal services and warehouse services
Port de Djibouti S.A.	Republic of Djibouti	23.50	23.50	Operations of seaports and terminals and port related business in Djibouti

43. PARTICULARS OF PRINCIPAL ASSOCIATES (CONTINUED)

Name of associate	Place of incorporation/ registration and operation	Proportion of effective ownership interest held by the Company		Principal activities
		2021 %	2020 %	
Shanghai International Port (Group) Co., Ltd. (A shares listed on the Shanghai Stock Exchange) (Notes (a) and (c))	PRC	26.64	26.77	Ports and container terminal business and related services
Shenzhen China Merchants Qianhai Assets Development Co., Ltd. (Note (b))	PRC	14.00	14.00	Property development and management in Qianhai trade zone
Terminal Link SAS	French Republic	49.00	49.00	Operations of container terminals in Europe, Mediterranean, Africa, Americas and Asia
Tianjin Haitian Bonded Logistics Co., Ltd. (Note (a))	PRC	49.00	49.00	Provision of container terminal services and warehouse services
Tianjin Port Container Terminal Co., Ltd. (Note (b))	PRC	7.31	7.31	Ports and container terminal business
Tin-Can Island Container Terminal Ltd.	Federal Republic of Nigeria	28.50	28.50	Provision of container terminal services
Zhanjiang Port (Group) Co., Ltd. (Note (a))	PRC	27.58	27.58	Ports and container terminal business

Notes:

(a) Sino-foreign joint ventures.

(b) These entities are considered to be associates of the Company despite that the Group holds less than 20% of the equity interest therein, as the Group has significant influence to appoint and remove the executive committee of the relevant entities, which is empowered to direct the relevant activities of influence of the investees by virtue of agreements.

(c) Further details are set out in note 20.

44. PARTICULARS OF PRINCIPAL JOINT VENTURES

Name of joint venture	Place of incorporation/ registration and operation	Proportion of effective ownership interest held by the Company		Principal activities
		2021 %	2020 %	
Euro-Asia Oceangate S.àr.l.	Luxembourg	**40.00**	40.00	Ports and container terminal business
Port of Newcastle Investments (Holdings) Trust	Australia	**50.00**	50.00	Management of port operation and port development
Qingdao Port Dongjiakou Ore Terminal Co., Ltd. (Note (a))	PRC	**25.00**	25.00	Ports and bulk cargo terminal business
Qingdao Qianwan United Container Terminal Co., Ltd.	PRC	**50.00**	50.00	Ports and container terminal business
Qingdao Qianwan West Port United Terminal Co., Ltd.	PRC	**49.00**	49.00	Ports and bulk cargo terminal business

Note:

(a) Sino-foreign joint ventures.

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

45. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2021 HK$'million	2020 HK$'million
ASSETS		
Non-current assets		
Property, plant and equipment	388	402
Interests in subsidiaries	79,266	77,837
Interests in associates	632	588
Prepayment	6	6
	80,292	78,833
Current assets		
Debtors, deposits and prepayments	12	17
Advances to subsidiaries	1,239	1,697
Advances to associates	52	69
Cash and bank balances	2,376	3,702
	3,679	5,485
Total assets	83,971	84,318
EQUITY		
Capital and reserves attributable to equity holders of the Company		
Share capital	44,017	42,521
Reserves (Note)	3,017	3,364
Proposed dividend (Note)	2,726	1,867
Total equity	49,760	47,752
LIABILITIES		
Non-current liability		
Bank and other borrowings	2,505	5,547
Current liabilities		
Advances from subsidiaries	23,855	25,455
Creditors and accruals	405	381
Bank and other borrowings	7,446	5,183
	31,706	31,019
Total liabilities	34,211	36,566
Total equity and liabilities	83,971	84,318
Net current liabilities	(28,027)	(25,534)
Total assets less current liabilities	52,265	53,299

The statement of financial position of the Company was approved and authorised for issue by the Board of Directors on 30 March 2022 and are signed on its behalf by:

Mr. Deng Renjie
DIRECTOR

Mr. Wang Xiufeng
DIRECTOR

45. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

Note: The reserves of the Company at 31 December 2021 and 2020 are as follows:

	Capital reserve HK$'million (Note)	Retained earnings HK$'million	Total HK$'million
As at 1 January 2021	2,353	2,878	5,231
Profit and total comprehensive income for the year	—	3,203	3,203
Contribution from immediate holding company	16	—	16
Reversal of contribution from immediate holding company	(17)	—	(17)
Dividends	—	(2,690)	(2,690)
As at 31 December 2021	2,352	3,391	5,743
Retained earnings as at 31 December 2021 representing:			
Reserves		665	
Proposed dividend		2,726	
		3,391	
As at 1 January 2020	2,340	2,779	5,119
Profit and total comprehensive income for the year	—	2,748	2,748
Contribution from immediate holding company	13	—	13
Dividends	—	(2,649)	(2,649)
As at 31 December 2020	2,353	2,878	5,231
Retained earnings as at 31 December 2020 representing:			
Reserves		1,011	
Proposed dividend		1,867	
		2,878	

Note: The Company's capital reserve, which arose in 1998 upon reduction of share premium as confirmed by the order of the High Court of the Hong Kong Special Administrative Region, is a non-distributable reserve and may be applied by the Company in paying up its unissued shares to be allotted to members of the company as fully paid bonus shares.

Independent Auditor's Report

Deloitte. 德勤

TO THE MEMBERS OF
CHINA MERCHANTS PORT HOLDINGS COMPANY LIMITED
招商局港口控股有限公司
(incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of China Merchants Port Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 121 to 249, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Accounting for the Group's interests in associates	
We identified the accounting for the Group's interests in associates as a key audit matter due to the significance of these investments to the Group's consolidated financial statements as a whole. The Group invested in a number of associates whose principal activities include ports and other relevant operations as set out in note 43 to the consolidated financial statements. The Group's share of profits less losses of its associates for the year ended 31 December 2020 was HK$4,117 million, representing approximately 68% of the profit for the year of the Group as disclosed in the consolidated statement of profit or loss and the Group's interests in its associates were HK$67,426 million as at 31 December 2020, representing approximately 59% of the net assets of the Group as set out in the consolidated statement of financial position.	Our procedures in relation to the accounting for the Group's interests in associates included: • Obtaining an understanding of the associates by reading their financial information and discussing with their respective management about the financial performance, significant events occurred in the year and the key areas of judgement made in preparing the respective financial information to identify and assess the risks that are significant to the audit of the Group's consolidated financial statements; • Meeting with the respective auditors of the associates to discuss their assessment of risks and identification of areas of audit focus to evaluate the appropriateness of their planned work procedures; • Discussing with the respective auditors of the associates on their findings from the execution of their planned work procedures and the conclusion from their completion of audit; • Evaluating the appropriateness of significant consolidation adjustments made by the management of the Group to conform the accounting policies of the associates to those of the Group for like transactions and events in similar circumstances; and • Assessing the sufficiency and appropriateness of audit evidence obtained from work performed by auditor of an individually material associate of the Group by reviewing its audit documentation where we considered necessary.

KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of goodwill attributable to ports operation	
We identified the impairment assessment of goodwill attributable to the Group's ports operation as a key audit matter due to the involvement of significant management judgement and assumptions in this assessment. As disclosed in note 16(b) to the consolidated financial statements, the carrying amount of goodwill attributable to the Group's ports operation amounted to HK$5,759 million as at 31 December 2020. For the purpose of assessing impairment, the recoverable amounts of the cash-generating units including goodwill have been determined by the management of the Group based on value in use calculations using financial budgets based on past performance and expectation for market development, where the key input parameters include growth rates and discount rates. Based on the management's assessment, an impairment loss of goodwill attributable to ports operation in Mainland China amounted to HK$621 million is recognised for the year ended 31 December 2020. There is no impairment of goodwill attributable to other Group's ports operation as at 31 December 2020 based on the calculations of value in use.	Our procedures in relation to the impairment assessment of goodwill of the Group's ports operation included: • Understanding the Group's impairment testing process, assumptions used and the extent of involvement of valuer; • Evaluating the historical accuracy and reasonableness of financial budgets by checking to current year financial information; • Evaluating the reasonableness of the management's estimate of growth rates in determining the value in use with reference to the historical performance and the latest budgets of the Group and market data; • Working with our internal valuation specialists to assess the appropriateness of basis of calculation of the value in use prepared by the management, including the reasonableness of the discount rates with reference to the current market risk-free rate of interest, national specific risk factor and the industry specific risk factor; • Checking the mathematical accuracy of the value in use calculation of the recoverable amount of each cash-generating unit of the Group's ports operation prepared by the management; and • Evaluating the disclosure of the impairment assessment of goodwill attributable to ports operation.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Yu Kin Man.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

30 March 2021

Consolidated Statement of Profit or Loss

For the year ended 31 December 2020

	Note	2020 HK$'million	2019 HK$'million
Revenue	5	8,945	8,898
Cost of sales		(5,201)	(5,182)
Gross profit		3,744	3,716
Other income and other gains, net	8	1,852	6,948
Administrative expenses		(1,371)	(1,421)
Finance income	12	298	214
Finance costs	12	(1,822)	(1,996)
Finance costs, net	12	(1,524)	(1,782)
Share of profits less losses of			
Associates		4,117	3,764
Joint ventures		340	531
		4,457	4,295
Profit before taxation		7,158	11,756
Taxation	13	(1,077)	(2,518)
Profit for the year	7	6,081	9,238
Attributable to:			
Equity holders of the Company		5,151	8,362
Owners of perpetual capital securities		52	—
Non-controlling interests		878	876
Profit for the year		6,081	9,238
Dividends	14	2,516	2,752
Earnings per share for profit attributable to equity holders of the Company	15		
Basic (HK cents)		146.25	247.84

Consolidated Statement of Profit or Loss and other Comprehensive Income

For the year ended 31 December 2020

	Note	2020 HK$'million	2019 HK$'million
Profit for the year		**6,081**	9,238
Other comprehensive income/(expense)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences from retranslation of investments in subsidiaries, associates and joint ventures		**4,407**	(3,402)
Release of reserves upon obtaining control of a non-wholly owned subsidiary	39	**(87)**	—
Share of other reserve of a joint venture		**6**	(26)
Items that will not be reclassified subsequently to profit or loss:			
Net actuarial gain/(loss) on defined benefit plans of subsidiaries		**29**	(3)
Share of other reserves of associates		**6**	47
Share of net actuarial loss on defined benefit plans of associates		**(35)**	(30)
Total other comprehensive income/(expense) for the year, net of tax		**4,326**	(3,414)
Total comprehensive income for the year		**10,407**	5,824
Total comprehensive income attributable to:			
Equity holders of the Company		**8,992**	5,248
Owners of perpetual capital securities		**52**	—
Non-controlling interests		**1,363**	576
		10,407	5,824

Consolidated Statement of Financial Position

As at 31 December 2020

	Note	2020 HK$'million	2019 HK$'million
ASSETS			
Non-current assets			
Goodwill	16	5,759	6,931
Intangible assets	16	9,369	10,244
Property, plant and equipment	17	26,509	23,870
Right-of-use assets	18	16,553	15,435
Investment properties	19	8,918	8,246
Interests in associates	21	67,426	58,052
Interests in joint ventures	22	9,091	9,648
Other financial assets	23	7,258	2,668
Other non-current assets	24	1,305	1,218
Deferred tax assets	36	420	260
		152,608	136,572
Current assets			
Inventories	25	179	125
Other financial assets	23	81	905
Debtors, deposits and prepayments	26	5,493	3,435
Taxation recoverable		8	35
Cash and bank balances	27	11,290	7,800
		17,051	12,300
Non-current assets held for sale	28	405	210
		17,456	12,510
Total assets		170,064	149,082

Consolidated Statement of Financial Position

As at 31 December 2020

	Note	2020 HK$'million	2019 HK$'million
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	29	42,521	40,614
Reserves		43,501	37,169
Proposed dividend	14	1,867	2,000
		87,889	79,783
Perpetual capital securities	30	6,237	—
Non-controlling interests		19,509	14,351
Total equity		113,635	94,134
LIABILITIES			
Non-current liabilities			
Bank and other borrowings	33	30,240	29,419
Lease liabilities	34	886	918
Other non-current liabilities	35	5,229	5,421
Deferred tax liabilities	36	4,482	3,668
		40,837	39,426
Current liabilities			
Creditors and accruals	37	4,152	4,707
Bank and other borrowings	33	8,952	8,995
Lease liabilities	34	76	84
Taxation payable		2,412	1,736
		15,592	15,522
Total liabilities		56,429	54,948
Total equity and liabilities		170,064	149,082
Net current assets/(liabilities)		1,864	(3,012)
Total assets less current liabilities		154,472	133,560

The consolidated financial statements on pages 121 to 249 were approved and authorised for issue by the Board of Directors on 30 March 2021 and are signed on its behalf by:

Mr. Deng Renjie
DIRECTOR

Mr. Bai Jingtao
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Note	Attributable to equity holders of the Company				Perpetual capital securities	Non-controlling interests	Total
		Share capital HK$'million	Other reserves HK$'million (note 32)	Retained earnings HK$'million	Total HK$'million	HK$'million (note 30)	HK$'million	HK$'million
As at 1 January 2020		40,614	1,017	38,152	79,783	—	14,351	94,134
COMPREHENSIVE INCOME								
Profit for the year		—	—	5,151	5,151	52	878	6,081
Other comprehensive income/(expense)								
Exchange differences from retranslation of investments in subsidiaries, associates and joint ventures		—	3,934	—	3,934	—	473	4,407
Release of reserves upon obtaining control of a non-wholly owned subsidiary	39	—	(87)	—	(87)	—	—	(87)
Share of other reserves of associates and a joint venture		—	12	—	12	—	—	12
Net actuarial gain on defined benefit plans of subsidiaries		—	—	17	17	—	12	29
Share of net actuarial loss on defined benefit plans of associates		—	—	(35)	(35)	—	—	(35)
Total other comprehensive income/(expense) for the year, net of tax		—	3,859	(18)	3,841	—	485	4,326
Total comprehensive income for the year		—	3,859	5,133	8,992	52	1,363	10,407
TRANSACTIONS WITH OWNERS								
Issue of shares in lieu of dividends	29	1,907	—	—	1,907	—	—	1,907
Issue of perpetual capital securities	30	—	—	—	—	6,185	—	6,185
Transfer to reserves		—	348	(348)	—	—	—	—
Acquisition of additional interests in subsidiaries	20(b)	—	(588)	(3)	(591)	—	591	—
Disposal of interests in subsidiaries to non-controlling equity holders without losing control therein	20(c)	—	296	77	373	—	1,704	2,077
Obtaining control of a non-wholly owned subsidiary	39	—	(84)	84	—	—	2,171	2,171
Contribution from immediate holding company		—	17	—	17	—	—	17
Share of other changes in equity attributable to equity holders of associates		—	57	—	57	—	—	57
Dividends	45	—	—	(2,649)	(2,649)	—	(671)	(3,320)
Total transactions with owners for the year		1,907	46	(2,839)	(886)	6,185	3,795	9,094
As at 31 December 2020		42,521	4,922	40,446	87,889	6,237	19,509	113,635

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Note	Attributable to equity holders of the Company				Non-controlling interests	Total
		Share capital HK$'million	Other reserves HK$'million (note 32)	Retained earnings HK$'million	Total HK$'million	HK$'million	HK$'million
As at 31 December 2018 (audited)		39,070	2,968	33,283	75,321	12,683	88,004
Adjustments upon application of HKFRS 16		—	—	(118)	(118)	(19)	(137)
As at 1 January 2019 (adjusted)		39,070	2,968	33,165	75,203	12,664	87,867
COMPREHENSIVE INCOME							
Profit for the year		—	—	8,362	8,362	876	9,238
Other comprehensive (expense)/income							
Exchange differences from retranslation of investments in subsidiaries, associates and joint ventures		—	(3,103)	—	(3,103)	(299)	(3,402)
Release of the fair value of equity instruments at fair value through other comprehensive income ("FVTOCI"), net of deferred taxation		—	(5)	5	—	—	—
Share of other reserves of associates and a joint venture		—	21	—	21	—	21
Net actuarial loss on defined benefit plans of subsidiaries		—	—	(2)	(2)	(1)	(3)
Share of net actuarial loss on defined benefit plans of associates		—	—	(30)	(30)	—	(30)
Total other comprehensive expense for the year, net of tax		—	(3,087)	(27)	(3,114)	(300)	(3,414)
Total comprehensive (expense)/income for the year		—	(3,087)	8,335	5,248	576	5,824
TRANSACTIONS WITH OWNERS							
Issue of shares in lieu of dividends	29	1,544	—	—	1,544	—	1,544
Transfer to reserves		—	207	(207)	—	—	—
Disposal of interests in subsidiaries to non-controlling equity holders without losing control therein	20(d)	—	572	42	614	1,330	1,944
Share of other changes in equity attributable to equity holders of associates		—	329	—	329	—	329
Repayment of capital contribution to a non-controlling equity holder		—	—	—	—	(2)	(2)
Capital contribution to a subsidiary		—	—	—	—	31	31
Dividends	45	—	—	(3,183)	(3,183)	(269)	(3,452)
Contribution from a non-controlling equity holder of a subsidiary		—	28	—	28	21	49
Total transactions with owners for the year		1,544	1,136	(3,348)	(668)	1,111	443
As at 31 December 2019		40,614	1,017	38,152	79,783	14,351	94,134

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Note	2020 HK$'million	2019 HK$'million
Cash flows from operating activities			
Net cash inflow from operations	38(a)	4,536	4,954
Hong Kong Profits Tax paid		(5)	(3)
PRC corporate income tax paid		(313)	(331)
Overseas Profits Tax paid		(4)	(78)
Withholding tax paid on dividends received		(154)	(211)
Dividends received from associates and joint ventures		1,762	1,979
Net cash generated from operating activities		5,822	6,310
Cash flows used in investing activities			
Proceeds from disposal of property, plant and equipment		25	82
Compensation for resumption of land parcels at Qianhai received		—	6,457
Compensation for resumption of land parcels at Shantou received		180	516
Repayment from an associate		37	—
Proceeds from an associate		209	—
Interest income received		252	217
Investments in associates and joint ventures		(4)	(8,905)
Investment in financial assets at fair value through profit or loss ("FVTPL")		—	(49)
Purchase of property, plant and equipment and port operating rights		(1,789)	(2,677)
Acquisition of right-of-use assets		—	(217)
Capital contribution to an associate	21	(3,055)	—
Loans to associates	21	(3,303)	—
Payments relating to disposal of subsidiaries in prior year		—	(78)
Cash and bank balances acquired through obtaining control of a non-wholly owned subsidiary	39	367	—
Placement of other deposits		(5,138)	(1,575)
Proceeds from withdrawal of other deposits		5,951	2,642
Repayment from a related party		—	1,177
Proceeds from share reduction in registered capital of an associate		105	—
Net cash used in investing activities		(6,163)	(2,410)
Net cash (outflow)/inflow before financing activities carried forward		(341)	3,900

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Note	2020 HK$'million	2019 HK$'million
Net cash (outflow)/inflow before financing activities brought forward		**(341)**	3,900
Cash flows from/(used in) financing activities			
Proceeds from bank loans		**18,976**	7,052
Net proceeds on issue of perpetual capital securities	30	**6,185**	—
Loans from fellow subsidiaries		**224**	903
Loan from immediate holding company		**491**	1,032
Capital contributions from non-controlling equity holders of subsidiaries		**—**	31
Dividends paid to ordinary shareholders		**(742)**	(1,639)
Dividends paid to non-controlling equity holders of subsidiaries		**(687)**	(213)
Interests paid		**(1,782)**	(1,998)
Repayment of bank loans		**(17,019)**	(7,042)
Repayment of notes payable		**(1,551)**	(617)
Repayment of loan from immediate holding company		**—**	(661)
Repayment of loans from fellow subsidiaries		**(828)**	(490)
Repayment of loan from an associate		**—**	(276)
Repayment of lease liabilities		**(134)**	(116)
Repayment of capital contribution to a non-controlling equity holder		**—**	(2)
Acquisition of additional interests in subsidiaries	20(b)	**(835)**	—
Proceeds from disposal of partial interests in subsidiaries	20(c) & (d)	**2,077**	1,944
Net cash from/(used in) financing activities		**4,375**	(2,092)
Increase in cash and cash equivalents		**4,034**	1,808
Cash and cash equivalents at 1 January		**6,939**	5,238
Effect of foreign exchange rate changes		**244**	(107)
Cash and cash equivalents at 31 December, represented by cash and bank balances		**11,217**	6,939

1. GENERAL INFORMATION

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

The Company is a limited liability company incorporated in Hong Kong and has its shares listed on The Stock Exchange of Hong Kong Limited (the "HKSE").

As at 31 December 2020, China Merchants Port Group Co., Ltd. ("CMPG", a company established in the People's Republic of China ("PRC") and whose shares are listed on the Shenzhen Stock Exchange. CMPG, together with its subsidiaries, the "CMPG Group") directly held 41.85% of the total issued share capital of the Company. Pursuant to an entrustment agreement with China Merchants Holdings (Hong Kong) Company Limited ("CMHK", a company incorporated in Hong Kong and an indirect subsidiary of China Merchants Group Limited ("CMG")) (the "Acting in Concert Agreement"), CMPG has the power to direct the voting right over approximately 22.36% of the total issued share capital of the Company held by China Merchants Union (BVI) Limited ("CMU", a company incorporated in the British Virgin Islands held as to 50% by CMG), and accordingly, has the power to direct the voting right over 64.21% of the total issued share capital of the Company. The directors of the Company regard therefore CMPG as immediate holding company.

CMG, directly and indirectly, including through CMPG Group as described above, and its other subsidiaries held an effective interest of approximately 40.90% of the issued share capital of the Company. CMG therefore, directly and indirectly, including through CMPG and its subsidiaries, and CMU, has the power to direct voting right over approximately 64.94% of the total issued share capital of the Company. Accordingly, the directors of the Company regard CMG as being the ultimate holding company.

CMG is a state-owned enterprise registered in the PRC and regulated and directly managed by the State-owned Assets Supervision and Administration Commission of the State Council, the PRC government.

The address of the Company's registered office is 38/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies of the Group applied below are the same as the accounting policies of the Group's reportable segments. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the Hong Kong Companies Ordinance. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the HKSE (the "Listing Rules").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

The directors of the Company have, at the time of approving the consolidated financial statements, a reasonable expectation the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

The consolidated financial statements have been prepared on the historical cost basis, as modified by the revaluation of investment properties, financial assets at FVTPL, equity instruments at FVTOCI and financial liabilities at FVTPL which are carried at fair value at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are accounted for in accordance with HKFRS 16 "Leases" ("HKFRS 16"), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets" ("HKAS 36").

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For financial instruments and investment properties which are transacted at fair value and a valuation technique that unobservable inputs are to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the result of the valuation technique equals the transaction price.

In addition, for financial reporting purpose, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

(i) Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The application of the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the amendments to HKFRSs in the current year had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(ii) New and amendments to HKFRSs in issue but are not yet effective for the financial year beginning 1 January 2020 and have not been early adopted by the Group

		Effective for annual periods beginning on or after (Note (a))
HKFRS 17	Insurance Contracts and the related Amendments	1 January 2023
Amendment to HKFRS 16	COVID-19-Related Rent Concessions	1 June 2020
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform - Phase 2	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Note (b)
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)	1 January 2023
Amendments to HKAS 16	Property, Plant and Equipment - Proceeds before Intended Use	1 January 2022
Amendments to HKAS 37	Onerous Contracts - Costs of Fulfilling a Contract	1 January 2022
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018 - 2020	1 January 2022

Notes:

(a) Early application permitted for these new standards or amendments to existing standards.

(b) Effective for annual periods beginning on or after a date to be determined.

The directors of the Company anticipate that the application of the new and amendments to HKFRSs will have no material impact to the consolidated financial statements in the foreseeable future.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries as at 31 December.

(i) Subsidiaries

Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its investment with the investee; and
- has the ability to use its power to affect the returns of the investee.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it the power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation (continued)

(i) Subsidiaries (continued)

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated in full on consolidation.

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

(a) Business combinations

The Group applies the acquisition method of account for business combinations, other than business combination under common control. The consideration transferred for the acquisition of a subsidiary is the aggregate fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Except for certain recognition exemptions, the identifiable assets acquired and liabilities assumed must meet the definitions of an asset and a liability in the Framework for the Preparation and Presentation of Financial Statements (replaced by the Conceptual Framework for Financial Reporting issued in October 2010).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation (continued)

(i) Subsidiaries (continued)

(a) Business combinations (continued)

At the acquisition date, identifiable assets acquired and liabilities and contingent liabilities assumed are initially recognised at their fair values, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" ("HKAS 12") and HKAS 19 "Employee Benefits" respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date;
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard; and
- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which the lease term ends within 12 months of the acquisition date. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

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

The subsequent accounting for contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in the consolidated statement of profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation (continued)

(i) Subsidiaries (continued)

(a) Business combinations (continued)

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Acquisition-related costs are expensed as incurred.

When a business combination is achieved in stages, the acquirer's previously held interest in the acquiree is remeasured to fair value at the latest acquisition date and the resulting gain or loss, if any, is recognised in the profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income and measured under HKFRS 9 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed as at acquisition date. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the consolidated statement of profit or loss as a bargain purchase gain after reassessment of all identifiable assets and liabilities.

(b) Asset acquisition

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to investment properties which are subsequently measured under fair value model and financial assets and financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

(c) Optional concentration test

Effective from 1 January 2020, the Group can elect to apply an optional concentration test, on a transaction-by-transaction basis, that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. If the concentration test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation (continued)

(i) Subsidiaries (continued)

(d) Changes in ownership interests in existing subsidiaries without change of control

Transactions with non-controlling interests that do not result in change of control are accounted for as equity transactions - that is, as transactions with the owners in their capacity as owners. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interest in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interest's proportional interests. Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

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

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, a joint venture or a financial asset. Difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill) and liabilities of the subsidiary attributable to the owners of the Company is recognised in the consolidated statement of profit or loss. In addition, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the consolidated statement of profit or loss, or transferred to another category of equity as specified/permitted by applicable HKFRSs.

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

(ii) Associates and joint ventures

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating party has unilateral control over the economic activity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation (continued)

(ii) Associates and joint ventures (continued)

The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. For associates and joint ventures using accounting policies that differ from those of the Group for like transactions and events in similar circumstances, appropriate adjustments have been made to conform the accounting policies of the associates and/or the joint ventures to those of the Group. Under the equity method, an investment is initially recognised at cost from the date on which the investee becomes an associate or a joint venture, and the carrying amount is increased or decreased to adjust for the post-acquisition changes in the investor's share of the net assets of the investee after the date of acquisition. The Group's interests in associates and joint ventures include goodwill identified on acquisition.

The Group's share of profits or losses of associates and joint ventures is recognised in the consolidated statement of profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate or joint venture equals or exceeds its interest in that associate or joint venture, including any long-term interests that in substance, form part of the Group's net investment in the associate or joint venture, the Group discontinues recognising its shares of further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation (continued)

(ii) Associates and joint ventures (continued)

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Group retain an interest of the former associate or joint venture and the retained interest is a financial asset within the scope of HKFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the previous carrying amount of the associate or joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to the consolidated statement of profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

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

2.3 Segment reporting

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in consolidated statement of profit or loss, except for exchange differences on foreign currency borrowing relating to assets under construction for future productive use, which are included in the cost of those assets and are regarded as an adjustment to interest costs on those foreign currency borrowings.

All foreign exchange gains and losses are presented in the consolidated statement of profit or loss within "other income and other gains, net".

Translation differences on non-monetary financial assets, such as equity investments classified as FVTOCI are included in other comprehensive income.

(iii) Group companies

The results and financial position of all group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the year end exchange rate;
- income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the year end exchange rate. Exchange differences arising therefrom are recognised in other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Foreign currency translation (continued)

(iv) Disposal and partial disposal of foreign operation

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to consolidated statement of profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in the consolidated statement of profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to consolidated statement of profit or loss.

2.5 Property, plant and equipment

Property, plant and equipment comprise mainly land and buildings, harbour works, buildings and dockyard, plant, machinery, furniture and equipment, vessels and ships, motor vehicles and leasehold improvements. All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of profit or loss during the period in which they are incurred.

Buildings in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition. To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "right-of-use assets" in the consolidated statement of financial position except for those that are classified and accounted for as investment properties under the fair value model. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Property, plant and equipment (continued)

Leasehold land commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land and depreciation of other assets is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Leasehold land	Shorter of remaining lease term of 50 years or useful life
Buildings	Shorter of the lease term or 50 years
Harbour works, buildings and dockyard	8 to 40 years
Plant and machinery	3 to 20 years
Furniture and equipment	3 to 20 years
Vessels and ships	15 to 25 years
Motor vehicles	5 to 10 years
Leasehold improvements	Shorter of the lease term or 5 to 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of the reporting period.

No depreciation is provided on assets under construction. All direct costs relating to the construction of property, plant and equipment including interests and finance costs and foreign exchange differences of the related borrowed funds up to the extent that they are regarded as an adjustment to interest costs during the construction period are capitalised as the cost of the property, plant and equipment.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.8).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other income and other gains, net" in the consolidated statement of profit or loss.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item (including the relevant prepaid lease payment) at the date of transfer is recognised in other comprehensive income and accumulated in equity. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained earnings.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under construction for such purposes). Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose. Investment properties also include leased properties which are being recognised as right-of-use assets and subleased by the Group under operating leases.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair value, adjusted to exclude any prepaid or accrued operating lease income. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recognised in the consolidated statement of profit or loss as part of a valuation gain or loss in "other income and other gains, net".

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

An investment property is transferred to property, plant and equipment at the fair value when there is a change of use, as evidenced by commencement of owner-occupation of the relevant properties.

2.7 Goodwill and intangible assets

(i) Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and, liabilities and contingent liabilities assumed as at acquisition date.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of CGUs).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Goodwill and intangible assets (continued)

(ii) Port operating rights

Port operating right primarily resulted from the entering of agreement for the right to construct, operate, manage and develop container terminals. Operating right is carried at cost less accumulated amortisation and impairment. Amortisation is calculated using an economic usage basis which is based on the ratio of minimum guaranteed output volume compared to the total minimum guaranteed output volume over the periods which the Group is granted the operating rights on the relevant container terminals. When the pattern of consumption of future economic benefits of the asset cannot be determined reliably, the straight-line method over the period in which the Group operates the relevant terminals is used. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

(iii) Other intangible assets

Other intangible assets acquired are recognised at fair value at the acquisition date. For those items having finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method over the expected life of 5 to 50 years. Those with indefinite useful lives that are acquired in a business combination are carried at cost less any subsequent accumulated impairment losses.

Intangible assets are derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of intangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of profit or loss in the period when the asset is derecognised.

2.8 Impairment of property, plant and equipment, right-of-use assets and intangible assets other than goodwill

Property, plant and equipment, right-of-use assets and intangible assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, the recoverable amount of tangible and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the CGU to which the asset belongs. In addition, corporate assets are allocated to individual CGUs when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be established. The Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, the recoverable amount is determined for the CGU or group of CGUs to which the corporate asset belongs, and is compared with the carrying amount of the relevant CGU or group of CGUs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Impairment of property, plant and equipment, right-of-use assets and intangible assets other than goodwill (continued)

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a CGU, the Group compares the carrying amount of a group of CGUs, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of CGUs, with the recoverable amount of the group of CGUs. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of CGUs. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro-rata to the other assets of the unit or the group of CGUs. An impairment loss is recognised immediately in profit or loss. Property, plant and equipment, right-of-use assets and intangible assets other than goodwill that suffered from an impairment are reviewed for possible reversal of the impairment at each reporting date.

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

2.9 Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets

(i) Classification

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

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

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

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

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

A financial asset is held for trading if:

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets (continued)

(ii) Recognition and measurement

Amortised cost and interest income

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

Equity instruments designated as at FVTOCI

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

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

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

Financial assets at FVTPL

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets (continued)

(iii) Derecognition of financial assets

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

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

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

2.11 Impairment of financial assets and financial guarantee contracts

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets and financial guarantee contracts which are subject to impairment assessment under HKFRS 9 (including trade debtors, other debtors and other financial assets). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Impairment of financial assets and financial guarantee contracts (continued)

Significant increase in credit risk

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

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

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

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

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Impairment of financial assets and financial guarantee contracts (continued)

Definition of default

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

Credit-impaired financial assets

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

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

Write-off policy

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

Measurement and recognition of ECL

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Impairment of financial assets and financial guarantee contracts (continued)

Measurement and recognition of ECL (continued)

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

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

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

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

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

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

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

Except for financial guarantee contracts, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade debtors where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in other comprehensive income and accumulated in reserve without reducing the carrying amount of these debt instruments/receivables. Such amount represents the changes in reserve in relation to accumulated loss allowance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories is determined using the weighted average cost method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.13 Debtors

Trade debtors are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection from debtors are expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

2.14 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.15 Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Perpetual instruments, which include no contractual obligation for the Group to deliver cash or other financial assets or the Group has the sole discretion to defer payment of distribution and redemption of principal amount indefinitely are classified as equity instruments.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Financial liabilities and equity (continued)

Financial liabilities

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

Financial liabilities at FVTPL

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

A financial liability is held for trading if:

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

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

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

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Financial liabilities and equity (continued)

Other financial liabilities at amortised cost

Other financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Financial liabilities including bank and other borrowings and creditors and accruals are subsequently measured at amortised cost, using the effective interest method.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Financial guarantee contract liabilities are measured initially at their fair values. It is subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with HKFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

Derecognition of financial liabilities

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

2.16 Creditors

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Creditors are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer), is held primarily for trading, or the Group has no unconditional right to defer the settlement for at least 12 months after the end of the reporting period. If not, they are presented as non-current liabilities.

Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Borrowing costs (continued)

Any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated statement of profit or loss in the period in which they are incurred.

2.18 Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the consolidated statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(i) Current income tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of reporting period in the countries where the Company and its subsidiaries, associates and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred tax

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Current and deferred income tax (continued)

(ii) Deferred tax (continued)

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

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

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

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

Deferred tax is provided on temporary differences arising on interests in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

(iii) Offsetting

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes assets and liabilities relate to income taxes levied to the same taxable entity by the same taxation authority.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Employee benefits

(i) Pension obligations

Group companies operate various pension schemes contribution. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined contribution and defined benefit plans.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group contributes to defined contribution provident funds, including the scheme set up under the Hong Kong Mandatory Provident Fund Schemes Ordinance ("MPF Scheme"), which are available to all employees in Hong Kong. In accordance with the terms of the provident funds, contributions to the schemes by the Group and the employees are calculated as a percentage of the employees' basic salaries. For the MPF Scheme, both the employees and the employer are required to contribute 5% of the employees' monthly salaries up to a specified maximum amount ("mandatory contribution") and employees can choose to make additional contributions. The employees are entitled to 100% of the employer's mandatory contributions upon their retirement age of 65 years old, death or total incapacity. For the schemes other than the MPF Scheme, the unvested benefits of employees forfeited upon termination of employment can be utilised by the Group to reduce future levels of contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, is reflected immediately in the consolidated statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Past service cost is recognised in profit or loss in the period of a plan amendment or curtailment and a gain or loss on settlement is recognised when settlement occurs. When determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability or asset using the current fair value of plan assets and current actuarial assumptions, reflecting the benefits offered under the plan and the plan assets before and after the plan amendment, curtailment or settlement, without considering the effect of asset ceiling (i.e. the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan).

Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. However, if the Group remeasures the net defined benefit liability or asset before plan amendment, curtailment or settlement, the Group determines net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the benefits offered under the plan and the plan assets after the plan amendment, curtailment or settlement and the discount rate used to remeasure such net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period resulting from contributions or benefit payments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Employee benefits (continued)

(i) Pension obligations (continued)

Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

The Group presents the first two components of defined benefit costs in profit or loss. Curtailment gains and losses are accounted for as past service costs.

(ii) Other post-employment obligations

The Group also participates in the employee retirement benefits plan of the respective governments in various jurisdiction where the Group operates. The Group is required to make monthly contributions calculated as a percentage of the monthly payroll costs and the respective municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group.

The Group's contributions to the schemes are expensed as incurred.

(iii) Termination obligations

A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring costs. Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

(iv) Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset. A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise provision for assets relocation and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the best estimate of the consideration required to settle the present obligation at the end of the reporting period using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.21 Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 Revenue from contracts with customers (continued)

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

Output method

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

As a practical expedient, if the Group has a right to consideration in an amount that corresponds directly with the value of the Group's performance completed to date, the Group recognises revenue in the amount to which the Group has the right to invoice.

Refund liabilities

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

Variable consideration

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

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

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

2.22 Leases

(i) Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Leases (continued)

(ii) The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the consolidated financial statements would not differ materially from individual leases within the portfolio.

Short-term leases

The Group applies the short-term lease recognition exemption to leases of plant, machinery, furniture and equipment, that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Except for those that are classified as investment properties and measured under fair value model, right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful lives and the lease terms.

When the Group obtains ownership of the underlying leased assets at the end of the lease term, upon exercising purchase option, the cost of the relevant right-of-use assets and the related accumulated depreciation and impairment loss are transferred to property, plant and equipment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Leases (continued)

(ii) The Group as a lessee (continued)

Right-of-use assets (continued)

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item on the consolidated statement of financial position. Right-of-use assets that meet the definition of investment property are presented within "investment properties".

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Leases (continued)

(ii) The Group as a lessee (continued)

Lease modifications (continued)

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

(iii) The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

Rental income which are derived from the Group's ordinary course of business are presented as revenue.

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies HKFRS 15 to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Lease modification

Changes in considerations of lease contracts that were not part of the original terms and conditions are accounted for as lease modifications, including lease incentives provided through forgiveness or reduction of rentals.

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's consolidated financial statements in the period in which the dividends are authorised by the Company's shareholders.

Dividends proposed before the consolidated financial statements were authorised for issue but not yet authorised by the Company's shareholders during the period is presented separately as proposed dividend under equity.

2.24 Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Government grants relating to compensation of expenses are deducted from the related expenses, other government grants are presented under "other income and other gains, net".

2.25 Non-current assets held for sale

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

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in the relevant subsidiary after the sale. When a sale plan involves disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale from the time when the investment (or a portion of the investment) is classified as held for sale.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 Share-based payments

Equity-settled share-based payments transactions

Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based payments reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve.

When share options are exercised, the amount previously recognised in share-based payments reserve will be transferred to share capital. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share-based payments reserve will be transferred to retained profits.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's principal activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk, fair value interest rate risk and cash flow interest rate risk), credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise any potential adverse effects on the Group's financial performance. Risk management is carried out by senior management of the Group under policies approved by the directors of the Company.

(i) Market risk

(a) Foreign exchange risk

Majority of the subsidiaries of the Company operate in Mainland China and most of their transactions are denominated in Renminbi, Hong Kong dollar or United States dollar. The Group is exposed to foreign exchange risk primarily through sales and purchases, capital expenditure and expenses transactions that are denominated in currencies other than the functional currency of the subsidiaries.

The Group considers its foreign currency exposure is mainly arising from the exposure of Hong Kong dollar against Renminbi, United States dollar, Euro and Brazilian Real.

The Group manages its exposures to foreign currency transactions by monitoring the level of foreign currency receipts and payments. The Group ensures that the net exposure to foreign exchange risk is kept to an acceptable level from time to time. The Group is presently not using forward exchange contracts to hedge foreign exchange risk arising from sales and purchase, capital expenditure and expenses transactions.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(i) Market risk (continued)

(a) Foreign exchange risk (continued)

The Group also regularly monitors its portfolio of local and international customers and the currencies in which the transactions are denominated so as to minimise the Group's exposure to foreign exchange risk.

As at 31 December 2020, 59% (2019: 59%) of the Group's borrowings are denominated in United States dollar, 24% (2019: 23%) are denominated in Renminbi, 4% (2019: 5%) are denominated in Euro, 3% (2019: 5%) are denominated in Brazilian Real and 10% (2019: 8%) are denominated in Hong Kong dollar. Majority of the Group's operating subsidiaries draw loans in their functional currencies to finance their funding requirements and no significant foreign exchange risk is expected to arise from these borrowings. The Group also utilised its United States dollar and Renminbi denominated notes payable to finance its capital investments and working capital.

At 31 December 2020, if Renminbi had strengthened/weakened against the other currencies by 3% (2019: 3%) with all other variables held constant, profit for the year would have been approximately HK$91 million lower/higher (2019: HK$100 million lower/higher) mainly as a result of decrease/increase (2019: decrease/increase) in net foreign exchange gains on translation of cash and cash equivalents, debtors, creditors and bank and other borrowings denominated in non-functional currencies of the relevant group companies.

At 31 December 2020, if United States dollar had strengthened/weakened against the other currencies by 0.5% (2019: 0.5%) with all other variables held constant, profit for the year would have been approximately HK$129 million lower/higher (2019: HK$98 million lower/higher) mainly as a result of decrease/increase (2019: decrease/increase) in net foreign exchange gains on translation of cash and cash equivalents, debtors, creditors and bank and other borrowings denominated in non-functional currencies of the relevant group companies.

(b) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group that are classified on the consolidated statement of financial position as financial assets at FVTPL and equity instruments at FVTOCI. At 31 December 2020, if there had been a 10% (2019: 10%) increase/decrease in the prices of the respective equity instruments with all other variables held constant, (i) profit for the year ended 31 December 2020 would increase/decrease by HK$296 million (2019: HK$265 million) as a result of the changes in fair value of the financial assets at FVTPL and (ii) other comprehensive income, net of deferred tax, for the year ended 31 December 2020 would increase/decrease by HK$3 million (2019: HK$1 million) as a result of the changes in fair value of the equity instruments at FVTOCI. The Group is not exposed to commodity price risks and has not entered into any derivatives to manage exposures of price risk.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(i) Market risk (continued)

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

The Group's interest rate risk mainly arises from interest-bearing borrowings. Financial assets and financial liabilities issued at variable rates expose the Group to cash flow interest rate risk whilst borrowings issued and lease liabilities at fixed rates expose the Group to fair value interest rate risk.

The Group adopts a policy of maintaining an appropriate mix of fixed and floating rate borrowings which is achieved primarily through the contractual terms of borrowings. The position is regularly monitored and evaluated by reference of anticipated changes in market interest rate. The Group did not use any interest rate swap to hedge its interest rate risk during the year.

Other than advances to associates and a joint venture and bank deposits as at 31 December 2020, the Group has no significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Accordingly, management does not anticipate any significant impact resulting from changes in interest rates on interest-bearing assets.

At 31 December 2020, if interest rates on borrowings had been 100 basis points (2019: 100 basis points) higher/lower with all other variables held constant, post-tax profit for the year would have been HK$143 million (2019: HK$123 million) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(ii) Credit risk and impairment assessment

Credit risk arises if a customer or other counterparty fails to meet its contractual obligations. As at 31 December 2020, other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk, the Group's maximum exposure to credit risk which will cause a financial loss to the Group arising from the amount of contingent liabilities in relation to financial guarantees provided by the Group is disclosed in note 40(d).

Credit risk on trade debtors is managed by the management of the individual business units and monitored by the Group's management on a group basis. The Group's trade debtors are mainly contributed by ports operation where their customers are mainly sizable and renowned international liners or market leaders in their industries with manageable credit risk. Management assesses, reviews and updates credit profile of the Group's trade debtors by considering its financial position, past experience and other relevant factors, in order to identify if any are of higher risks of default. For trade debtors spotted as of higher credit risks, management of the Group also implemented measures such as tightened credit terms and closer monitoring of the settlement patterns. Debtors with overdue balances will be requested to settle their outstanding balance. In addition, the Group performs impairment assessment under ECL model on trade balances individually for trade debtors with significant balances and collectively for others based on appropriate groupings. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Regarding amounts due from fellow subsidiaries, immediate holding company, associates and joint ventures, the management of the Group assesses the recoverability by reviewing the financial position and results of the related parties periodically and considers the credit risk to be insignificant.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(ii) Credit risk and impairment assessment (continued)

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

The Group has policies that limit the amount of credit exposure to any financial institutions. The Group's bank deposits are all deposited in reputable banks or financial institutions. Management considers that the credit risk associated with the deposits with these banks and financial institutions is low.

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

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

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(ii) Credit risk and impairment assessment (continued)

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

	Note	External credit rating	Internal credit rating	12m or lifetime ECL	2020 Gross carrying amount HK$'million	2020 Gross carrying amount HK$'million	2019 Gross carrying amount HK$'million	2019 Gross carrying amount HK$'million
Financial assets at amortised cost								
Trade debtors (Note (a))	26	N/A	A	Lifetime ECL (not credit-impaired)	583		442	
			B	Lifetime ECL (not credit-impaired)	367		397	
			C	Lifetime ECL (not credit-impaired)	59		75	
			D	Lifetime ECL (credit-impaired)	67	1,076	89	1,003
Amounts due from fellow subsidiaries (Note (b))	26	N/A	B	12m ECL	15	15	10	10
Amount due from immediate holding company (Note (b))	26	N/A	B	12m ECL	2	2	—	—
Amounts due from associates (Note (b))	26	N/A	B	12m ECL	98	98	134	134
Advances to associates (Note (b))	23	N/A	B	12m ECL	3,365	3,365	11	11
Amounts due from joint ventures (Note (b))	26	N/A	B	12m ECL	1	1	2	2
Advance to a joint venture (Note (b))	23	N/A	B	12m ECL	988	988	905	905

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(ii) Credit risk and impairment assessment (continued)

	Note	External credit rating	Internal credit rating	12m or lifetime ECL	2020 Gross carrying amount HK$'million	2020 Gross carrying amount HK$'million	2019 Gross carrying amount HK$'million	2019 Gross carrying amount HK$'million
Dividend receivables (Note (b))	26	N/A	A	12m ECL	290	290	498	498
Other debtors (Note (b))	26	N/A	B	12m ECL	3,702		1,761	
			D	Lifetime ECL (credit-impaired)	857	4,559*	38	1,799*
Cash and bank balances (Note (b))	27	A1 to Ba2	N/A	12m ECL	11,290	11,290	7,800	7,800
Other item								
Financial guarantee contracts (Note (c))	40(d)	N/A	A	12m ECL	307	307	314	314

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

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(ii) Credit risk and impairment assessment (continued)

Notes:

(a) For the trade debtors, the Group applied the simplified approach in HKFRS 9 to measure loss allowance at lifetime ECL. Except for debtors with significant outstanding balances, the Group determines the expected credit losses on these items by internal credit rating with appropriate groupings.

(b) For the purposes of internal credit risk management, the Group uses past due information and relevant credit information to assess whether credit risk has increased significantly since initial recognition.

	Past due HK$'million	Not past due/ no fixed repayment terms HK$'million	Total HK$'million
2020			
Amounts due from fellow subsidiaries	—	**15**	**15**
Amounts due from immediate holding company	—	**2**	**2**
Amounts due from associates	—	**98**	**98**
Advances to associates	—	**3,365**	**3,365**
Amounts due from joint ventures	—	**1**	**1**
Advance to a joint venture	—	**988**	**988**
Dividend receivables	—	**290**	**290**
Other debtors	**857**	**3,702**	**4,559**
Cash and bank balances	—	**11,290**	**11,290**
2019			
Amounts due from fellow subsidiaries	—	10	10
Amounts due from associates	—	134	134
Advance to an associate	—	11	11
Amounts due from joint ventures	—	2	2
Advance to a joint venture	—	905	905
Dividend receivables	—	498	498
Other debtors	38	1,761	1,799
Cash and bank balances	—	7,800	7,800

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

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(ii) Credit risk and impairment assessment (continued)

The following table summarises average loss rates of each internal credit rating of trade debtors:

Internal credit rating	Average loss rate	
	2020	2019
A	**0.06%**	0.01%
B	**0.21%**	0.08%
C	**2.36%**	1.57%
D	**81.86%**	93.82%

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

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

	Lifetime ECL (not credit-impaired) HK$'million	Lifetime ECL (credit-impaired) HK$'million	Total HK$'million
As at 1 January 2019	4	45	49
Impairment losses recognised	1	38	39
Impairment losses reversed	(1)	—	(1)
Exchange adjustments	—	(2)	(2)
As at 31 December 2019	**4**	**81**	**85**
Impairment losses recognised	—	**12**	**12**
Impairment losses reversed	**(1)**	**(37)**	**(38)**
Written-off	—	**(4)**	**(4)**
Exchange adjustments	—	**3**	**3**
As at 31 December 2020	**3**	**55**	**58**

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

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(ii) Credit risk and impairment assessment (continued)

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

	Lifetime ECL (credit-impaired) HK$'million
As at 1 January 2019	39
Exchange adjustments	(1)
As at 31 December 2019	**38**
Impairment loss recognised	**536**
Exchange adjustments	**44**
As at 31 December 2020	**618**

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

For financial guarantee contracts, the maximum amount that the Group has guaranteed under the respective contracts was HK$307 million as at 31 December 2020 (2019: HK$314 million). As at 31 December 2020 and 2019, the directors of the Company have performed impairment assessment, and concluded that the loss allowance for financial guarantee contracts, if any, should not be material to these consolidated financial statements.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(iii) Liquidity risk

Cash flow forecasts are prepared by management. Management monitors rolling forecasts on the Group's liquidity requirements to ensure the Group maintains sufficient liquidity reserve to support sustainability and growth of the Group's and the Company's business. Currently, the Group and the Company finance the working capital requirements through a combination of funds generated from operations and borrowings.

The rolling forecasts of the Group's liquidity reserve comprise undrawn facilities of bank loans and other debt financing instruments (note 33(f)) and cash and bank balances (note 27) on the basis of expected cash flow. The Group aims to maintain flexibility in funding while minimising its overall costs by keeping a mix of committed and uncommitted credit lines available.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows including both interest and principal.

	Within 1 year		Between 1 and 2 years		Between 2 and 5 years		More than 5 years		Total	
	2020 HK$'million	2019 HK$'million	**2020 HK$'million**	2019 HK$'million	**2020 HK$'million**	2019 HK$'million	**2020 HK$'million**	2019 HK$'million	**2020 HK$'million**	2019 HK$'million
Interest-bearing debts	**10,394**	10,557	**9,501**	3,602	**17,292**	19,432	**7,063**	11,093	**44,250**	44,684
Other financial liabilities included in creditors and accruals	**3,337**	3,099	**–**	–	**–**	–	**–**	–	**3,337**	3,099
	13,731	13,656	**9,501**	3,602	**17,292**	19,432	**7,063**	11,093	**47,587**	47,783
Lease liabilities	**125**	133	**54**	83	**158**	153	**1,485**	1,546	**1,822**	1,915

In addition to the above, a put option granted by the Group to the non-controlling equity holders of subsidiaries and Put Option Liability (as set out in note 37) arising from it amounting to HK$818 million as at 31 December 2019 were exercised in February 2020 and paid during the year respectively. Further details are set out in note 20(b).

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the overall cost of capital.

The Group prepares a five-year rolling forecast on its capital requirement in anticipation of funding requirement of new capital investments, capital expenditures of existing projects and repayment of borrowings. In order to maintain or adjust the capital structure, the Group may raise additional short-term or long-term borrowings, issue new shares or sell assets of non-core operations to reduce debts.

The Group monitors capital with reference to, inter alia, the net gearing ratios. These ratios are calculated as the aggregate of net interest-bearing debts and lease liabilities divided by equity attributable to the Company's equity holders and total equity.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Capital risk management (continued)

During the year, the Group's strategy was to maintain desired levels of net gearing ratios and based on which the Group's credit ratings had, inter alia, been reaffirmed at Baa1 by Moody's Asia Pacific Limited and BBB by Standard and Poor's. The net gearing ratios at 31 December 2020 and 2019 were as follows:

	2020 HK$'million	2019 HK$'million
Total interest-bearing debts and lease liabilities (notes 33 and 34)	40,154	39,416
Less: cash and bank balances (note 27)	(11,290)	(7,800)
Net interest-bearing debts and lease liabilities	28,864	31,616
Net gearing ratio:		
Net interest-bearing debts and lease liabilities divided by total equity	25.4%	33.6%

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value on a recurring basis by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (continued)

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The management engaged qualified external valuers to establish the appropriate valuation techniques and inputs to the models. Information about the valuation techniques and inputs used in determining the fair value of various assets is disclosed below.

(i) Fair value of financial instruments that are measured at fair value on a recurring basis

The following tables present the Group's financial instruments that are measured at fair value at 31 December 2020 and 2019:

	Level 1 HK$'million	Level 2 HK$'million	Level 3 HK$'million	Total HK$'million
At 31 December 2020				
Financial assets				
Financial assets at FVTPL	**2,952**	—	**3**	**2,955**
Equity instruments at FVTOCI	—	—	**31**	**31**
	2,952	—	**34**	**2,986**
Financial liabilities				
Financial liabilities at FVTPL	—	—	**(3,432)**	**(3,432)**
At 31 December 2019				
Financial assets				
Financial assets at FVTPL	1,957	688	3	2,648
Equity instruments at FVTOCI	—	—	9	9
	1,957	688	12	2,657
Financial liabilities				
Financial liabilities at FVTPL	—	—	(4,532)	(4,532)

Set out below is the information about how the fair values of the above financial instruments are determined, including the valuation techniques and inputs used:

The fair value of the freely traded listed equity instruments that are accounted for as financial assets at FVTPL is valued based on the quoted prices in active markets for the identical assets directly.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (continued)

(i) Fair value of financial instruments that are measured at fair value on a recurring basis (continued)

The unlisted equity instruments of a listed entity were transferred from level 3 to level 2 as the equity instruments have been listed during the prior year, and the shares held by the Group are restricted for sale upon listing and as at 31 December 2019.

The listed equity instruments of the listed entity were transferred from level 2 to level 1 as the restriction for sale of equity instruments have been released during the year ended 31 December 2020.

The fair value of other unlisted equity instruments that are accounted for as financial assets at FVTPL or equity instruments at FVTOCI is valued based on Guideline Publicly Traded Company method whereas the key inputs to the valuation models include the market multiples, share prices, volatilities and dividend yields of similar companies that are traded in a public market, discount of lack of marketability with reference to the share prices of listed enterprises in similar industries. As at 31 December 2020, if any of the significant unobservable input above was 5% (2019: 5%) higher/lower while all the other variables were held constant, the change in fair value of these unlisted equity instruments would be insignificant (2019: insignificant).

The fair value of the liabilities arising from the concession arrangements (see note 35) that are accounted for as financial liabilities at FVTPL is valued at the present value of the expected future economic benefits that will flow out of the Group arising from such obligation by using discounted cash flow method. The significant unobservable inputs are the factor of inflation and probability-adjusted business volume. As at 31 December 2020, if factor of inflation was 5% (2019: 5%) higher/lower while all the other variables were held constant, the changes in fair value of the liabilities arising from the concession arrangements would be HK$165 million (2019: HK$95 million). As at 31 December 2020, if the probability-adjusted business volume was 5% (2019: 5%) higher/lower while all the other variables were held constant, the increase/decrease in fair value of the liabilities arising from the concession arrangements would be HK$132 million (2019: HK$143 million).

The fair value of the Put Option Liability as at 31 December 2019 (as defined in note 37) that is accounted for as a financial liability at FVTPL is valued using Black-Scholes option model and the significant unobservable inputs used in the fair value measurement are the exercise price, the risk-free rate, the expected dividend yield, the expected volatility and the time-to-maturity. As at 31 December 2019, if the exercise price was 5% higher/lower while all the other variables was held constant, the increase/decrease in fair value of the put option would be insignificant. As at 31 December 2019, if any of the significant unobservable inputs, other than the exercise price, was 5% higher/lower while all the other variables were held constant, the change in fair value of the put option would be insignificant.

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (continued)

(i) Fair value of financial instruments that are measured at fair value on a recurring basis (continued)

There were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets or any reclassification of financial assets in the year.

The following table presents the changes in level 3 instruments for the years ended 31 December 2020 and 2019:

	Financial assets at FVTPL HK$'million	Equity instruments at FVTOCI HK$'million	Financial liabilities at FVTPL HK$'million
Year ended 31 December 2020			
As at 1 January 2020	**3**	**9**	**(4,532)**
Obtaining control of a non-wholly owned subsidiary (note 39)	—	**21**	—
Additions	—	—	—
Disposal	—	—	—
Exchange adjustments	—	**1**	**935**
Settlement	—	—	**930**
Unrealised fair value loss recognised in profit or loss	—	—	**(765)**
As at 31 December 2020	**3**	**31**	**(3,432)**
Year ended 31 December 2019			
As at 1 January 2019	612	110	(4,383)
Transfer to interest in associates	(282)	(102)	—
Transfer to level 2	(469)	—	—
Additions	49	—	—
Written off	(2)	—	—
Exchange adjustments	(2)	—	163
Settlement	—	—	102
Unrealised fair value gain/(loss) recognised in profit or loss	97	—	(414)
Unrealised fair value gain recognised in other comprehensive income (included in other reserves)	—	1	—
As at 31 December 2019	3	9	(4,532)

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation (continued)

(ii) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

Except for listed and unlisted notes stated in note 33, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values at the end of the reporting period.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 Key sources of estimation uncertainty

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimated impairment of goodwill

The Group tests, at least annually, whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2.7. The recoverable amounts of CGUs (or group of CGUs) have been determined based on value in use calculations, where the key input parameters include future growth rates and discount rates which are determined based on the valuation performed by independent professional valuer. These calculations require the use of estimates. Where the actual future cash flows are less than expected, or being revised downward due to changes in facts and circumstances, an impairment loss may arise. Furthermore, the estimated cash flows and discount rates are subject to higher degree of estimation uncertainties in the current year due to uncertainty on how the COVID-19 pandemic may progress and evolve and volatility in financial markets, including potential disruptions of the Group's operations. Details of the impairment loss calculation are set out in note 16(b).

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

4.2 Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see above), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Control over investees accounted for as subsidiaries

Certain entities are considered to be subsidiaries of the Company despite the interests therein are not more than 50% of the issued share capital of the relevant entities. Based on the contractual power pursuant to the relevant shareholders' agreements between the Group and the other shareholders, the Group has voting rights in the respective investees sufficient to give it the practical ability to direct the relevant activities of each of these investees unilaterally, and hence has control over these investees. Accordingly, those entities are accounted for as subsidiaries of the Company. Further details are set out in notes 39 and 42.

5. REVENUE

The principal activities of the Group comprise ports operation, bonded logistics operation and property investment. The following is an analysis of the Group's revenue from its major services offered during the year.

	2020 **HK$'million**	2019 HK$'million
Terminal handling charge, representing loading of cargos and containers on and off vessels at the Group's port terminals, stevedoring and the auxiliary services	**8,304**	8,243
Warehousing services income, representing temporary storage of cargos and containers, customs clearance services and the auxiliary services	**469**	467
Revenue from contracts with customers	**8,773**	8,710
Gross rental income that are fixed from investment properties (Note)	**172**	188
	8,945	8,898

Note: Direct operating expenses incurred for gross rental income from investment properties amounted to HK$54 million (2019: HK$56 million) during the year ended 31 December 2020.

5. REVENUE (CONTINUED)

Performance obligations for contracts with customers

Terminal handling services

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

Warehousing services

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

6. SEGMENT INFORMATION

The key management team of the Company is regarded as the CODM, who reviews the Group's internal reports in order to assess performance, allocate resources and determine the operating segments. The CODM manages the Group's operations by divisions from both business and geographic perspectives.

Individual operating segments for which discrete financial information is available are identified by the CODM and are operated by their respective management teams. These individual operating segments are aggregated in arriving at the reportable segments of the Group.

From business and financial perspectives, management assesses the performance of the Group's business operations including ports operation, bonded logistics operation and other operations.

(i) Ports operation includes container terminal operation, bulk and general cargo terminal operation operated by the Group and its associates and joint ventures.

The Group's reportable segments of the ports operation are as follows:

(a) Mainland China, Hong Kong and Taiwan

- Pearl River Delta
- Yangtze River Delta
- Bohai Rim
- Others

(b) Other locations outside of Mainland China, Hong Kong and Taiwan

6. SEGMENT INFORMATION (CONTINUED)

(ii) Bonded logistics operation includes logistic park operation, ports transportation and airport cargo handling operated by the Group and its associates and joint ventures.

(iii) Other operations mainly include property development and investment and logistics operation operated by the Group's associate, property investment operated by the Group and corporate function.

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

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

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

During the current year, one (2019: one) customer has accounted for over 10% of the Group's total revenue amounting to HK$1,471 million (2019: HK$1,313 million).

The Group's revenue by geographical areas of operations and information about its non-current assets other than financial instruments and deferred tax assets presented based on the geographical areas in which the assets are located are as follows:

	Revenue		Non-current assets	
	2020 HK$'million	2019 HK$'million	**2020 HK$'million**	2019 HK$'million
Mainland China, Hong Kong and Taiwan	**5,009**	5,227	**98,321**	87,513
Other locations	**3,936**	3,671	**46,609**	46,131
	8,945	8,898	**144,930**	133,644

6. SEGMENT INFORMATION (CONTINUED)

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

	For the year ended 31 December 2020										
	Ports operation						Bonded logistics operation	Other operations			Total
	Mainland China, Hong Kong and Taiwan				Other locations	Sub-total		Other investments	Corporate function	Sub-total	
	Pearl River Delta HK$'million	Yangtze River Delta HK$'million	Bohai Rim HK$'million	Others HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
Revenue	3,432	83	70	812	3,907	8,304	469	172	–	172	8,945
Earnings/(losses) before finance costs, net, taxation and share of profits less losses of associates and joint ventures	1,184	1,217	133	1,097	345	3,976	135	193	(79)	114	4,225
Share of profits less losses of											
– Associates	136	2,510	216	74	330	3,266	21	830	–	830	4,117
– Joint ventures	1	125	145	(1)	66	336	1	3	–	3	340
	1,321	3,852	494	1,170	741	7,578	157	1,026	(79)	947	8,682
Finance costs, net	(2)	2	3	(32)	(123)	(152)	(21)	(38)	(1,313)	(1,351)	(1,524)
Taxation	(273)	(192)	(69)	(529)	59	(1,004)	(17)	(56)	–	(56)	(1,077)
Profit/(loss) for the year	1,046	3,662	428	609	677	6,422	119	932	(1,392)	(460)	6,081
Owners of perpetual capital securities	–	–	–	–	–	–	–	–	(52)	(52)	(52)
Non-controlling interests	(176)	(15)	–	(516)	(145)	(852)	(25)	(1)	–	(1)	(878)
Profit/(loss) attributable to equity holders of the Company	870	3,647	428	93	532	5,570	94	931	(1,444)	(513)	5,151
Other information:											
Depreciation and amortisation	612	19	2	317	947	1,897	110	2	24	26	2,033
Capital expenditure	1,185	88	–	377	362	2,012	24	15	10	25	2,061

6. SEGMENT INFORMATION (CONTINUED)

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

	For the year ended 31 December 2019										
	Ports operation						Bonded logistics operation	Other operations			Total
	Mainland China, Hong Kong and Taiwan				Other locations	Sub-total		Other investments	Corporate function	Sub-total	
	Pearl River Delta	Yangtze River Delta	Bohai Rim	Others							
	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
Revenue	3,654	–	74	844	3,671	8,243	467	188	–	188	8,898
Earnings/(losses) before finance costs, net, taxation and share of profits less losses of associates and joint ventures	6,075	216	414	1,121	1,520	9,346	161	202	(466)	(264)	9,243
Share of profits less losses of											
– Associates	135	2,748	179	26	380	3,468	26	270	–	270	3,764
– Joint ventures	1	137	215	3	185	541	1	(11)	–	(11)	531
	6,211	3,101	808	1,150	2,085	13,355	188	461	(466)	(5)	13,538
Finance costs, net	18	–	1	(29)	(351)	(361)	(31)	(41)	(1,349)	(1,390)	(1,782)
Taxation	(1,831)	(151)	(104)	(245)	(105)	(2,436)	(36)	(45)	(1)	(46)	(2,518)
Profit/(loss) for the year	4,398	2,950	705	876	1,629	10,558	121	375	(1,816)	(1,441)	9,238
Non-controlling interests	(174)	–	–	(207)	(456)	(837)	(33)	(6)	–	(6)	(876)
Profit/(loss) attributable to equity holders of the Company	4,224	2,950	705	669	1,173	9,721	88	369	(1,816)	(1,447)	8,362
Other information:											
Depreciation and amortisation	649	–	2	313	903	1,867	105	1	23	24	1,996
Capital expenditure	1,130	–	–	624	813	2,567	283	19	20	39	2,889

6. SEGMENT INFORMATION (CONTINUED)

For the purposes of monitoring segment performances and allocating resources between segments, all assets other than taxation recoverable and deferred tax assets are allocated to reportable segments, and all liabilities other than taxation payable and deferred tax liabilities are allocated to reportable segments.

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

	As at 31 December 2020										
	Ports operation						Bonded logistics operation	Other operations			Total
	Mainland China, Hong Kong and Taiwan				Other locations	Sub-total		Other investments	Corporate function	Sub-total	
	Pearl River Delta	Yangtze River Delta	Bohai Rim	Others							
	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
ASSETS											
Segment assets (excluding interests in associates and joint ventures)	18,158	6,985	1,153	12,114	36,863	75,273	3,061	8,889	5,491	14,380	92,714
Interests in associates	2,581	30,597	4,437	3,108	10,244	50,967	869	15,590	–	15,590	67,426
Interests in joint ventures	6	–	3,020	360	5,677	9,063	6	22	–	22	9,091
Non-current assets held for sale	–	–	–	405	–	405	–	–	–	–	405
Total segment assets	20,745	37,582	8,610	15,987	52,784	135,708	3,936	24,501	5,491	29,992	169,636
Taxation recoverable											8
Deferred tax assets											420
Total assets											170,064
LIABILITIES											
Segment liabilities	(3,040)	(321)	(38)	(1,934)	(10,525)	(15,858)	(692)	(1,445)	(31,540)	(32,985)	(49,535)
Taxation payable											(2,412)
Deferred tax liabilities											(4,482)
Total liabilities											(56,429)

6. SEGMENT INFORMATION (CONTINUED)

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

	As at 31 December 2019										
	Ports operation						Bonded logistics operation	Other operations			Total
	Mainland China, Hong Kong and Taiwan				Other locations	Sub-total		Other investments	Corporate function	Sub-total	
	Pearl River Delta HK$'million	Yangtze River Delta HK$'million	Bohai Rim HK$'million	Others HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
ASSETS											
Segment assets (excluding interests in associates and joint ventures)	16,916	1,845	1,185	10,964	36,170	67,080	2,870	8,250	2,677	10,927	80,877
Interests in associates	2,446	27,141	3,970	2,848	6,951	43,356	852	13,844	—	13,844	58,052
Interests in joint ventures	4	953	2,816	341	5,511	9,625	6	17	—	17	9,648
Non-current assets held for sale	—	—	—	210	—	210	—	—	—	—	210
Total segment assets	19,366	29,939	7,971	14,363	48,632	120,271	3,728	22,111	2,677	24,788	148,787
Taxation recoverable											35
Deferred tax assets											260
Total assets											149,082
LIABILITIES											
Segment liabilities	(2,410)	—	(38)	(2,264)	(12,392)	(17,104)	(843)	(972)	(30,625)	(31,597)	(49,544)
Taxation payable											(1,736)
Deferred tax liabilities											(3,668)
Total liabilities											(54,948)

7. PROFIT FOR THE YEAR

	2020 HK$'million	2019 HK$'million
Profit for the year has been arrived at after charging:		
Staff costs (including Directors' emoluments) (note 9)	**1,800**	1,777
Depreciation of property, plant and equipment	**1,296**	1,243
Depreciation of right-of-use assets	**478**	482
Amortisation of intangible assets	**259**	271
Auditor's remuneration (including fees for non-audit services)	**11**	15

8. OTHER INCOME AND OTHER GAINS, NET

	2020 HK$'million	2019 HK$'million
Dividend income from equity investments	**87**	122
(Loss)/gain on disposal of property, plant and equipment	**(120)**	17
Gain on resumption of land parcels at Qianhai (Note (a))	**—**	4,820
Gain on resumption of land parcels at Shantou (Note (b))	**1,722**	688
Increase in fair value of investment properties (note 19)	**149**	105
Gain on discontinuance of equity accounting for a joint venture (note 39)	**960**	—
Gain on deemed disposal of interest in a joint venture (note 22)	**—**	440
Increase in fair value of financial assets at FVTPL	**256**	513
Increase in fair value of financial liabilities at FVTPL	**(765)**	(414)
Impairment loss recognised in respect of goodwill (note 16)	**(621)**	—
Net allowance for credit losses of trade debtors and other debtors	**(510)**	(38)
Net exchange gain/(loss)	**446**	(29)
Indemnification from related parties (Note (c))	**—**	554
Government grants (Note (d))	**190**	116
Others	**58**	54
	1,852	6,948

8. OTHER INCOME AND OTHER GAINS, NET (CONTINUED)

Notes:

(a) During the year ended 31 December 2019, certain land parcels held by the Group and certain members (as set out in note 41) of CMG and its subsidiaries at Qianhai, Shenzhen, the PRC were resumed by Shenzhen Qianhai Shenzhen-Hong Kong Modern Services Commission ("QHSH"), an authority established by the government of the PRC. The government compensation for the resumption of the land parcels (excluding a piece of land at Dachan Bay Port Phase II, Shenzhen, the PRC, to be received by the Group as part of the compensation (note 24)) at Qianhai held by the Group was RMB5,693 million (equivalent to approximately HK$6,457 million), resulting in a gain on the resumption of HK$4,820 million. Further details are set out in note 41(a)(x).

(b) Certain non-current assets held for sale as at 31 December 2018, land use rights classified under right-of-use assets and property, plant and equipment at Shantou, Guangdong Province, the PRC were resumed by Shantou Land Reserve Center ("SLRC"), an authority established by the government of the PRC during the year ended 31 December 2019. The total compensation for the resumption of the related assets at Shantou held by the Group were RMB976 million (equivalent to approximately HK$1,107 million), resulting in a gain on the resumption of HK$688 million, net of resumption costs amounting to HK$52 million.

Certain non-current assets held for sale as at 31 December 2019, land use rights classified under right-of-use assets and property, plant and equipment at Shantou were resumed by SLRC during the year ended 31 December 2020. The total compensation for the resumption of the related assets at Shantou held by the Group are RMB2,381 million (equivalent to approximately HK$2,655 million) resulting in a gain on the resumption of HK$1,722 million, net of resumption costs amounting to HK$158 million.

(c) Amount being the indemnification from the holding companies of a non-controlling shareholder of a subsidiary in connection with the operation of the relevant subsidiary.

(d) During the year ended 31 December 2020, the Group recognised government grants of HK$7 million in respect of COVID-19-related subsidies, of which HK$6 million relates to Employment Support Scheme provided by the Hong Kong government.

9. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2020 HK$'million	2019 HK$'million
Wages, salaries and bonus	**1,494**	1,478
Equity-settled share based payment	**17**	—
Retirement benefit scheme contributions (Note)	**289**	299
	1,800	1,777

Note: No forfeiture was utilised for the year ended 31 December 2020 (2019: nil), leaving no available balance at the year end to reduce future contributions.

10. DIRECTORS' EMOLUMENTS

Directors' emoluments comprise payments to the following directors by the Group in connection with their service to and management of the affairs of the Group. The amount paid to each director was as follows:

Name of Director	Fees HK$'million	Salary HK$'million	Discretionary bonus HK$'million (Note (i))	Employer's contribution to pension scheme HK$'million	2020 Total HK$'million	2019 Total HK$'million
Executive Directors:						
Fu Gangfeng (Note (ii))	—	—	—	—	—	—
Deng Renjie (Note (ii))	—	—	—	—	—	N/A
Su Jian (Note (iii))	—	—	—	—	—	—
Xiong Xianliang	—	—	—	—	—	—
Bai Jingtao (Note (iv))	—	1.66	1.21	0.48	3.35	5.15
Ge Lefu (Note (v))	—	1.58	1.06	0.35	2.99	2.68
Wang Zhixian	—	1.46	0.94	0.35	2.75	4.20
Zheng Shaoping	—	1.50	1.01	0.35	2.86	4.23
Liu Weiwu (Note (iii))	N/A	N/A	N/A	N/A	N/A	N/A
Independent non-executive Directors:						
Kut Ying Hay	0.28	—	—	—	0.28	0.28
Lee Yip Wah Peter	0.28	—	—	—	0.28	0.28
Li Ka Fai David	0.28	—	—	—	0.28	0.28
Bong Shu Ying Francis	0.28	—	—	—	0.28	0.28
Li Kwok Heem John (Note (vi))	—	—	—	—	—	—
Total for the year ended 31 December 2020	1.12	6.20	4.22	1.53	13.07	
Total for the year ended 31 December 2019	1.12	6.21	9.43	0.62		17.38

The executive directors' emoluments shown above were paid for their services in connection with the management of the affairs of the Company and the Group.

The independent non-executive directors' emoluments shown above were paid for their services as directors of the Company.

10. DIRECTORS' EMOLUMENTS (CONTINUED)

Notes:

(i) Bonus is recommended by the Remuneration Committee and is approved by the Board of Directors, having regard to the Group's operating results, individual performance and comparable market statistics.

(ii) Mr. Fu Gangfeng resigned as the Chairman of the Board of Directors and as an executive director of the Company and Mr. Deng Renjie was appointed as the Chairman of the Board of Directors and as an executive director of the Company on 13 February 2020.

(iii) Mr. Su Jian resigned as an executive director of the Company and Mr. Liu Weiwu was appointed as executive director of the Company on 22 March 2021.

(iv) Mr. Bai Jingtao is the Managing Director of the Board of Directors of the Company.

(v) Mr. Ge Lefu was appointed as an executive director of the Company on 5 June 2019.

(vi) Mr. Li Kwok Heem John resigned as an independent non-executive director and member of all committees of the Company on 5 June 2019.

(vii) There was no arrangement under which a director agreed to waive any remuneration during the year. No remuneration or director's fee from the Company were paid to the executive directors who had not entered into employment contract with the Company.

11. EMPLOYEES' EMOLUMENTS

(a) Emoluments of senior management

Of the eight (2019: ten) senior management of the Company for the year ended 31 December 2020, four (2019: four) of them are directors of the Company and their remuneration has been disclosed in note 10. The total emoluments of the remaining four (2019: six) senior management is as follows:

	2020 HK$'million	2019 HK$'million
Salaries, other allowances and benefit-in-kinds	7	9
Performance related incentive payments	5	9
	12	18

11. EMPLOYEES' EMOLUMENTS (CONTINUED)

(a) Emoluments of senior management (continued)

The emoluments fell within the following bands:

	Number of senior management	
	2020	2019
Below HK$1,500,000	—	—
HK$1,500,001 - HK$2,000,000	—	1
HK$2,000,001 - HK$2,500,000	1	—
HK$2,500,001 - HK$3,000,000	2	1
Above HK$3,000,000	1	4
	4	6

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, three (2019: three) are directors (including the chief executive) and two (2019: two) are senior management of the Company whose emoluments are included in notes 10 and 11(a), respectively.

During the years ended 31 December 2020 and 2019, no emoluments were paid by the Group to any of the directors of the Company or the chief executive of the Group or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company or the chief executive of the Group waived any emoluments during the years ended 31 December 2020 and 2019.

12. FINANCE INCOME AND COSTS

	2020 HK$'million	2019 HK$'million
Finance income from:		
Interest income from bank and other deposits	80	118
Interest income from advance to a joint venture	69	71
Interest income from advances to associates	149	—
Interest income from amount due from a related party	—	21
Others	—	4
	298	214
Interest expense on:		
Bank loans	(474)	(598)
Listed notes payable	(1,077)	(1,118)
Unlisted notes payable	(138)	(142)
Loans from:		
– a non-controlling equity holder of a subsidiary	(21)	(20)
– fellow subsidiaries	(23)	(33)
– immediate holding company	(22)	(1)
– an associate	—	(8)
Lease liabilities	(54)	(54)
Others	(54)	(44)
Total borrowing costs incurred	(1,863)	(2,018)
Less: amount capitalised on qualifying assets (Note)	41	22
Finance costs	(1,822)	(1,996)
Finance costs, net	(1,524)	(1,782)

Note: Apart from the interest expenses incurred on borrowings specifically for the purposes of obtaining qualifying assets, those incurred from the general borrowing pool used for the purpose of obtaining qualifying assets are also capitalised in the consolidated statement of financial position. Capitalisation rate of 4.21% per annum (2019: 5.03% per annum) was applied, representing the weighted average rate of the costs of borrowings used to finance the qualifying assets.

13. TAXATION

Hong Kong Profits Tax has been provided for at the rate of 16.5% (2019: 16.5%) on the estimated assessable profit for the year.

The Group's operations in Mainland China are subject to corporate income tax law of the PRC ("PRC corporate income tax"). The standard PRC corporate income tax rate is 25%. Certain of the Group's subsidiaries enjoy the preferential tax rate of 15% upon the fulfilment of the criteria of the PRC tax laws. Further, 10% withholding income tax is generally imposed on dividends relating to any profits earned commencing from 2008 to foreign investors, while for some PRC entities held by companies incorporated in certain places, including Hong Kong and Singapore, preferential tax rate of 5% will be applied according to the PRC tax regulations if such companies are the beneficial owner of over 25% of these PRC entities.

13. TAXATION (CONTINUED)

Taxation outside of Hong Kong and Mainland China has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates. Certain of the Group's overseas subsidiaries are exempted from the corporate income tax in the relevant countries.

The amount of taxation charged to the consolidated statement of profit or loss represents:

	2020 HK$'million	2019 HK$'million
Current taxation		
Hong Kong Profits Tax	**4**	5
PRC corporate income tax (Note (a))	**841**	2,021
Overseas profits tax	—	51
Withholding income tax	**146**	164
Deferred taxation		
Origination and reversal of temporary differences (Note (b))	**86**	277
	1,077	2,518

Notes:

(a) Included in the amount for the year ended 31 December 2020 was the PRC corporate income tax of HK$431 million levied on the Group for the gain on resumption of land parcels at Shantou. Included in the amount for the year ended 31 December 2019 was the PRC corporate income tax of HK$1,409 million levied on the Group for the gain on resumption of land parcels at Qianhai. Further details are set out in notes 8 and 41(a)(x).

(b) Included in the amount for the year ended 31 December 2019 was the net deferred tax arising from the gain on resumption of land parcels at Qianhai amounting to HK$130 million.

The tax on the Group's profit before taxation differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the group entities as follows:

	2020 HK$'million	2019 HK$'million
Profit before taxation (excluding share of profits less losses of associates and joint ventures)	**2,701**	7,461
Expected tax calculated at the weighted average applicable tax rate	**700**	1,927
Income not subject to tax	**(560)**	(433)
Expenses not deductible for tax purposes	**512**	279
Tax losses and other temporary differences not recognised	**70**	109
Utilisation of previously unrecognised tax losses	**(11)**	(15)
Withholding tax on earnings of subsidiaries, associates and joint ventures	**366**	651
Tax charge	**1,077**	2,518

The weighted average applicable tax rate was 25.9% (2019: 25.8%).

14. DIVIDENDS

	2020 HK$'million	2019 HK$'million
Interim, paid, of 18 HK cents (2019: 22 HK cents) per ordinary share	649	752
Final, proposed, of 51 HK cents (2019: 58 HK cents) per ordinary share	1,867	2,000
	2,516	2,752

Details of scrip dividends are set out in note 29.

At a meeting held on 30 March 2021, the Board of Directors proposed a final dividend of 51 HK cents (2019: 58 HK cents) per ordinary share, which will be satisfied by allotment of new shares of the Company, credited as fully paid, by way of scrip dividend, with an alternative to shareholders to elect to receive such final dividend (or part thereof) in cash in lieu of such allotment. This proposed dividend is not reflected as a dividend payable in the consolidated financial statements.

The amount of proposed final dividend for 2020 was based on 3,661,088,416 (2019: 3,448,947,770) shares in issue as at 30 March 2021.

15. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the equity holders of the Company is based on the following data:

	2020	2019
Basic		
Profit attributable to equity holders of the Company (HK$ million)	5,151	8,362
Weighted average number of ordinary shares in issue	3,522,492,505	3,374,097,013

No diluted earnings per share for both 2020 and 2019 were presented as there were no potential dilutive ordinary shares in issue for both 2020 and 2019.

16. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Intangible assets		
		Port operating rights	Others	Total
	HK$'million	HK$'million	HK$'million	HK$'million
	(Note (b))	(Note (c))	(Note (d))	
Year ended 31 December 2020				
As at 1 January 2020	6,931	9,759	485	10,244
Exchange adjustments	(769)	(642)	(90)	(732)
Addition	—	116	—	116
Obtaining control of a non-wholly owned subsidiary (note 39)	218	—	—	—
Amortisation (Note (a))	—	(259)	—	(259)
Impairment loss	(621)	—	—	—
As at 31 December 2020	5,759	8,974	395	9,369
As at 31 December 2020				
Cost	6,380	10,689	402	11,091
Accumulated amortisation and impairment	(621)	(1,715)	(7)	(1,722)
Net book value	5,759	8,974	395	9,369
Year ended 31 December 2019				
As at 1 January 2019	7,922	10,548	584	11,132
Exchange adjustments	(991)	(531)	(99)	(630)
Addition	—	13	—	13
Amortisation (Note (a))	—	(271)	—	(271)
As at 31 December 2019	6,931	9,759	485	10,244
As at 31 December 2019				
Cost	6,931	11,413	492	11,905
Accumulated amortisation	—	(1,654)	(7)	(1,661)
Net book value	6,931	9,759	485	10,244

16. GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

Notes:

(a) Amortisation expenses charged for the year are included in cost of sales in the consolidated statement of profit or loss.

(b) Goodwill is allocated to 9 groups of CGUs identified according to location of operation and business segment. The goodwill analysed by operating segment is as follows:

	2020 HK$'million	2019 HK$'million
Ports operation		
– Mainland China, Hong Kong and Taiwan		
– Pearl River Delta (comprising 6 groups of CGUs)	2,479	2,345
– Others (comprising 2 groups of CGUs)	235	627
	2,714	2,972
– Brazil	3,045	3,959
	5,759	6,931

In addition to goodwill and intangible assets above, property, plant and equipment and right-of-use assets (including allocation of corporate assets) that generate cash flows together with the related goodwill and intangible assets are also included in the respective CGU for the purpose of impairment assessment.

The recoverable amount of a CGU is determined based on the higher of fair value less costs of disposal and value in use calculations. The value in use calculations use pre-tax cash flow projections based on financial budgets approved by management covering periods ranging from 5 years to 10 years (2019: 5 years) and 28 years (2019: N/A) for ports operation in Mainland China, Hong Kong and Taiwan and in Brazil, respectively, and discounted by rates specific to the relevant CGUs. Management determines the financial budgets based on past performance and its expectations for market development, including the expected economic growth in developed and emerging economies in the short-term and medium-term, prospective GDP growth rates of respective regions, future developments of the ports, among others. The cash flow projections, growth rates and discount rate have been reassessed as at 31 December 2020 taking into consideration higher degree of estimation uncertainties in the current year due to how the COVID-19 pandemic may progress and evolve and volatility in financial markets, including potential disruptions of the Group's operation. Cash flows beyond the budgeted period are extrapolated using the estimated growth rate stated below.

The Group engages an independent qualified valuer, Greater China Appraisal Limited, to determine the future growth rates and discount rates used in the value in use calculations prepared by the management of the Group.

The key assumptions used for value in use calculations are as follows:

	Growth rate (Note (i))		Discount rate (Note (ii))	
	2020	2019	2020	2019
Ports operation				
– Mainland China, Hong Kong and Taiwan				
– Pearl River Delta	2.70% - 3.00%	1.00% - 3.00%	6.50% - 12.74%	9.79% - 12.30%
– Others	2.70%	3.00%	11.19% - 11.97%	9.40% - 12.13%
– Brazil	3.00%	N/A (Note (iii))	16.78%	N/A (Note (iii))

Notes:

(i) Weighted average growth rates are used to extrapolate cash flows beyond the budgeted period which do not exceed the historical trend of the respective CGUs nor the industry growth rate.

(ii) Pre-tax discount rate has been applied to the cash flow projections. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

(iii) The recoverable amount of this CGU as at 31 December 2019 had been determined based on its fair value less costs of disposal of a recent transaction of the same operating entity comprising the CGU as set out in note 20(d), which was higher than the carrying amount of the CGU. The fair value measurement is categorised as level 2 (see note 2.1).

16. GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

Notes: (continued)

(b) (continued)

During the year ended 31 December 2020, an impairment loss of goodwill allocated to ports operation in Mainland China amounted to HK$621 million (2019: nil) has been recognised.

In addition to impairment testing using the base case assumption, separate sensitivity analyses were performed. The sensitive tests using a higher/lower discount rate of 0.3% and a lower/higher growth rate of 0.1% indicated that the impairment loss of goodwill allocated to ports operation in Mainland China would have been increased/decreased by approximately HK$97 million and HK$16 million respectively.

For remaining groups of CGUs, the management believes that any reasonably possible change in any of the above assumptions would not cause the aggregate carrying amount of any of the above CGUs to exceed the respective aggregate recoverable amounts.

(c) Included in port operating rights as at 31 December 2020 is an amount of HK$4,517 million (2019: HK$4,147 million) related to the concession for operation of a terminal in the Port of Lomé in Togo for a concession period of 35 years commencing from 2011 granted by the government of Togolese Republic. The carrying amount of the concession represents the aggregate of the fair value as at the date of the business combination under which the Group acquired the concession and the fair value of the construction services carried out to-date less their accumulated amortisation. Amortisation is provided for over the period in which the Group operates the relevant terminals on a straight-line basis.

Included in port operating rights as at 31 December 2020 is also an amount of HK$3,423 million (2019: HK$4,548 million) related to the concession for operation of a terminal in Brazil for an concession period of 50 years commencing from 1998 granted by the Brazilian Federal Government. The carrying amount of the concession represents the fair value as at the date of the business combination under which the Group acquired the concession less its accumulated amortisation. Amortisation is provided for over the period in which the Group operates the relevant terminals on an economic usage basis. Further details are set out in note 35(a).

The remaining amount of port operating rights amounting to HK$1,034 million (2019: HK$1,064 million) relates to the concession for operation of a terminal built in Colombo of Sri Lanka for a concession period of 35 years commencing from 2011 granted by the government of the Republic of Sri Lanka. The carrying amount of the concession represents the fair value as at the date of the acquisition of the relevant business by the Group less its accumulated amortisation, which is calculated using the economic usage basis. Further details are set out in note 35(b).

(d) Balance as at 31 December 2020 and 2019 mainly represents trademark acquired in a business combination during the year ended 31 December 2018 and is considered by the management of the Group as having an indefinite useful live because it is expected to contribute to the generation of net cash inflows to the Group indefinitely. It is tested for impairment annually and whenever there is an indication that it may have been impaired. No impairment loss of the trademark is recognised for the current year.

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'million	Harbour works, buildings and dockyard HK$'million	Plant, machinery, furniture and equipment HK$'million	Others HK$'million (Note (b))	Assets under construction HK$'million (Note (a))	Total HK$'million
Year ended 31 December 2020						
As at 1 January 2020	871	12,734	4,398	1,023	4,844	23,870
Exchange adjustments	42	94	93	9	105	343
Additions	1	116	92	22	1,291	1,522
Obtaining control of a non-wholly owned subsidiary	208	2,123	428	4	26	2,789
Disposals	(5)	(220)	(35)	(1)	—	(261)
Transfers	(8)	1,878	397	20	(2,287)	—
Transfers from/(to) right-of-use assets	—	—	116	10	(456)	(330)
Transfers to non-current assets held for sale	—	(128)	—	—	—	(128)
Depreciation (Note (c))	(41)	(607)	(564)	(84)	—	(1,296)
As at 31 December 2020	1,068	15,990	4,925	1,003	3,523	26,509
As at 31 December 2020						
Cost	1,524	22,517	12,018	1,621	3,523	41,203
Accumulated depreciation and impairment	(456)	(6,527)	(7,093)	(618)	—	(14,694)
Net book value	1,068	15,990	4,925	1,003	3,523	26,509
Year ended 31 December 2019						
As at 31 December 2018	1,066	16,800	4,317	953	6,076	29,212
Adjustments upon application of HKFRS 16	(145)	(5,876)	(151)	(12)	—	(6,184)
As at 1 January 2019 (restated)	921	10,924	4,166	941	6,076	23,028
Exchange adjustments	(15)	(298)	(82)	(12)	112	(295)
Additions	2	268	137	30	2,138	2,575
Disposals	(2)	(126)	(10)	(5)	(38)	(181)
Transfers	2	2,616	677	149	(3,444)	—
Transfers from other non-current assets	—	—	60	—	—	60
Transfers to non-current assets held for sale	—	(74)	—	—	—	(74)
Depreciation (Note (c))	(37)	(576)	(550)	(80)	—	(1,243)
As at 31 December 2019	871	12,734	4,398	1,023	4,844	23,870
As at 31 December 2019						
Cost	1,238	17,800	9,645	1,517	4,844	35,044
Accumulated depreciation and impairment	(367)	(5,066)	(5,247)	(494)	—	(11,174)
Net book value	871	12,734	4,398	1,023	4,844	23,870

17. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes:

(a) Included in assets under construction is capitalised interest of HK$69 million (2019: HK$70 million).

(b) Others comprise vessels and ships, motor vehicles and leasehold improvements with net book values of HK$749 million (2019: HK$780 million), HK$60 million (2019: HK$50 million) and HK$194 million (2019: HK$193 million) respectively as at 31 December 2020.

(c) Depreciation expenses charged for the year are included in the consolidated statement of profit or loss as follows:

	2020 HK$'million	2019 HK$'million
Cost of sales	1,247	1,200
Administrative expenses	49	43
	1,296	1,243

(d) As at 31 December 2020, harbour works, buildings and dockyard and assets under construction with aggregate net book value of HK$458 million (2019: HK$417 million) were pledged as security for the Group's bank borrowings (note 33(a)).

18. RIGHT-OF-USE ASSETS

	Land use rights HK$'million	Leasehold land and buildings HK$'million	Harbour works, buildings and dockyard HK$'million	Plant, machinery, furniture and equipment HK$'million	Others HK$'million	Total HK$'million
As at 31 December 2020						
Carrying amount	9,542	141	6,214	5	651	16,553
As at 31 December 2019						
Carrying amount	8,575	148	5,882	136	694	15,435
For the year ended 31 December 2020						
Depreciation charge	(226)	(15)	(183)	(22)	(32)	(478)
For the year ended 31 December 2019						
Depreciation charge	(252)	(15)	(164)	(19)	(32)	(482)

18. RIGHT-OF-USE ASSETS (CONTINUED)

	2020 HK$'million	2019 HK$'million
Expenses relating to short-term leases	54	45
Total cash outflow for the leases	220	432
Obtaining control of a non-wholly owned subsidiary (note 39)	1,428	—
Additions to right-of-use assets	515	266

For both years, the Group leases various items of assets as set out above for its operations. Lease contracts are entered into for fixed term of 12 months to 99 years, but may have extension and termination options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

The Group regularly entered into short-term leases mainly for plant, machinery, furniture and equipment. As at 31 December 2020, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

As at 31 December 2020, right-of-use assets with a net book value of HK$230 million (2019: HK$356 million) were pledged as security for the Group's bank loans (2019: bank loans and a loan from a fellow subsidiary) (note 33(a)).

19. INVESTMENT PROPERTIES

The Group leases out various offices, residential and other commercial properties under operating leases with rentals payable monthly. Lease contracts run for an initial period up to 15 years.

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities. The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

	2020 HK$'million	2019 HK$'million
As at 1 January	8,246	8,332
Exchange adjustments	539	(184)
Increase in fair value (note 8)	149	105
Additions	—	1
Transfers to non-current assets held for sale	(16)	(8)
As at 31 December	8,918	8,246

19. INVESTMENT PROPERTIES (CONTINUED)

The investment properties were revalued at the end of each reporting period by independent and professional qualified valuers not connected to the Group. In determining the fair value of the relevant properties, the Board of Directors of the Company determine the appropriate valuation techniques and inputs for fair value measurements.

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

Description	Valuation techniques	Significant unobservable inputs	Relationship of non-observable inputs to fair value
Commercial and residential complex in Shenzhen, the PRC	Investment approach	Monthly market rent, taking into account the growth rate and rent of comparables, at an average of HK$93 (2019: HK$91) per square metre ("sqm") per month.	A significant increase in the rental income would result in a significant increase in the fair value, and vice versa.
		Capitalisation rate, at an average of 6.5% (2019: 6.5%).	A significant increase in the capitalisation rate would result in a significant decrease in the fair value, and vice versa.
Commercial properties in Shenzhen, the PRC	Market comparison approach	Market unit rate, taking into account the transaction dates, floor areas, locations and conditions of the property, which ranged from HK$85,029 to HK$88,041 (2019: HK$89,306 to HK$90,422) per sqm.	A significant increase in the market unit rate used would result in a significant increase in the fair value, and vice versa.

In estimating the fair value of the properties, the highest and best use of the properties is their current use. There has been no change to the valuation technique or level of fair value hierarchy during the year.

20. INTERESTS IN SUBSIDIARIES

(a) Composition of the Group

Particulars of the Company's principal subsidiaries at 31 December 2020 are set out in note 42.

(b) Exercise of put option issued to non-controlling equity holders of TCP Participacões S.A. ("TCP")

In February 2020, certain non-controlling equity holders of TCP (together with its subsidiaries, the "TCP Group") (the "Sellers") exercised put option as set out in note 37, pursuant to which the Sellers have the right to sell to, and require the Group to acquire all of the Sellers' remaining equity interest of the TCP Group in total of 845,703 shares at a cash consideration.

During the year ended 31 December 2020, the Group made payment amounting to US$107 million (equivalent to approximately HK$835 million) to the Sellers and the Sellers simultaneously completed the transfer of the shares to the Group, free and clear of any liens. The Group's effective interest in TCP increased from 67.45% to 77.45% immediately after the transaction.

(c) Disposal of interests in Gainpro Resources Limited ("Gainpro") without losing control

In June 2020, the Company entered into a share transfer deed, pursuant to which the Company has agreed to disposed of its 23.52941% interest in, and 23.52941% of the shareholder's loan advanced by the Company to, Gainpro (together with its subsidiaries, the "Gainpro Group"), a wholly-owned subsidiary of the Company whose principal asset is its interest in 85% of the issued share capital of Hambantota International Port Group (Private) Limited ("HIPG", together with its subsidiary, the "HIPG Group") to an independent third party, Fujian Transportation Maritime Silk Road Investment and Management Co. Limited, for a total cash consideration of US$268 million (equivalent to approximately HK$2,077 million). The Group's effective interest in HIPG will be decreased from 85% to 65% immediately after the disposal.

An amount of HK$1,704 million, being the proportionate share of the carrying amount of the net liabilities of the Gainpro Group and the shareholder's loan assigned, has been transferred to non-controlling interests. The difference of HK$373 million between the increase in the non-controlling interests and the consideration received has been credited to relevant reserves.

(d) Disposal of interests in Xinda Resources Limited ("Xinda") without losing control

In December 2019, the Company completed the disposal of 25.05% interest in, and 25.05% of the shareholder's loan advanced by the Company to, Xinda (together with its subsidiaries, the "Xinda Group"), a wholly-owned subsidiary of the Company whose principal asset is its interest in 90% of the issued share capital of TCP, to individual third parties, for a total cash consideration of HK$1,944 million. The Group's effective interest in TCP decreased from 90% to 67.45% immediately after the disposal.

An amount of HK$1,330 million, being the proportionate share of the carrying amount of the net assets of the Xinda Group and the shareholder's loan assigned, has been transferred to non-controlling interests. The difference of HK$614 million between the increase in the non-controlling interests and the consideration received has been credited to relevant reserves.

20. INTERESTS IN SUBSIDIARIES (CONTINUED)

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

The table below shows non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiaries	Proportion of effective ownership interests held by non-controlling interests		Proportion of effective voting rights held by non-controlling interests		Accumulated non-controlling interests	
	2020	2019	**2020**	2019	**2020** HK$'million	2019 HK$'million
Shantou China Merchants Port Group Co., Ltd. ("SPG")	**40.00%**	40.00%	**40.00%**	40.00%	**4,677**	3,974
HIPG Group	**35.00%**	15.00%	**35.00%**	15.00%	**4,874**	3,231
Individually immaterial subsidiaries with non-controlling interests					**9,958**	7,146
					19,509	14,351

The summarised financial information of SPG and its subsidiaries (the "SPG Group") and the HIPG Group is prepared in accordance with the significant accounting policies of the Group.

20. INTERESTS IN SUBSIDIARIES (CONTINUED)

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

Summarised financial information of the consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows in respect of the SPG Group and the HIPG Group is set out below:

	2020	
	SPG Group HK$'million	HIPG Group HK$'million
Financial information of the consolidated statement of profit or loss and other comprehensive income		
Revenue	400	205
Other income and other gains	2,411	1
Expenses and taxation	(1,103)	(329)
Profit/(loss) for the year	1,708	(123)
Other comprehensive income	—	—
Total comprehensive income/(expense) for the year	1,708	(123)
Profit/(loss) for the year, attributable to:		
Equity holders of the Company	1,025	(64)
Non-controlling interests of the Group	683	(59)
	1,708	(123)
Total comprehensive income/(expense) for the year, attributable to:		
Equity holders of the Company	1,025	(64)
Non-controlling interests of the Group	683	(59)
	1,708	(123)
Dividends paid to non-controlling interests of the Group	—	—
Financial information of the consolidated statement of cash flows		
Net cash inflow from operating activities	23	90
Net cash inflow/(outflow) from investing activities	503	(61)
Net cash (outflow)/inflow from financing activities	(627)	16
Net cash (outflow)/inflow	(101)	45

20. INTERESTS IN SUBSIDIARIES (CONTINUED)

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

	2019	
	SPG Group HK$'million	HIPG Group HK$'million
Financial information of the consolidated statement of profit or loss and other comprehensive income		
Revenue	450	145
Other income and other gains	1,128	—
Expenses and taxation	(1,011)	(303)
Profit/(loss) for the year	567	(158)
Other comprehensive income	—	—
Total comprehensive income/(expense) for the year	567	(158)
Profit/(loss) for the year, attributable to:		
Equity holders of the Company	340	(117)
Non-controlling interests of the Group	227	(41)
	567	(158)
Total comprehensive income/(expense) for the year, attributable to:		
Equity holders of the Company	340	(117)
Non-controlling interests of the Group	227	(41)
	567	(158)
Dividends paid to non-controlling interests of the Group	—	—
Financial information of the consolidated statement of cash flows		
Net cash inflow from operating activities	96	1
Net cash inflow/(outflow) from investing activities	399	(37)
Net cash (outflow)/inflow from financing activities	(8)	44
Net cash inflow	487	8

20. INTERESTS IN SUBSIDIARIES (CONTINUED)

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

Summarised financial information of the consolidated statement of financial position of the SPG Group and the HIPG Group is set out below:

	2020		2019	
	SPG Group HK$'million	HIPG Group HK$'million	SPG Group HK$'million	HIPG Group HK$'million
Non-current assets	5,693	10,464	6,401	10,624
Current assets	8,322	92	5,748	48
Current liabilities	(1,447)	(165)	(793)	(111)
Non-current liabilities	(1,021)	(1)	(901)	—
	11,547	10,390	10,455	10,561
Equity attributable to:				
Equity holders of the Company	6,870	5,516	6,481	7,330
Non-controlling interests of the Group	4,677	4,874	3,974	3,231
	11,547	10,390	10,455	10,561

(f) At no time had there been any significant restriction imposed on the Group on its ability to access or use the assets or settle the liabilities of any entities of the Group.

21. INTERESTS IN ASSOCIATES

	2020 HK$'million	2019 HK$'million
Share of net assets of associates, net of impairment:		
Listed associates	32,155	28,424
Unlisted associates	30,002	24,460
	62,157	52,884
Goodwill:		
Listed associates	2,548	2,394
Unlisted associates	2,721	2,774
	5,269	5,168
Total	67,426	58,052

In prior years, the directors of the Company conducted a review of the Group's interest in a listed associate with reference to its economic outlooks and assessed its recoverable amount, with reference to its value in use and fair value less costs of disposal. The recoverable amount was determined to be the then fair value less costs of disposal (where the fair value was valued based on quoted prices in active markets for the identical asset directly and categorised as level 1 of the fair value measurement hierarchy) and was less than the carrying amount of the Group's interest in the said listed associate by HK$739 million. Accordingly, impairment loss of the same account was recognised in profit or loss in prior years.

The management of the Group carried out an assessment as at 31 December 2020 and 2019 for whether there is any indication that the impairment loss recognised in prior years for the listed associate may no longer exist or may be decreased. The management of the Group concluded that the indications of impairment previously identified still existed as at 31 December 2020 and 2019, no reversal of impairment loss has been recognised.

Subscription of Mandatory Convertible Bonds issued by and loan to Terminal Link SAS ("Terminal Link")

In November 2019, the Company entered into a memorandum of agreement with a third party who indirectly holds 51% of Terminal Link, pursuant to which the Company proposed to subscribe for the mandatory convertible bonds ("Mandatory Convertible Bonds") issued by, and to grant a term loan with a 8-year repayment term and 6% interest rate per annum ("Term Loan") to, Terminal Link for a total amount of US$468 million and US$500 million, respectively (equivalent to approximately HK$3,644 million and HK$3,894 million, respectively) to finance the proposed acquisition by Terminal Link of interests in a portfolio of ten terminals owned by the third party and its affiliates ("Proposed Acquisition").

During the year ended 31 December 2020, the initial closing of the Proposed Acquisition with respect to eight of these target terminals was completed. The Group completed the subscription of the corresponding amount of the Mandatory Convertible Bonds and granted the corresponding amount of the Term Loan amounting to US$394 million and US$421 million, respectively (equivalent to approximately HK$3,055 million and HK$3,264 million, respectively). Mandatory Convertible Bonds amounted to HK$3,055 million was accounted for as interests in associates and the Term Loan amounted to HK$3,264 million was accounted for as advance to associates and was included in other financial assets.

Particulars of the Group's principal associates at 31 December 2020 are set out in note 43.

21. INTERESTS IN ASSOCIATES (CONTINUED)

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

Summarised financial information in respect of SIPG and its subsidiaries (the "SIPG Group") is set out below. Other associates invested by the Group are not individually material. The summarised financial information below represents the financial information of the SIPG Group prepared in accordance with the significant accounting policies of the Group.

(a) Material associate

	SIPG Group	
	2020 HK$'million	2019 HK$'million
Financial information of the consolidated statement of profit or loss and other comprehensive income		
Revenue	**29,364**	40,945
Profit for the year, attributable to equity holders of the associate	**9,375**	10,265
Other comprehensive income/(expense) for the year, attributable to equity holders of the associate	**597**	(187)
Total comprehensive income for the year, attributable to equity holders of the associate	**9,972**	10,078
Dividends received from the associate by the Group during the year	**1,023**	1,087
Financial information of consolidated statement of financial position		
Non-current assets	**137,009**	116,995
Current assets	**51,779**	45,014
Current liabilities	**(26,628)**	(21,553)
Non-current liabilities	**(47,308)**	(38,235)
Net assets of the associate	**114,852**	102,221

21. INTERESTS IN ASSOCIATES (CONTINUED)

(a) Material associate (continued)

	SIPG Group	
	2020 **HK$'million**	2019 HK$'million
Reconciliation to the carrying amounts of interests in the associate:		
Net assets of the associate	**114,852**	102,221
Less: non-controlling interests	**(10,054)**	(9,758)
Net assets attributable to equity holders of the associate	**104,798**	92,463
Proportion of the Group's interests in the associate	**26.77%**	26.77%
Net assets attributable to the Group's interests in the associate	**28,054**	24,752
Goodwill	**2,543**	2,389
Carrying amount of the Group's interests in the associate	**30,597**	27,141
Market value of the listed associate, valued based on the quoted prices in active market for the identical asset directly, and categorised as level 1 of the fair value hierarchy of the Group's interests in the associate	**33,681**	39,952

(b) Aggregate of other associates

	2020 **HK$'million**	2019 HK$'million
The Group's share of:		
Profit for the year	**1,607**	1,016
Other comprehensive income	**112**	252
Total comprehensive income	**1,719**	1,268
Aggregate carrying amount of the Group's interests in these associates	**36,829**	30,911

22. INTERESTS IN JOINT VENTURES

	2020 HK$'million	2019 HK$'million
Share of net assets of unlisted joint ventures	**9,091**	9,648

Deemed disposal of a joint venture engaged in port operation in Zhanjiang, the PRC and reclassification to interest in an associate in 2019

During the year ended 31 December 2019, 1,853,518,190 shares of Zhanjiang Port (Group) Co., Ltd. ("ZJG") were issued to a fellow subsidiary and another party independent to the Group. Following the subscription of new shares by the subscribers, the Group's interest in ZJG has been diluted from 40.29% to 27.58%, resulting in a gain on deemed disposal of HK$440 million. Under the new shareholders' agreement, decisions of relevant activities of ZJG do not require unanimous consent from all of its shareholders, including the Group. Hence, the Group no longer recognised its investment in ZJG as interest in a joint venture. The investment in ZJG is accounted for as an interest in an associate as the directors consider the Group has significant influence over the investee.

Particulars of the Group's principal joint ventures at 31 December 2020 are set out in note 44.

As at 31 December 2019, the Group's material joint ventures included Port of Newcastle Investments (Property Holdings) Trust (the "PONI Property Trust Group") and Port of Newcastle Investments (Holdings) Trust (the "PONI Corporate Trust Group"). As at 31 December 2020, in the opinion of the directors of the Company, the Group has no individually material joint venture and no individual financial information of individually material joint venture is disclosed. All of the Group's joint ventures are accounted for using equity method in the consolidated financial statements.

22. INTERESTS IN JOINT VENTURES (CONTINUED)

Summarised prior year financial information in respect of PONI Property Trust Group and PONI Corporate Trust Group is set out below. As at 31 December 2020, all the joint ventures invested by the Group are not individually material. The summarised financial information below represents the financial information prepared in accordance with the significant accounting policies of the Group.

(a) Material joint ventures

	2019	
	PONI Property Trust Group HK$'million	PONI Corporate Trust Group HK$'million
Financial information of the consolidated statement of profit or loss and other comprehensive income		
Revenue	539	913
Profit/(loss) for the year, attributable to the equity holders of the joint ventures	303	(212)
Other comprehensive expense for the year, attributable to the equity holders of the joint ventures	(49)	(2)
Total comprehensive income/(expense) for the year, attributable to the equity holders of the joint ventures	254	(214)
Dividends received from the joint ventures by the Group during the year	33	—
Financial information of the consolidated statement of financial position		
Non-current assets	8,273	14,748
Current assets	180	170
Current liabilities	(296)	(2,274)
Non-current liabilities	(5,072)	(10,591)
Net assets of the joint ventures	3,085	2,053
Reconciliation to the carrying amounts of interests in the joint ventures:		
Net assets attributable to the equity holders of the joint ventures	3,085	2,053
Proportion of the Group's interests in the joint ventures	50%	50%
Carrying amount of the Group's interests in the joint ventures	1,543	1,027
Share of profit/(loss) of the joint ventures	152	(106)

22. INTERESTS IN JOINT VENTURES (CONTINUED)

(b) Aggregate of individually not material joint ventures

	2020 HK$'million	2019 HK$'million
The Group's share of:		
Profit for the year	340	486
Other comprehensive income/(expense)	433	(162)
Total comprehensive income	773	324
Aggregate carrying amount of the Group's interests in individually not material joint ventures	9,091	7,078

23. OTHER FINANCIAL ASSETS

	2020 HK$'million	2019 HK$'million
Financial assets at FVTPL (Note (a))	2,955	2,648
Equity instruments at FVTOCI (Note (b))	31	9
Advances to associates (Note (c))	3,365	11
Advance to a joint venture (Note (d))	988	905
	7,339	3,573
Analysed as:		
Non-current	7,258	2,668
Current	81	905
	7,339	3,573

23. OTHER FINANCIAL ASSETS (CONTINUED)

Notes:

(a) Financial assets at FVTPL

	2020 HK$'million	2019 HK$'million
Listed equity investments in Hong Kong	**198**	228
Listed equity investments in Mainland China	**2,754**	1,729
Other unlisted equity investments	**3**	—
Restricted equity investments in Mainland China	**—**	691
	2,955	2,648

(b) Equity instruments at FVTOCI

	2020 HK$'million	2019 HK$'million
Unlisted equity investments in Mainland China	**31**	9

100% (2019: 100%) of the equity instruments at FVTOCI are denominated in Renminbi and no remaining balance (2019: nil) is denominated in Hong Kong dollar.

(c) Included in the amount of the Term Loan of US$429 million (equivalent to approximately HK$3,325 million) for the year ended 31 December 2020 is denominated in United States dollar, interest-bearing at a rate of 6% per annum and repayable in 2028.

Included in the amount for the remaining balance of an advance to another associate of RMB34 million (equivalent to approximately HK$40 million) for the year ended 31 December 2020 is denominated in Renminbi, interest-bearing at a rate of 4.75% per annum and repayable in 2023. Details of impairment are set out in note 3.1.

(d) The amount is denominated in Australian dollar, unsecured, interest-bearing at a rate of 8% per annum and repayable in 2023. Details of impairment are set out in note 3.1.

24. OTHER NON-CURRENT ASSETS

	2020 HK$'million	2019 HK$'million
Prepayments and deposits for purchase of non-current assets	**127**	107
Right to receive a land use right from QHSH (Note)	**1,089**	1,024
Others	**89**	87
	1,305	1,218

Note: Amount being the land use right for a land parcel in Shenzhen, the PRC, receivable from QHSH as part of the compensation for the resumption of certain land parcels at Qianhai, Shenzhen, the PRC. Upon receipt of the said land parcel, this amount will be reclassified and included in right-of-use assets. Further details of the transactions are set out in note 41(a)(x).

25. INVENTORIES

	2020 HK$'million	2019 HK$'million
Raw materials	**128**	106
Spare parts and consumables	**51**	19
	179	125

26. DEBTORS, DEPOSITS AND PREPAYMENTS

	2020 HK$'million	2019 HK$'million
Trade debtors from contracts with customers (Notes (a), (b), (d) and (e))	**1,076**	1,003
Less: allowance for credit losses (Note (a))	**(58)**	(85)
Trade debtors, net (Note (c))	**1,018**	918
Amounts due from fellow subsidiaries (Note (f))	**15**	10
Amount due from immediate holding company (Note (f))	**2**	—
Amounts due from associates (Note (g))	**98**	134
Amounts due from joint ventures (Note (f))	**1**	2
Dividend receivables	**290**	498
	1,424	1,562
Other debtors, deposits and prepayments (Note (h))	**4,069**	1,873
	5,493	3,435

26. DEBTORS, DEPOSITS AND PREPAYMENTS (CONTINUED)

Notes:

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

	2020 HK$'million	2019 HK$'million
As at 1 January	**85**	49
Allowance for credit losses	**12**	39
Reversal of allowance	**(38)**	(1)
Written-off	**(4)**	—
Exchange adjustments	**3**	(2)
As at 31 December	**58**	85

The allowance for credit losses have been included in other income and other gains, net in the consolidated statement of profit or loss.

The maximum exposure to credit risk at the reporting date is the carrying value of debtors, deposits and prepayments. The Group does not hold any collateral as security.

(b) Bill receivables of HK$1 million (2019: HK$15 million) are included in trade debtors as at 31 December 2020.

(c) The Group has a credit policy of allowing an average credit period of 90 days (2019: 90 days) to its trade debtors. The ageing analysis of trade debtors, based on the invoice date, net of allowance for credit losses of trade debtors, is as follows:

	2020 HK$'million	2019 HK$'million
0 - 90 days	**996**	852
91 - 180 days	**8**	42
181 - 365 days	**4**	14
Over 365 days	**10**	10
	1,018	918

(d) As at 31 December 2020, trade debtors of HK$910 million (2019: HK$667 million) and balances with related companies of HK$406 million (2019: HK$644 million) are neither past due nor impaired and are fully performing.

(e) As at 31 December 2020, included in the Group's trade debtors balance are debtors with aggregate carrying amount (before any allowance for credit losses) of HK$163 million (2019: HK$336 million) which are past due as at the reporting date. Out of the past due balances, HK$20 million (2019: HK$52 million) has been past due 90 days or more and is not considered as in default as these are related to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered.

(f) The amounts are unsecured, interest-free and expected to be repayable within twelve months from the end of the reporting period.

(g) The balances are unsecured, interest-free and repayable on demand.

(h) Included in the amount as at 31 December 2020 is the compensation receivable from SLRC for the resumption of land parcels at Shantou amounting to HK$3,258 million (31 December 2019: HK$582 million) and an indemnification receivable from the holding companies of a non-controlling shareholder of a subsidiary amounting to HK$239 million (31 December 2019: HK$747 million).

27. CASH AND BANK BALANCES

	2020 HK$'million	2019 HK$'million
Cash at bank and in hand	**7,167**	4,991
Short-term time and other deposits (Note (a))	**4,050**	1,948
	11,217	6,939
Other deposits (Note (b))	**73**	861
	11,290	7,800

Cash and bank balances are denominated in the following currencies:

	2020 HK$'million	2019 HK$'million
Hong Kong dollar	**2,412**	70
Renminbi	**6,649**	4,973
United States dollar	**960**	1,773
Euro	**915**	590
Brazilian Real	**333**	334
Other currencies	**21**	60
	11,290	7,800

Notes:

(a) The weighted average effective interest rate on the balances as at the end of the reporting period is approximately 0.99% (2019: 2.15%) per annum. These deposits can be readily convertible to cash before maturity.

(b) The weighted average effective interest rate on the balances as at the end of the reporting period is approximately 3.61% (2019: 3.67%) per annum. These deposits are not convertible to cash until maturity.

28. NON-CURRENT ASSETS HELD FOR SALE

During the year ended 31 December 2019, the Group commenced the negotiation with a municipal PRC government, pursuant to which the counter-party agreed to resume a piece of land and harbour works, buildings and dockyard (previously included in investment properties, right-of-use assets and property, plant and equipment respectively in the consolidated statement of financial position) in Mainland China. As at 31 December 2019, the compensation for resumption were expected to exceed the carrying amount of the relevant assets and, accordingly, no impairment loss has been recognised. The transaction has been completed in the current year.

During the current year, the Group commenced the negotiation with the same municipal PRC government, pursuant to which the counter-party agreed to resume another piece of land and harbour works, buildings and dockyard (previously included in investment properties, right-of-use assets and property, plant and equipment respectively in the consolidated statement of financial position) in Mainland China. The compensation for resumption are expected to exceed the carrying amount of the relevant assets and, accordingly, no impairment loss has been recognised. This transaction is expected to be completed within one year from the date of this reclassification and the assets are therefore classified as held for sale as at 31 December 2020.

29. SHARE CAPITAL

	Company			
	Number of shares		Share capital	
	2020	2019	2020 HK$'million	2019 HK$'million
Issued and fully paid:				
As at 1 January	3,448,947,770	3,329,849,550	40,614	39,070
Issue of scrip dividend shares (Note)	212,140,646	119,098,220	1,907	1,544
As at 31 December	3,661,088,416	3,448,947,770	42,521	40,614

Note: The Company distributed dividends to its shareholders by way of scrip dividends, with a cash alternative to shareholders. Details of ordinary shares issued by the Company as dividends are as follows:

	Date of issue	Number of shares issued
2019 final dividend	30 July 2020	158,692,653
2020 interim dividend	16 November 2020	53,447,993
2020 Total		212,140,646
2019 Total		119,098,220

30. PERPETUAL CAPITAL SECURITIES

In October 2020, CMHI Finance (BVI) Co., Ltd ("CMFBVI"), a wholly-owned subsidiary of the Company, issued US$600 million 3.5% and US$200 million 3.875% guaranteed perpetual capital securities ("2020 Perpetual Capital Securities"). Any amount payable arising from distribution or redemption were unconditionally and irrevocably guaranteed by the Company. Distribution on 2020 Perpetual Capital Securities are payable semi-annually in arrears on April and October each year ("Distributions Payment Date") and can be deferred at the discretion of CMFBVI and is not subject to any limit as to the number of times distributions. The 2020 Perpetual Capital Securities have no fixed maturity. US$600 million 3.5% guaranteed perpetual capital securities are redeemable at CMFBVI's option on 9 October 2023 or any Distributions Payment Date at their principal amounts, and US$200 million 3.875% guaranteed perpetual capital securities are redeemable at CMFBVI's option on 9 October 2025 or any Distributions Payment Date at their principal amounts. While any distributions are unpaid or deferred, the Company and CMFBVI cannot declare or, pay dividends or make distributions or similar periodic payments in respect of, or repurchase, redeem or otherwise acquire any securities of lower or equal rank, which includes the ordinary shares of the Company and CMFBVI.

The 2020 Perpetual Capital Securities are classified as equity instrument. Any distributions made by CMFBVI to the holders are recognised in equity in the consolidated financial statements of the Company. During the year ended 31 December 2020, a net proceeds amounted to US$799 million (equivalent to approximately HK$6,185 million) is received.

31. SHARE OPTION SCHEME

The existing share option scheme was approved by the shareholders' resolutions of the Company and adopted on 9 December 2011 (the "New Scheme"), under which the Company's directors may, at their discretion, grant to any director or employee of the Company, the intermediate holding company of the Company or any of its subsidiaries or associates at a price of not less than the higher of (i) the closing price of shares as stated in the daily quotation sheet of the HKSE on the date of the offer of grant; and (ii) the average closing price of shares as stated in the daily quotation sheets of the HKSE for the five trading days immediately preceding the date of the offer of grant. The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the old scheme and any other share option schemes adopted must not in aggregate exceed 30% of the share capital of the Company in issue from time to time. The New Scheme is valid and effective for a period of 10 years.

Upon termination of the old scheme on 9 December 2011, no further options will be granted thereunder. However, the rules of the old scheme will remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior to its termination, or otherwise to the extent as may be required in accordance with the rules of the old scheme. All options granted under the old scheme prior to its termination will continue to be valid and exercisable in accordance with the rules of the old scheme. The terms of the New Scheme and the old scheme are generally similar.

No share options have been granted under the New Scheme since its adoption nor outstanding during the year upon the expiry of the old scheme.

32. OTHER RESERVES

	Capital reserve HK$'million	Investment revaluation reserve HK$'million	Translation reserve HK$'million	Statutory reserves HK$'million (Note)	Total HK$'million
As at 1 January 2020	597	279	(2,836)	2,977	1,017
OTHER COMPREHENSIVE INCOME					
Exchange differences from retranslation of investments in subsidiaries, associates and joint ventures	—	—	3,934	—	3,934
Release of reserves upon obtaining control of a non-wholly owned subsidiary	—	—	(87)	—	(87)
Share of reserves of associates and a joint venture	—	12	—	—	12
Other comprehensive income for the year, net of tax	—	12	3,847	—	3,859
TRANSACTIONS WITH OWNERS					
Transfer from retained earnings	—	—	—	348	348
Disposal of interests in subsidiaries to non-controlling equity holders without losing control therein	296	—	—	—	296
Acquisition of additional interests in subsidiaries	(527)	—	(61)	—	(588)
Obtaining control of a non-wholly owned subsidiary	(4)	—	—	(80)	(84)
Contribution from immediate holding company	17	—	—	—	17
Share of other changes in equity attributable to equity holders of associates	57	—	—	—	57
Total transactions with owners for the year	(161)	—	(61)	268	46
As at 31 December 2020	436	291	950	3,245	4,922

32. OTHER RESERVES (CONTINUED)

	Capital reserve HK$'million	Investment revaluation reserve HK$'million	Translation reserve HK$'million	Statutory reserves HK$'million (Note)	Total HK$'million
As at 1 January 2019	(9)	263	(59)	2,773	2,968
OTHER COMPREHENSIVE INCOME/ (EXPENSE)					
Exchange differences from retranslation of investments in subsidiaries, associates and joint ventures	—	—	(3,103)	—	(3,103)
Release the fair value of equity instruments at FVTOCI, net of deferred taxation	—	(5)	—	—	(5)
Share of reserves of associates and a joint venture	—	21	—	—	21
Other comprehensive income/(expense) for the year, net of tax	—	16	(3,103)	—	(3,087)
TRANSACTIONS WITH OWNERS					
Transfer from retained earnings	—	—	—	207	207
Disposal of interests in subsidiaries to non-controlling equity holders without losing control therein	249	—	326	(3)	572
Share of other changes in equity attributable to equity holders of associates	329	—	—	—	329
Contribution from a non-controlling equity holder of a subsidiary	28	—	—	—	28
Total transactions with owners for the year	606	—	326	204	1,136
As at 31 December 2019	597	279	(2,836)	2,977	1,017

Note: Amount mainly represents statutory reserve of the Group's subsidiaries in the PRC. According to the relevant laws in the PRC, the Group's subsidiaries established in the PRC are required to transfer at least 10% of their net profit after taxation, as determined under the PRC accounting regulations, to a non-distributable reserve fund until the reserve balance reaches 50% of their registered capital. The transfer to this reserve must be made before the distribution of a dividend to equity owners. Such reserve fund can be used to offset the previous years' losses, if any, and is non-distributable other than upon liquidation.

33. BANK AND OTHER BORROWINGS

	2020 HK$'million	2019 HK$'million
Bank loans		
Unsecured short-term bank loans		
– variable rate	5,014	3,330
– fixed rate	772	916
Unsecured long-term fixed rate bank loans	826	79
Long-term variable rate bank loans		
– unsecured	4,864	4,408
– secured (Note (a))	2,941	3,358
	14,417	12,091
Loan from a non-controlling equity holder of a subsidiary (Note (b))	520	454
Loans from fellow subsidiaries (Notes (a) and (c))	455	1,027
Loan from immediate holding company (Note (d))	934	366
Notes payable (Note (e))		
– US$200 million, 3.5% guaranteed listed notes maturing in 2020	—	1,557
– US$500 million, 5% guaranteed listed notes maturing in 2022	3,865	3,875
– US$900 million, 4.375% guaranteed listed notes maturing in 2023	6,944	6,964
– US$500 million, 4.75% guaranteed listed notes maturing in 2025	3,863	3,877
– US$600 million, 5% guaranteed listed notes maturing in 2028	4,602	4,616
– Brazilian Real 428 million, Brazil's National Consumer Price Index ("IPCA") +7.82% listed notes maturing in 2021 and 2022	621	796
– RMB2,500 million, 4.89% unlisted notes maturing in 2022	2,971	2,791
	22,866	24,476
Total	39,192	38,414
Less: amounts due within one year included under current liabilities	(8,952)	(8,995)
Non-current portion	30,240	29,419

33. BANK AND OTHER BORROWINGS (CONTINUED)

Notes:

(a) As at 31 December 2020, the following assets are pledged against the Group's secured bank loans (2019: bank loans and a loan from fellow subsidiary):

	2020 HK$'million	2019 HK$'million
Property, plant and equipment (note 17)	458	417
Right-of-use assets (note 18)	230	356
	688	773

In addition to the above, the entire shareholdings in two subsidiaries, owned by the Company and its subsidiary as at 31 December 2020 and 2019, are also pledged to various banks for bank facilities granted to the relevant subsidiaries.

(b) The amount is unsecured, interest-bearing at 4.65% (2019: 4.65%) per annum and is not required to be repaid within twelve months from the end of the reporting period.

(c) Included in the amount as at 31 December 2020 and 2019 is loans from fellow subsidiary which is a financial institution approved and regulated by the People's Bank of China and the China Banking Regulatory Commission amounting to HK$455 million (2019: HK$860 million). These amounts are unsecured, interest-bearing at 1.20% to 4.80% (2019: 4.13% to 4.80%) per annum. Except for the amount of HK$307 million (2019: HK$357 million), the remaining balance is repayable within twelve months from the end of the reporting period.

The remaining balance as at 31 December 2019 was a loan from a fellow subsidiary amounting to HK$167 million which was secured by right-of-use assets and interest bearing at 4.75% per annum. The entire balance has been settled during the current year.

(d) The amount is unsecured, interest-bearing at 5% discount to the People's Bank of China Benchmark Interest Rate per annum and repayable within twelve months from the end of the reporting period.

(e) Listed notes issued by subsidiaries of the Company amounting to HK$19,274 million (2019: HK$20,889 million) are secured by corporate guarantees provided by the Company.

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

	2020	2019
US$200 million, 3.5% guaranteed listed notes maturing in 2020	N/A	3.64%
US$500 million, 5% guaranteed listed notes maturing in 2022	5.22%	5.22%
US$900 million, 4.375% guaranteed listed notes maturing in 2023	4.57%	4.57%
US$500 million, 4.75% guaranteed listed notes maturing in 2025	4.83%	4.83%
US$600 million, 5% guaranteed listed notes maturing in 2028	5.18%	5.18%
Brazilian Real 428 million, IPCA +7.82% listed notes maturing in 2021 and 2022	14.66%	14.66%
RMB2,500 million, 4.89% unlisted notes maturing in 2022	4.94%	4.94%

The fair values of the listed notes payable and the unlisted notes payable were HK$22,152 million (2019: HK$23,529 million) and HK$2,971 million (2019: HK$2,861 million) respectively. The fair value of unlisted notes payable were determined by discounting the future cash flows at the current market interest rate available to the Group and the fair value of the listed notes payable was determined with reference to quoted market price. Other than the listed and unlisted notes payable, the carrying amounts of the bank and other borrowings approximate their fair values as at 31 December 2020 and 2019.

(f) As at 31 December 2020, the Group has undrawn facilities of bank loan and other debt financing instruments amounting to HK$27,806 million (2019: HK$20,939 million), of which HK$19,174 million (2019: HK$17,434 million) and HK$8,632 million (2019: HK$3,505 million) are committed and uncommitted credit facilities respectively.

33. BANK AND OTHER BORROWINGS (CONTINUED)

Notes: (continued)

(g) The bank and other borrowings as at 31 December 2020 and 2019 are repayable as follows:

	Bank loans		Loan from a non-controlling equity holder of a subsidiary		Loans from fellow subsidiaries		Loan from immediate holding company		Listed notes payable		Unlisted notes payable		Total	
	2020 HK$'million	2019 HK$'million	2020 HK$'million	2019 HK$'million	2020 HK$'million	2019 HK$'million	2020 HK$'million	2019 HK$'million	2020 HK$'million	2019 HK$'million	2020 HK$'million	2019 HK$'million	2020 HK$'million	2019 HK$'million
Within 1 year	7,688	6,563	—	—	148	509	934	366	182	1,557	—	—	8,952	8,995
Between 1 and 2 years	1,123	1,897	—	—	—	69	—	—	4,304	249	2,971	—	8,398	2,215
Between 2 and 5 years	4,589	2,737	—	—	152	287	—	—	10,807	11,386	—	2,791	15,548	17,201
Within 5 years	13,400	11,197	—	—	300	865	934	366	15,293	13,192	2,971	2,791	32,898	28,411
More than 5 years	1,017	894	520	454	155	162	—	—	4,602	8,493	—	—	6,294	10,003
	14,417	12,091	520	454	455	1,027	934	366	19,895	21,685	2,971	2,791	39,192	38,414

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

	2020	2019
Hong Kong dollar	0.63% to 0.93%	3.08% to 3.37%
Renminbi	1.20% to 4.98%	1.20% to 4.90%
Euro	3.72% to 5.17%	3.72% to 5.78%
United States dollar	0.69% to 2.59%	2.64% to 4.80%
Brazilian Real	4.00% to 4.85%	5.15% to 5.89%

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

	2020 HK$'million	2019 HK$'million
Hong Kong dollar	3,813	3,208
Renminbi	9,442	8,887
Euro	1,711	1,834
United States dollar	23,106	22,749
Brazilian Real	1,120	1,736
	39,192	38,414

34. LEASE LIABILITIES

	2020 **HK$'million**	2019 HK$'million
Lease liabilities payable as at 31 December:		
Within 1 year	**76**	84
Between 1 and 2 years	**3**	34
Between 2 and 5 years	**16**	13
More than 5 years	**867**	871
	962	1,002
Less: Amount due for settlement with 12 months shown under current liabilities	**(76)**	(84)
Amount due for settlement after 12 months shown under non-current liabilities	**886**	918

The lease liabilities ranged from 1 to 35 years, depending on the classes of assets rented. The Group does not have a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function.

The Group's weighted average incremental borrowing rate for lease liabilities as at 31 December 2020 is 5.28% (2019: 5.26%).

Lease liabilities of HK$962 million (2019: HK$1,002 million) are recognised with related right-of-use assets of HK$729 million (2019: HK$879 million) as at 31 December 2020. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor and the relevant leased assets may not be used as security for borrowing purposes.

Details of the lease maturity analysis of the Group's lease liabilities are set out in note 3.1(iii).

35. OTHER NON-CURRENT LIABILITIES

	2020 HK$'million	2019 HK$'million
TCP Concession Liabilities (Note (a))	3,352	3,610
Royalty Provision (Note (b))	891	925
Net deferred benefit obligation (Note (c))	496	420
Deferred income	437	420
Others	53	46
	5,229	5,421

Notes:

(a) Amount represents the liabilities arising from the concession arrangements for a port located in Brazil with the local port authority due by the TCP Group (the "TCP Concession Liabilities"). The relevant concession arrangement allows for operations in the relevant port for up to 2048. Pursuant to the said concession arrangements, including the amendments thereto, with the relevant authority, concession payment is payable on a monthly basis and is adjusted from time to time, among other conditions, with reference to an official inflation index in Brazil. The TCP Concession Liabilities are designated as FVTPL at initial recognition and subsequently measured at fair value, with any gains or losses arising on remeasurement (other than those attributable to changes in credit risks of these liabilities) recognised in profit or loss. The current portion of the TCP Concession Liabilities amounting to HK$80 million (2019: HK$104 million) is included in creditors and accruals under current liabilities.

(b) Amount represents the minimum guaranteed royalty and premium provision (the "Royalty Provision") under a Build-Operate-Transfer Agreement (the "BOT Agreement") with Sri Lanka Ports Authority ("SLPA") due by a non-wholly-owned subsidiary, Colombo International Container Terminals Limited, to SLPA.

The BOT Agreement was entered into in 2011 for the right to construct, operate, manage and develop Colombo South Container Terminal for 35 years.

The current portion of the Royalty Provision amounting to HK$79 million (2019: HK$59 million) is included in creditors and accruals under current liabilities. The initial recognition of the Royalty Provision is determined by discounting the future annual guaranteed cash flows at the then market rate.

(c) Amount represents the net defined benefit obligation for a defined benefit plan.

The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality rate of plan participants both during and after their employment and future salaries of plan participants. An increase in the life expectancy and future salaries of the plan participants will both increase the plan's liability.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out as at 31 December 2020 by an independent qualified professional valuer. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

Of the expense for the year, HK$24 million (2019: HK$20 million) has been included in administrative expenses.

The remeasurement of the net defined benefit liability is included in other comprehensive income.

36. DEFERRED TAXATION

The movement in the net deferred tax assets and liabilities is as follows:

	2020 HK$'million	2019 HK$'million
As at 1 January	**(3,408)**	(3,294)
Exchange adjustments	**(83)**	163
Obtaining control of a non-wholly owned subsidiary (note 39)	**(485)**	—
Charged to consolidated statement of profit or loss (note 13)	**(86)**	(277)
As at 31 December	**(4,062)**	(3,408)

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK$2,076 million (2019: HK$1,723 million) to be carried forward against future taxable income. These amount expire in the following years:

	2020 HK$'million	2019 HK$'million
2020	—	122
2021	**158**	148
2022	**473**	430
2023	**685**	590
2024	**468**	433
2025	**292**	—
	2,076	1,723

36. DEFERRED TAXATION (CONTINUED)

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax liabilities

	Withholding tax relating to unremitted earnings		Accelerated tax depreciation allowance		Fair value gains and others		Total	
	2020 HK$'million	2019 HK$'million	2020 HK$'million	2019 HK$'million	2020 HK$'million	2019 HK$'million	2020 HK$'million	2019 HK$'million
As at 1 January	**(1,516)**	(1,059)	**(1,578)**	(1,835)	**(574)**	(460)	**(3,668)**	(3,354)
Exchange adjustments	**(100)**	30	**48**	128	**(29)**	13	**(81)**	171
Obtaining control of a non-wholly owned subsidiary (note 39)	**—**	—	**(485)**	—	**—**	—	**(485)**	—
(Charged)/credited to profit or loss	**(220)**	(487)	**106**	129	**(134)**	(127)	**(248)**	(485)
As at 31 December	**(1,836)**	(1,516)	**(1,909)**	(1,578)	**(737)**	(574)	**(4,482)**	(3,668)

Deferred tax assets

	Provision		Others		Total	
	2020 HK$'million	2019 HK$'million	2020 HK$'million	2019 HK$'million	2020 HK$'million	2019 HK$'million
As at 1 January	**20**	9	**240**	51	**260**	60
Exchange adjustments	**—**	1	**(2)**	(9)	**(2)**	(8)
(Charged)/credited to profit or loss	**(8)**	10	**170**	198	**162**	208
As at 31 December	**12**	20	**408**	240	**420**	260

37. CREDITORS AND ACCRUALS

	2020 HK$'million	2019 HK$'million
Trade creditors (Note (a))	**312**	338
Put Option Liability (Note (b))	**—**	818
Amounts due to fellow subsidiaries (Note (c))	**51**	253
Amounts due to associates (Note (c))	**364**	101
Other payables and accruals	**3,425**	3,197
	4,152	4,707

Notes:

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

	2020 HK$'million	2019 HK$'million
0 - 90 days	**260**	280
91 - 180 days	**15**	14
181 - 365 days	**—**	6
Over 365 days	**37**	38
	312	338

(b) Amount as at 31 December 2019 represented gross obligation arising from a put option issued to non-controlling equity holders of TCP Group during the year ended 31 December 2018 ("Put Option Liability"), pursuant to which the Sellers have the right to sell to, and require the Group to acquire all of the Seller's remaining equity interest of the TCP Group in total of 845,703 shares. During the year, the Sellers exercised the put option at a cash, consideration amounting US$107 million (equivalent to approximately HK$835 million).

(c) The balances are unsecured, interest-free and repayable on demand.

38. INFORMATION OF THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit to net cash inflow from operations

	2020 HK$'million	2019 HK$'million
Earnings before finance costs, net, taxation and share of profits less losses of associates and joint ventures	**4,225**	9,243
Adjustments for:		
Depreciation and amortisation	**2,033**	1,996
Increase in fair value of investment properties	**(149)**	(105)
Increase in fair value of financial assets at FVTPL	**(256)**	(513)
Increase in fair value of financial liabilities at FVTPL	**765**	414
Impairment loss recognised in respect of goodwill	**621**	—
Net allowance for credit losses of trade debtors and other debtors	**510**	38
Gain on resumption of land parcels at Qianhai	**—**	(4,820)
Gain on resumption of land parcels at Shantou	**(1,722)**	(688)
Loss/(gain) on disposal of property, plant and equipment	**120**	(17)
Gain on discontinuance of equity accounting for a joint venture	**(960)**	—
Gain on deemed disposal of interest in a joint venture	**—**	(440)
Operating profit before working capital changes	**5,187**	5,108
Increase in inventories	**(51)**	(15)
Decrease/(increase) in debtors, deposits and prepayments	**163**	(490)
(Decrease)/increase in creditors and accruals	**(763)**	351
Net cash inflow from operations	**4,536**	4,954

38. INFORMATION OF THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows used in financing activities.

	Bank and other borrowings									
	Bank loans HK$'million	Loans from a non-controlling equity holder of a subsidiary HK$'million	Loans from fellow subsidiaries HK$'million	Loan from immediate holding company HK$'million	Notes payable HK$'million	Lease liabilities HK$'million	Interest payable (included in creditors and accruals) HK$'million	Dividend payable to non-controlling equity holders of subsidiaries (included in creditors and accruals) HK$'million	Dividend payable to equity holders of the Company HK$'million	Total HK$'million
At 1 January 2020	12,091	454	1,027	366	24,476	1,002	597	145	—	40,158
Financing cash flows	1,957	—	(604)	491	(1,551)	(166)	(1,750)	(687)	(742)	(3,052)
Non-cash changes										
Obtaining control of a non-wholly owned subsidiary	173	—	—	—	—	—	—	—	—	173
Exchange adjustments	196	66	29	55	(59)	72	(66)	(15)	—	278
Issue of shares in lieu of dividends	—	—	—	—	—	—	—	—	(1,907)	(1,907)
Interest expense	—	—	3	22	—	54	1,784	—	—	1,863
Declaration of dividend	—	—	—	—	—	—	—	671	2,649	3,320
At 31 December 2020	14,417	520	455	934	22,866	962	565	114	—	40,833

38. INFORMATION OF THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Reconciliation of liabilities arising from financing activities (continued)

	Bank and other borrowings										
	Bank loans HK$'million	Loans from a non-controlling equity holder of a subsidiary HK$'million	Loans from fellow subsidiaries HK$'million	Loan from an associate HK$'million	Loan from immediate holding company HK$'million	Notes payable HK$'million	Lease liabilities HK$'million	Interest payable (included in creditors and accruals) HK$'million	Dividend payable to non-controlling equity holders of subsidiaries (included in creditors and accruals) HK$'million	Dividend payable to equity holders of the Company HK$'million	Total HK$'million
At 31 December 2018	12,280	446	634	276	—	25,220	—	618	51	—	39,525
Adjustment upon application of HKFRS 16	—	—	—	—	—	—	1,098	—	—	—	1,098
At 1 January 2019 (restated)	12,280	446	634	276	—	25,220	1,098	618	51	—	40,623
Financing cash flows	10	—	413	(276)	371	(617)	(170)	(1,944)	(213)	(1,639)	(4,065)
Non-cash changes											
Exchange adjustments	(199)	8	(20)	—	(5)	(168)	(23)	—	38	—	(369)
Issue of shares in lieu of dividends	—	—	—	—	—	—	—	—	—	(1,544)	(1,544)
Interest expense	—	—	—	—	—	41	54	1,923	—	—	2,018
Declaration of dividend	—	—	—	—	—	—	—	—	269	3,183	3,452
New leases entered into (net) and lease modification	—	—	—	—	—	—	43	—	—	—	43
At 31 December 2019	12,091	454	1,027	—	366	24,476	1,002	597	145	—	40,158

39. OBTAINING CONTROL OF A NON-WHOLLY OWNED SUBSIDIARY

For the year ended 31 December 2020

In November 2020, a wholly-owned subsidiary of the Company and the other shareholders of Ningbo Daxie China Merchants International Terminals Co. Ltd. ("Daxie Port") resolved by way of shareholders' resolutions to establish the Budget Committee, and entered into a Cooperation Agreement with Ningbo Zhoushan Port Company Limited ("Ningbo Port"), a shareholder owned 35% interest of Daxie Port (the "Cooperation Agreement").

The Budget Committee shall comprise of three directors. Each of the shareholders of Daxie Port shall nominate one director to be a member of the Budget Committee, and the director nominated by the Group shall be the chairman. The Budget Committee is primarily responsible for approving Daxie Port's annual business plan, annual financial budget and final accounts, and after-tax profit distribution plan. Any matters to be considered by the Budget Committee shall be approved by a two-thirds majority.

Pursuant to the Cooperation Agreement, the Group and Ningbo Port will consult and communicate among themselves to reach consensus before exercising their shareholders' rights, and exercise their rights in their capacities as the directors of Daxie Port in the relevant decision-making process at board meetings. If the parties to the Cooperation Agreement cannot reach consensus, the matter shall be decided in accordance with the opinion of the Group. No consideration is payable by either party under the Cooperation Agreement.

Upon the completion of the Cooperation Agreement, the Group had over 50% of shareholders' rights, which had the power to direct the relevant activities of Daxie Port, and obtained effective control over Daxie Port. Accordingly, the Group no longer recognised its investment in Daxie Port as interest in a joint venture, and able to account for and consolidate Daxie Port as a subsidiary into the consolidated financial statements.

Daxie Port is principally engaged in port and container terminal business in Ningbo, the PRC.

Further details of the Daxie Port are set out below:

Fair value of identifiable assets acquired and liabilities assumed

	HK$'million
Property, plant and equipment (note 17)	2,789
Right-of-use assets (note 18)	1,428
Inventories	10
Debtors, deposits and prepayments	146
Other financial assets	21
Cash and bank balances	367
Bank and other borrowings	(173)
Deferred tax liabilities	(485)
Creditors and accruals	(140)
Taxation payable	(16)
Total identifiable net assets	3,947

Trade debtors acquired with a fair value of HK$64 million at the date of obtaining control were also the gross contractual amount and best estimate contractual cash flows at the date of obtaining control.

39. OBTAINING CONTROL OF A NON-WHOLLY OWNED SUBSIDIARY (CONTINUED)

For the year ended 31 December 2020 (continued)

Net cash inflow arising on obtaining control of Daxie Port

	HK$'million
Cash consideration	—
Less: Cash and bank balances acquired	367
Net cash inflow during the year ended 31 December 2020	367

The non-controlling interests in Daxie Port recognised were measured by reference to the fair values of the identifiable assets acquired and liabilities assumed at the date of obtaining control.

Goodwill arising on obtaining control of Daxie Port

	HK$'million
Fair value of consideration transferred	—
Add: Non-controlling interests	2,171
Add: Fair values of previously-held interests	1,994
Less: Fair values of identifiable net assets acquired	(3,947)
Goodwill arising on obtaining control	218

Gain on discontinuance of equity accounting for a joint venture

	HK$'million
Fair values of previously-held interests	1,994
Less: Carrying values of previously-held interests	(1,121)
Add: Retranslation reserves reclassified to profit or loss	87
Gain on discontinuance of equity accounting for a joint venture	960

Goodwill arose on obtaining control of Daxie Port because the cost of the combination included a control premium and the future profitability as at the date of obtaining control. These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

Included in the profit and revenue of the Group for the year ended 31 December 2020 were net profit of HK$31 million and revenue of HK$83 million generated by Daxie Port.

Had the above combination been completed on 1 January 2020, total group revenue for the year ended 31 December 2020 would have been HK$9,812 million, and profit for the year ended 31 December 2020 would have been HK$6,192 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the combination been completed on 1 January 2020, nor is it intended to be a projection of future results.

39. OBTAINING CONTROL OF A NON-WHOLLY OWNED SUBSIDIARY (CONTINUED)

For the year ended 31 December 2020 (continued)

In determining the 'pro-forma' revenue and profit of the Group had the combination been completed at the beginning of 2020, the directors of the Company had:

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

40. COMMITMENTS AND CONTINGENT LIABILITIES

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

	2020 HK$'million	2019 HK$'million
Group		
Property, plant and equipment and intangible assets	**2,348**	3,312
Joint ventures		
Property, plant and equipment	**23**	54
	2,371	3,366

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

	2020 HK$'million	2019 HK$'million
Group		
Ports projects	**1,194**	7,545

40. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

(c) Future operating lease receivables where the Group as lessor

The Group has future aggregate lease receivables under non-cancellable operating leases for investment properties and property, plant and equipment as follows:

	2020 HK$'million	2019 HK$'million
Within one year	**316**	279
In the second year	**146**	174
In the third year	**99**	127
In the fourth year	**81**	91
In the fifth year	**73**	82
After the fifth year	**184**	270
	899	1,023

(d) Contingent liabilities

(i) As at 31 December 2020, TCP Group has significant contingent liabilities arising from pending legal proceedings in Brazil in respect of disputes with local tax authorities, employees or former employees of TCP Group and other parties, amounting to HK$253 million (2019: HK$306 million), which, based on the latest estimates of the management of the Group, is not probable that outflows of resources embodying economic benefits will be required to settle these obligations. Accordingly, no provision for litigation claims in respect of the above cases has been made in the consolidated financial statements. A counter indemnity in favour of the Group is executed by the sellers pursuant to which the latter indemnify to the Group for the above contingent liabilities for and up to predetermined amounts and specified length of time.

(ii) As at 31 December 2020 and 2019, the other shareholder of an associate of which the Group held as to 49% of its issued share capital provided corporate guarantees to the full amount for certain loan facilities granted by banks to and other obligations borne by the relevant associate. A counter indemnity in favour of the other shareholder of the associate is executed pursuant to which the Group undertakes to indemnify the other shareholder 49% of the liabilities in the aggregate amount of HK$84 million (2019: HK$90 million) arising from the above loan facilities and other obligations.

In addition to above, the Group also provides guarantees for banking facilities granted to and other obligations borne by an associate of CMG. The total amount guaranteed by the Group is HK$223 million (2019: HK$224 million) and the aggregate amount utilised by the relevant related party amounted to HK$134 million (2019: HK$132 million).

The directors of the Company assessed the risk of default of the related party and the associates in serving the aforesaid loan facilities and other obligations at the end of the reporting period and considered the risk to be insignificant and it is not likely that any guaranteed amount will be claimed.

(iii) As at 31 December 2020 and 2019, the Company has been involved in a legal action involving dispute over the Group's overseas investment. Based on advice of legal counsel and information available to the Group, the directors of the Company are of the opinion that it is pre-mature to assess the possible outcome of the case and the Company is unable to ascertain the likelihood and estimate a reliable amount of the claim at the current stage.

41. RELATED PARTY TRANSACTIONS

The directors of the Company regard CMG, a state-owned enterprise registered in the PRC and is controlled by the PRC government, as being the ultimate holding company of the Company.

Related parties refer to entities in which CMG has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions, or directors or officers of the Company and its subsidiaries. Other than as disclosed elsewhere in these consolidated financial statements, a summary of significant related party transactions entered into in the normal course of business between the Group and its related parties during the year and balances arising from related transactions as at 31 December 2020 are as follows:

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

	Note	2020 HK$'million	2019 HK$'million
Rental income from	(i)		
– immediate holding company		—	3
– fellow subsidiaries		42	49
– an associate		1	—
– joint ventures		15	6
Interest expenses on lease liabilities	(i)		
– fellow subsidiaries		4	3
Expenses relating to short-term leases	(i)		
– fellow subsidiaries		7	3
Service income from	(ii)		
– an intermediate holding company		—	2
– immediate holding company		1	—
– fellow subsidiaries		134	69
– associates		59	33
– joint ventures		67	85
– related parties		—	18
Service fees paid to	(iii)		
– fellow subsidiaries		47	68
– associates		17	19
– joint ventures		18	21
– a related party		3	1

41. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	Note	2020 HK$'million	2019 HK$'million
Interest income from			
– a fellow subsidiary	(iv)	**15**	8
– associates	(v)	**149**	2
– a joint venture	(v)	**69**	71
– a related party	(vi)	**—**	21
Interest expenses and upfront fees paid to	(vii)		
– immediate holding company		**22**	1
– fellow subsidiaries		**23**	33
– an associate		**—**	8

Notes:

(i) The Group rented certain vessels and properties from and leased office premises and residential units to the CMG Group and also leased warehouse to joint ventures. Lease payments were received or charged at a fixed amount per month in accordance with respective tenancy agreements.

As at 31 December 2020, the Group has recognised an addition of right-of-use-assets of HK$90 million (2019: HK$17 million) and lease liabilities of HK$90 million (2019: HK$17 million) in relation to these leases.

(ii) The ports, logistics and information technology service fees were charged with reference to market rates.

(iii) These related parties provided barges to bring cargos into terminals operated by the Group and provided cargo management services to the Group. The service fees were charged with reference to market rates.

(iv) As at 31 December 2020, the Group placed deposits of HK$1,365 million (2019: HK$644 million) with China Merchants Group Finance Co., Ltd., a subsidiary of CMG, which is a financial institution approved and regulated by the People's Bank of China and the China Banking Regulatory Commission. The amounts are included in cash and bank balances.

Interest income was charged at interest rates ranging from 1.61% to 1.76% (2019: 1.61% to 3.30%) per annum.

(v) Interest income was charged at interest rates as specified in note 23 on the outstanding advances to associates and a joint venture.

(vi) The related parties is an associate of CMG. Interest income was charged at a floating interest rate per annum on the outstanding advance to a related party. The outstanding amount has been fully settled by the related party during the year ended 31 December 2019.

(vii) Interest expenses were charged at interest rates as specified in note 33 on the outstanding loans from immediate holding company and fellow subsidiaries.

(viii) During the year ended 31 December 2019, a subsidiary of the Company entered into a transaction with a related party for leasing of a parcel of land located in Djibouti. At inception of the relevant lease, the Group recognised right-of-use assets of HK$217 million. Lease payment of HK$217 million has been made by the Group during the prior year. As at 31 December 2020, the corresponding carrying amount of the right-of-use asset is HK$211 million (2019: HK$214 million).

(ix) During the year ended 31 December 2020, the Group acquire property, plant and equipment of HK$2 million (2019: HK$5 million) from fellow subsidiaries.

41. RELATED PARTY TRANSACTIONS (CONTINUED)

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

Notes: (continued)

(x) Pursuant to the relevant agreements entered into between the Group, QHSH and the CMG Group, the Group's participation in the development of the Qianhai-Shekou Free Trade Zone includes:

(1) resumption of certain land parcels held by two subsidiaries of the Group in Qianhai, Shenzhen, the PRC, by QHSH. The compensation for the resumption includes cash of RMB5,693 million (equivalent to approximately HK$6,457 million) and a piece of land located in Dachan Bay Port Phase II, Shenzhen, the PRC;

(2) the establishment of a joint venture company (the "Joint Venture Company") by (i) an entity established in the PRC in which the Group holds 14% equity interest ("A1 Company", with the other 86% equity interest being held by certain members of the CMG Group) and (ii) a subsidiary of QHSH; and

(3) the injection into the Joint Venture Company of certain land parcels by A1 Company and injection of cash of RMB1,407 million (equivalent to approximately HK$1,596 million) into A1 Company by the Group, of which RMB1,190 million (equivalent to approximately HK$1,350 million) was injected into the Joint Venture Company.

During the year ended 31 December 2019, QHSH has assigned the land and related debt to a subsidiary of A1 Company ("A2 Company") and the Group has received the compensation in cash of RMB5,693 million (equivalent to approximately HK$6,457 million) from A2 Company. As at 31 December 2020, the Group has not received the said piece of land in Dachan Bay.

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

(1) the injection into the Joint Venture Company of certain land parcels and injection of cash of RMB8,643 million (equivalent to approximately HK$9,803 million) into A1 Company by certain members of the CMG Group, of which RMB7,310 million (equivalent to approximately HK$8,291 million) has been injected into the Joint Venture Company; and

(2) the injection into the Joint Venture Company of certain land parcels by QHSH.

(xi) As at 31 December 2020, the Group placed deposits of HK$1,200 million (2019: HK$886 million) with China Merchants Bank Co., Ltd. ("CMB"), an associate of CMG.

During the year, interest income from CMB amounted to HK$16 million (2019: HK$18 million).

There was no borrowing from CMB as at 31 December 2020 (2019: nil).

The balances with entities within CMG Group as at 31 December 2020 and 31 December 2019 are disclosed in notes 23, 26, 33 and 37.

Save and except for those connected transactions or continuing connected transactions under the Listing Rules set out under "Connected Transactions" in the section "Report of the Directors" in this annual report, the other transactions as set out in this note 41(a) were not regarded as connected transactions or continuing connected transactions under the Listing Rules or were exempt from reporting, announcement and shareholders' approval requirements under the Listing Rules.

41. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Transactions with other PRC state-controlled entities

A number of subsidiaries of the Company operate in Mainland China, an economic environment currently predominated by entities controlled, jointly controlled or significantly influenced by the PRC government. These PRC subsidiaries therefore have substantial volumes of transactions with other PRC state-controlled entities during their ordinary course of businesses including but not limited to the purchases of assets, construction of ports and related facilities, bank deposits and borrowings, among others.

(c) Balance and transaction with a non-controlling equity holder of a subsidiary

	2020 HK$'million	2019 HK$'million
Interest expense paid (Note)	21	20

Note: Interest expense was charged at interest rate as set out in note 33 on the outstanding loans from a non-controlling equity holder of a subsidiary.

The balance with a non-controlling equity holder of a subsidiary as at 31 December 2020 and 2019 are disclosed in note 33.

(d) Key management compensation

	2020 HK$'million	2019 HK$'million
Salaries and other short-term employee benefits	24	35

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The table below lists only those subsidiaries of the Company which, in the opinion of the directors, principally affect the results for the year or form a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Particulars of the Company's principal subsidiaries are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of effective ownership interest held by the Company				Principal activities
			Directly		Indirectly		
			2020 %	2019 %	2020 %	2019 %	
China Merchants Container Services Limited	Hong Kong	HK$500,000	—	—	100.00	100.00	Provision of container terminal services and ports transportation
China Merchants Holding (International) Information Technology Co., Ltd. (Note (b))	PRC	RMB50,000,000	76.84	76.84	—	—	Provision of computer network services
China Merchants International Terminals (Ningbo) Limited	British Virgin Islands	US$1	100.00	100.00	—	—	Investment holding
China Merchants International Container Terminal (Qingdao) Co., Ltd. (Note (a))	PRC	US$206,300,000	—	—	100.00	100.00	Provision of container terminal services and ports transportation
China Merchants International Terminal (Qingdao) Company Ltd. (Note (b))	PRC	US$44,000,000	—	—	90.10	90.10	Port, container terminal and logistics business
China Merchants Bonded Logistics Co., Limited (Note (b))	PRC	RMB700,000,000	—	—	60.00	60.00	Provision of container related logistics services
China Merchants Port Services (Shenzhen) Company Limited (Note (a))	PRC	RMB550,000,000	—	—	100.00	100.00	Provision of terminal services and ports transportation
CMH International (China) Investment Co., Ltd. (Note (a))	PRC	US$67,400,000	100.00	100.00	—	—	Investment holding
Colombo International Container Terminals Limited	Republic of Sri Lanka	US$150,000,088	85.00	85.00	—	—	Provision of container terminal services
Guangdong Yide Port Limited (Note (b))	PRC	RMB216,000,000	—	—	51.00	51.00	Port operations

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of effective ownership interest held by the Company Directly 2020 %	Directly 2019 %	Indirectly 2020 %	Indirectly 2019 %	Principal activities
Hambantota International Port Group (Private) Limited	Republic of Sri Lanka	US$1,145,480,000	—	—	65.00	85.00	Port development, management and operation
Hambantota International Port Services Company (Private) Limited (Note (d))	Republic of Sri Lanka	US$606,000,000	—	—	37.70	49.30	Port management
Lomé Container Terminal S.A. (Note (c))	Togolese Republic	XOF200,000,000	—	—	35.00	35.00	Provision of container terminal services
Mega Shekou Container Terminals Limited	British Virgin Islands	US$120	—	—	80.00	80.00	Investment holding
Ningbo Daxie China Merchants International Terminals Co., Ltd. (Notes (b) and (e))	PRC	RMB1,209,090,000	—	N/A	45.00	N/A	Port and container terminal business
Shantou China Merchants Port Group Co., Ltd.	PRC	RMB125,000,000	—	—	60.00	60.00	Port operations
Shekou Container Terminals Ltd. (Note (a))	PRC	HK$618,201,150	—	—	80.00	80.00	Operation of berths No. 1 & 2 in Shekou, the PRC
Shekou Container Terminals (Phase II) Company Limited (Note (a))	PRC	RMB608,549,000	—	—	80.00	80.00	Operation of berths No. 3 & 4 in Shekou, the PRC
Shekou Container Terminals (Phase III) Company Limited (Note (a))	PRC	RMB1,276,000,000	—	—	80.00	80.00	Operation of berths No. 5 to 9 in Shekou, the PRC
Shenzhen China Merchants Qianhaiwan Property Company Limited	PRC	RMB200,000,000	—	—	100.00	100.00	Property holding
Shenzhen Haiqin Engineering Supervision & Management Co., Ltd. (Note (a))	PRC	RMB3,000,000	100.00	—	—	100.00	Provision of services on ports construction
Shenzhen Haixing Harbour Development Company Ltd. (Note (b))	PRC	RMB530,729,167	—	—	67.00	67.00	Provision of container terminal services

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiary	Place of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of effective ownership interest held by the Company				Principal activities
			Directly		Indirectly		
			2020 %	2019 %	2020 %	2019 %	
Shenzhen Jinyu Rongtai Investment Development Company Limited	PRC	RMB800,000,000	—	—	100.00	100.00	Property holding
Shenzhen Mawan Port Service Co., Ltd. (Notes (b) and (f))	PRC	RMB200,000,000	N/A	—	N/A	70.00	Operation of berth No. 5 in Mawan, Shenzhen, the PRC (2019)
Shenzhen Mawan Terminals Co., Ltd. (Note (b))	PRC	RMB335,000,000	—	—	70.00	70.00	Operation of berths No.5 to 7 in Mawan, Shenzhen, the PRC
Shenzhen Mawan Wharf Co., Ltd. (Note (b))	PRC	RMB200,000,000	—	—	70.00	70.00	Operation of berth No. 0 in Mawan, Shenzhen, the PRC
TCP Participações S.A.	Federative Republic of Brazil	Brazilian Real 68,851,561	—	—	77.45	67.45	Provision for container terminal services
Xia Men Bay China Merchants Terminals Co., Ltd. (Notes (b) and (d))	PRC	RMB444,500,000	—	—	31.00	31.00	Provision of terminal services and ports transportation
Zhangzhou China Merchants Port Co., Ltd. (Note (b))	PRC	RMB1,000,000,000	—	—	60.00	60.00	Operation of berths No. 3 to 6 in the Zhangzhou Economic Development Zone, Fujian Province, the PRC
Zhangzhou China Merchants Tugboat Company Limited (Note (b))	PRC	RMB15,000,000	—	—	70.00	70.00	Operation of tugboats in the Zhangzhou Economic Development Zone, Fujian Province, the PRC
安運捷碼頭倉儲服務(深圳)有限公司 (Note (a))	PRC	RMB60,600,000	—	—	80.00	80.00	Holding of certain pieces of land in Shekou, the PRC

42. PARTICULARS OF PRINCIPAL SUBSIDIARIES (CONTINUED)

Notes:

(a) Foreign investment enterprises.

(b) Sino-foreign joint ventures.

(c) This entity is considered to be a subsidiary of the Company despite that the Group holds effective equity interest of 35% therein as the Group has the power to appoint and remove the majority of the executive committee of the entity, which is empowered to direct the relevant activities of control of the investee by virtue of the shareholders' agreement.

(d) These entities are considered to be subsidiaries of the Company despite that the Group holds less than half of the equity interest therein as the Group has the power to appoint and remove the majority of the Board of Directors of the relevant entities and holds more than half of the voting rights at the relevant Board of Directors' and shareholders' meetings of the respective entities by virtue of agreements with other investors.

(e) Further details are set out in note 39.

(f) This entity was merged and absorbed during the year.

43. PARTICULARS OF PRINCIPAL ASSOCIATES

Name of associate	Place of incorporation/ registration and operation	Proportion of effective ownership interest indirectly held by the Company		Principal activities
		2020	2019	
		%	%	
Asia Airfreight Terminal Company Limited	Hong Kong	**20.00**	20.00	Airfreight services
China Nanshan Development (Group) Incorporation (Note (a))	PRC	**37.01**	37.01	Investment holding
Chiwan Container Terminal Co., Ltd. (Notes (a) and (b))	PRC	**14.16**	14.16	Ports and container terminal business
Chu Kong River Trade Terminal Co., Limited	British Virgin Islands	**20.00**	20.00	Provision of shuttle-barge ports services
Liaoning Port Company Limited (formerly known as Dalian Port (PDA) Company Limited) (shares listed on the HKSE and the Shanghai Stock Exchange) (Note (a))	PRC	**21.05**	21.05	Provision of terminal business and logistics services
Modern Terminals Limited	Hong Kong	**27.01**	27.01	Provision of container terminal services and warehouse services
Port de Djibouti S.A.	Republic of Djibouti	**23.50**	23.50	Operations of seaports and terminals and port related business in Djibouti

43. PARTICULARS OF PRINCIPAL ASSOCIATES (CONTINUED)

Name of associate	Place of incorporation/ registration and operation	Proportion of effective ownership interest indirectly held by the Company 2020 %	2019 %	Principal activities
Shanghai International Port (Group) Co., Ltd. (A shares listed on the Shanghai Stock Exchange) (Note (a))	PRC	**26.77**	26.77	Ports and container terminal business and related services
Shenzhen China Merchants Qianhai Assets Development Co., Ltd. (Note (b))	PRC	**14.00**	14.00	Property development and management in Qianhai trade zone
Terminal Link SAS	French Republic	**49.00**	49.00	Operations of container terminals in Europe, Mediterranean, Africa, Americas and Asia
Tianjin Haitian Bonded Logistics Co., Ltd. (Note (a))	PRC	**49.00**	49.00	Provision of container terminal services and warehouse services
Tianjin Port Container Terminal Co., Ltd. (Note (b))	PRC	**7.31**	7.31	Ports and container terminal business
Tin-Can Island Container Terminal Ltd.	Federal Republic of Nigeria	**28.50**	28.50	Provision of container terminal services
Zhanjiang Port (Group) Co., Ltd. (Note (a))	PRC	**27.58**	27.58	Ports and container terminal business

Note:

(a) Sino-foreign joint ventures.

(b) These entities are considered to be associates of the Company despite that the Group holds less than 20% of the equity interest therein, as the Group has significant influence to appoint and remove the executive committee of the relevant entities, which is empowered to direct the relevant activities of influence of the investees by virtue of agreements.

44. PARTICULARS OF PRINCIPAL JOINT VENTURES

Name of joint venture	Issued capital/ registered capital	Proportion of effective ownership interest held by the Company indirectly		Principal activities
		2020 **%**	2019 %	
Euro-Asia Oceangate S.àr.l.	US$940,141,587.60	**40.00**	40.00	Ports and container terminal business
Ningbo Daxie China Merchants International Terminals Co., Ltd. (Notes (a) and (b))	RMB1,209,090,000	**N/A**	45.00	Ports and container terminal business
PONI Corporate Trust Group	AUD118,087,000	**50.00**	50.00	Management of port operation and port development
PONI Property Trust Group	AUD550,103,000	**50.00**	50.00	Provision of finance for port operation and property investment
Qingdao Port Dongjiakou Ore Terminal Co., Ltd. (Note (a))	RMB1,400,000,000	**25.00**	25.00	Ports and bulk cargo terminal business
Qingdao Qianwan United Container Terminal Co., Ltd.	RMB2,000,000,000	**50.00**	50.00	Ports and container terminal business
Qingdao Qianwan West Port United Terminal Co., Ltd.	RMB500,000,000	**49.00**	49.00	Ports and bulk cargo terminal business

Notes:

(a) Sino-foreign joint ventures.

(b) Further details are set out in note 39.

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

45. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2020 HK$'million	2019 HK$'million
ASSETS		
Non-current assets		
Property, plant and equipment	402	418
Interests in subsidiaries	77,837	69,528
Interests in associates	588	588
Prepayment	6	6
	78,833	70,540
Current assets		
Debtors, deposits and prepayments	17	11
Advances to subsidiaries	1,697	2,071
Advances to associates	69	69
Cash and bank balances	3,702	1,650
	5,485	3,801
Total assets	84,318	74,341
EQUITY		
Capital and reserves attributable to equity holders of the Company		
Share capital	42,521	40,614
Reserves (Note)	3,364	3,119
Proposed dividend (Note)	1,867	2,000
Total equity	47,752	45,733
LIABILITIES		
Non-current liability		
Bank and other borrowings	5,547	3,101
Current liabilities		
Advances from subsidiaries	25,455	20,993
Creditors and accruals	381	391
Bank and other borrowings	5,183	4,123
	31,019	25,507
Total liabilities	36,566	28,608
Total equity and liabilities	84,318	74,341
Net current liabilities	(25,534)	(21,706)
Total assets less current liabilities	53,299	48,834

The statement of financial position of the Company was approved and authorised for issue by the Board of Directors on 30 March 2021 and are signed on its behalf by:

Mr. Deng Renjie
DIRECTOR

Mr. Bai Jingtao
DIRECTOR

45. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (CONTINUED)

Note: The reserves of the Company at 31 December 2020 and 2019 are as follows:

	Capital reserve HK$'million (Note (i))	Retained earnings HK$'million	Total HK$'million
As at 1 January 2020	2,340	2,779	5,119
Profit and total comprehensive income for the year	—	2,748	2,748
Contribution from immediate holding company	13	—	13
Dividends (Note (ii))	—	(2,649)	(2,649)
As at 31 December 2020	2,353	2,878	5,231
Retained earnings as at 31 December 2020 representing:			
Reserves		1,011	
Proposed dividend		1,867	
		2,878	
As at 1 January 2019	2,340	3,135	5,475
Profit and total comprehensive income for the year	—	2,827	2,827
Dividends (Note (ii))	—	(3,183)	(3,183)
As at 31 December 2019	2,340	2,779	5,119
Retained earnings as at 31 December 2019 representing:			
Reserves		779	
Proposed dividend		2,000	
		2,779	

Notes:

(i) The Company's capital reserve, which arose in 1998 upon reduction of share premium as confirmed by the order of the High Court of the Hong Kong Special Administrative Region, is a non-distributable reserve and may be applied by the Company in paying up its unissued shares to be allotted to members of the company as fully paid bonus shares.

(ii) Dividends recognised as distribution in the years are as follows:

	2020 HK$'million	2019 HK$'million
Interim 18 HK cents (2019: 22 HK cents) per ordinary share	649	752
2019 final of 58 HK cents (2019: 2018 final of 73 HK cents) per ordinary share	2,000	2,431
	2,649	3,183

46. EVENTS AFTER THE REPORTING PERIOD

(i) Deemed disposal of a subsidiary engaged in providing technology solutions

In December 2020, the Company, CMPG and certain relevant parties entered into equity subscription and capital injection agreement (the "Injection Agreement"), pursuant to which the Company and CMPG agreed to waive any pre-emptive rights they might have in subscribing for any equity interests in China Merchants Holdings (International) Information Technology Company Limited ("CMHIT"), a non-wholly owned subsidiary of the Company.

With reference to the Injection Agreement, Dalian Port Container Development Co., Ltd. ("Dalian Port Container"), Dalian Port Jifa Logistics Co., Ltd. ("Dalian Port Jifa") and Yingkou Port Group Co., Ltd. ("Yingkou Port Group"), each a fellow subsidiary of the Group, being new subscribers agreed to make capital contribution to CMHIT by way of equity transfer from Dalian Port Net Co., Ltd. (49.63% owned by Dalian Port Container and 29.40% owned by Dalian Port Jifa) and Yingkou Gangxin Technology Co., Ltd., a wholly-owned subsidiary of Yingkou Port Group. The registered capital of CMHIT will be increased from RMB50 million (equivalent to approximately HK$59 million) to RMB88 million (equivalent to approximately HK$104 million). Meanwhile the Company's equity interests in CMHIT will be decreased from 76.84% to 43.74% and cease to be a subsidiary of the Company after the capital injection by the new subscribers.

Details of the transaction are set out in the announcement of the Company dated 18 December 2020 and 24 December 2020. This transaction has been completed in February 2021.

(ii) Deemed disposal of an associate engaged in port operation in Dalian, the PRC

In January 2021, the merger by absorption through share swap (the "Merger") between Liaoning Port Co., Ltd. (formerly known as "Dalian Port (PDA) Company Limited", hereinafter referred to as "Liaoning Port"), an associate of the Group, and Yingkou Port Liability Co., Ltd. and fundraising and connected transactions have been approved by the China Securities Regulatory Commission.

Upon completion of the Merger, Liaoning Port's total share capital increased from 12,894,535,999 shares to 22,623,429,453 shares, which comprises 17,464,713,454 A shares and 5,158,715,999 H shares. The nature of the additional shares involved in the Merger is listed A shares without trading moratorium, and the additional shares without trading moratorium will be tradable on 9 February 2021. The Group's interest in Liaoning Port will be diluted from 21.05% to 12.00%. The investment in Liaoning Port continues to account for as an interest in an associate as the directors consider the Group has significant influence over the investee.

The Merger has been completed in February 2021.

(iii) Formation of a joint venture engaged in land redevelopment in Djibouti

In December 2020, the Group entered into an investment agreement (the "Investment Agreement") with certain related parties and a government authority in relation to the proposed formation of Red Sea World S.A., a company incorporated in Djibouti (the "Red Sea World Joint Venture") in connection with the redevelopment of a land situated in Djibouti.

Pursuant to the Investment Agreement, the Group shall have a 23.5% interest in the Red Sea World Joint Venture and shall provide a capital contribution on a pro rata basis. The Red Sea World Joint Venture is accounted for as using equity method as the directors of the Company consider the Group has significant influence over the Red Sea World Joint Venture.

Up to the date these consolidated financial statements were authorised for issuance, the formation has not yet been completed.

Registered Office of the Issuer

CMHI Finance (BVI) Co., Ltd
Vistra Corporate Services Centre
Wickhams Cay II
Road Town, Tortola
VG11 10
British Virgin Islands

Registered Office of the Guarantor

China Merchants Port Holdings Company Limited
38th Floor
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road
Central
Hong Kong

Fiscal Agent and Principal Paying Agent

The Hongkong and Shanghai Banking Corporation Limited
Level 30, HSBC Main Building
1 Queen's Road Central
Hong Kong

Legal Advisers

To the Issuer and Guarantor as to English and Hong Kong laws

Linklaters
11th Floor
Alexandra House
Chater Road
Hong Kong

To the Issuer and Guarantor as to PRC law

JunHe LLP
Suite 2803-04, 28/F
Tower Three, Kerry Plaza No.1-1
Zhongxinsi Road, Futian District
Shenzhen 518048, PRC

To the Issuer as to British Virgin Islands law

Campbells
1301, 13/F, York House, The
Landmark, 15 Queen's Road
Central, Hong Kong

To the Joint Lead Managers as to English law

Clifford Chance
27th Floor
Jardine House
One Connaught Place
Hong Kong

To the Joint Lead Managers as to PRC law

Li & Partners (Shenzhen)
10/F, Hantang Building, OCT,
Nanshan District,
Shenzhen, PRC

Auditors of the Guarantor

Deloitte Touche Tohmatsu
35/F, One Pacific Place
88 Queensway
Hong Kong

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

CMHI FINANCE (BVI) CO., LTD
(incorporated in the British Virgin Islands with limited liability)

US$[●] [●] per cent. Guaranteed Notes due [●]

OFFERING MEMORANDUM

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

Bank of China (Hong Kong), DBS Bank Ltd., ING, MUFG, UBS

Joint Bookrunners and Joint Lead Managers

China International Capital Corporation, CMB International, HSBC, BofA Securities, Mizuho Securities, Natixis, SMBC Nikko

The date of this Offering Memorandum is [●] 2022