
IMPORTANT

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Merchants Holdings (International) Company Limited, you should at once hand this circular to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this circular, 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 circular.



招商局國際有限公司

CHINA MERCHANTS HOLDINGS (INTERNATIONAL) COMPANY LIMITED

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

(Stock Code: 144)

MAJOR AND CONNECTED TRANSACTION

**Entrustment Agreement over 23.493% of
China Nanshan Development (Group) Incorporation***

**Independent Financial Adviser to the Independent Board Committee and
Independent Shareholders of China Merchants Holdings (International) Company Limited**



SAMSUNG SECURITIES

Samsung Securities (Asia) Limited

A notice convening an extraordinary general meeting of the Company to be held on Thursday, 12 August 2010 at 9:30 a.m. at the Ball Room, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong is set out on pages 164 to 165 of this circular. Whether or not you are able to attend the extraordinary general meeting, you are requested to complete the accompanying form of proxy, in accordance with the instructions printed thereon and return the same to the Company's registered office at 38th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting.

A letter from the Independent Board Committee of China Merchants Holdings (International) Company Limited is set out on pages 14 to 15 of this circular. A letter from Samsung Securities containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 16 to 26 of this circular.

* *for identification purpose only*

30 June 2010

CONTENT

DEFINITIONS	1
LETTER FROM THE BOARD	4
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	14
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER	16
APPENDIX 1 ACCOUNTANT'S REPORT ON THE NANSHAN GROUP	27
APPENDIX 2 MANAGEMENT DISCUSSION AND ANALYSIS OF THE NANSHAN GROUP	107
APPENDIX 3 FINANCIAL AND OTHER INFORMATION OF THE ENLARGED GROUP	113
APPENDIX 4 PROPERTY VALUATION REPORT	123
APPENDIX 5 GENERAL INFORMATION	156
NOTICE OF THE EGM	164

DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“China Nanshan”	中國南山開發(集團)股份有限公司 (China Nanshan Development (Group) Incorporation*), a joint stock limited company incorporated in the PRC
“Chiwan Wharf”	深圳赤灣港航股份有限公司 (Shenzhen Chiwan Wharf Holdings Limited*), a joint stock limited company established under the laws of the PRC, whose B shares and A shares are listed on the Shenzhen Stock Exchange
“Chiwan Petroleum”	深圳赤灣石油基地股份有限公司 (Shenzhen Chiwan Petroleum Base Limited*), a joint stock limited company established under the laws of the PRC, whose B shares are listed on the Shenzhen Stock Exchange
“CMHK”	China Merchants Holdings (Hong Kong) Company Limited, the intermediate holding company of the Company incorporated in Hong Kong
“CMG”	China Merchants Group Limited, a company incorporated in the PRC and the ultimate holding company of the Company
“Company”	China Merchants Holdings (International) Company Limited, a company incorporated in Hong Kong with limited liability and whose ordinary shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, to approve the Entrustment Agreement
“Enlarged Group”	the Group immediately after the Entrustment Agreement becomes effective, which includes the Nanshan Group
“Entrusted Nanshan Shares”	the 117,465,000 ordinary shares of China Nanshan held by Guangye Investment, representing 23.493% of the issued share capital of China Nanshan and the subject matter under the Entrustment Agreement

DEFINITIONS

“Entrustment Agreement”	the entrustment agreement dated 18 June 2010 entered into between the Company and CMHK
“Group”	the Company together with its subsidiaries
“Guangye Investment”	廣東省廣業投資控股有限公司 (Guangdong Guangye Investment Holdings Limited*), a company incorporated in the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee comprising all the independent non-executive Directors, namely Mr. Tsang Kam Lan, Mr. Kut Ying Hay, Mr. Lee Yip Wah Peter, Mr. Li Kwok Heem John and Mr. Li Ka Fai David
“Independent Financial Adviser” or “Samsung Securities”	Samsung Securities (Asia) Limited, a licensed corporation to carry on business in types 1, 4 and 6 regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Entrustment Agreement
“Independent Shareholders”	Shareholders other than CMHK and its associates
“Latest Practicable Date”	25 June 2010, being the latest practicable date prior to the printing of this circular for ascertaining certain information herein
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Mawan Companies”	深圳媽灣港航有限公司 (Shenzhen Mawan Wharf Co., Ltd.*), 深圳媽灣港務有限公司 (Shenzhen Mawan Port Services Co., Ltd.*) and 深圳媽港倉碼有限公司 (Shenzhen Mawan Terminals Co., Ltd.*), being companies established under the laws of the PRC
“Nanshan Group”	China Nanshan together with its subsidiaries
“Nanshan Property Development”	深圳南山房地產開發有限公司 (Shenzhen Nanshan Property Development Company Limited*), a company established under the laws of the PRC

DEFINITIONS

“PRC”	The People’s Republic of China which, for the purpose of this circular excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Renminbi” or “RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholders”	the shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“US\$” or “US dollars”	United States dollars, the lawful currency of the United States of America

* *For identification purpose only*

LETTER FROM THE BOARD



招商局國際有限公司

CHINA MERCHANTS HOLDINGS (INTERNATIONAL) COMPANY LIMITED

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

(Stock Code: 144)

Executive Directors:

Dr. FU Yuning (*Chairman*)
Mr. LI Yinquan
Mr. HU Zheng
Mr. MENG Xi
Mr. SU Xingang
Mr. YU Liming
Mr. HU Jianhua (*Managing Director*)
Mr. WANG Hong
Mr. LIU Yunshu

Registered Office:

38th Floor
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Independent non-executive Directors:

Mr. TSANG Kam Lan
Mr. KUT Ying Hay
Mr. LEE Yip Wah Peter
Mr. LI Kwok Heem John
Mr. LI Ka Fai David

30 June 2010

To the Shareholders

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION
ENTRUSTMENT AGREEMENT OVER 23.493% OF
CHINA NANSHAN DEVELOPMENT (GROUP) INCORPORATION***

1 INTRODUCTION

On 18 June 2010, the Board announced that the Company entered into the Entrustment Agreement pursuant to which CMHK agreed to grant to the Company the management rights and the power to direct the voting right over 23.493% of China Nanshan for a one-off nominal consideration of RMB1.00. The Entrustment Agreement will take effect upon being approved by the Independent Shareholders at the EGM. The Entrusted Nanshan Shares are held by Guangye Investment which has entrusted CMHK with the management rights and the power to direct the voting right over the Entrusted Nanshan Shares and has further authorised CMHK to designate a subsidiary to exercise such management rights and power to direct the voting right.

LETTER FROM THE BOARD

China Nanshan is a joint stock limited company incorporated in the PRC, which is owned as to 37.014% by the Company, through its wholly-owned subsidiaries. Upon the Entrustment Agreement becoming effective, the Company will be able to exercise management rights and has the power to direct the voting right over 23.493% of the total issued share capital of China Nanshan. In accordance with Hong Kong Financial Reporting Standards, this, together with the 37.014% of the total issued share capital of China Nanshan which the Company beneficially owns, will result in the Company being able to consolidate the assets, liabilities and financial results of China Nanshan into the consolidated financial statements of the Company. However, as Guangye Investment has retained the right to receive dividend over the Entrusted Nanshan Shares, the Company will continue to be only entitled to any dividend declared and paid by China Nanshan in respect of its 37.014% shareholding in China Nanshan.

As CMHK is a substantial shareholder of the Company, CMHK is a connected person of the Company as defined under the Listing Rules. Upon the Entrustment Agreement becoming effective, the financial results of China Nanshan will be consolidated into the consolidated financial statements of the Company. Accordingly, 100% of the assets, revenue and profit of China Nanshan was applied in calculating the applicable percentage ratios set out in Rule 14.07, and as the resulting ratios exceed 5%, therefore the Entrustment Agreement constitutes a non-exempt connected transaction of the Company and is subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules. In addition, since the applicable percentage ratios set out in Rule 14.07 of the Listing Rules exceed 25% but are less than 100%, the Entrustment Agreement also constitutes a major transaction of the Company and is subject to the notification, publication and shareholders' approval requirements under the Listing Rules.

An Independent Board Committee, comprising all the independent non-executive Directors of the Company, has been established to advise the Independent Shareholders and Samsung Securities has been retained as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Entrustment Agreement.

The purpose of this circular is to provide you with further information relating to the Entrustment Agreement and to seek your approval of the ordinary resolution set out in the notice of the EGM at the end of this circular. The recommendation of the Independent Board Committee to the Independent Shareholders is set out on pages 14 to 15 of this circular. The letter of advice from Samsung Securities to the Independent Board Committee and the Independent Shareholders is set out on pages 16 to 26 of this circular.

2 ENTRUSTMENT AGREEMENT

Date: 18 June 2010

Parties: (1) The Company

(2) CMHK

LETTER FROM THE BOARD

Guangye Investment owns the Entrusted Nanshan Shares, representing 23.493% of the total issued share capital of China Nanshan. CMHK was entrusted by Guangye Investment with the management rights and the power to direct the voting right over the Entrusted Nanshan Shares. Under the agreement between CMHK and Guangye Investment, CMHK may designate its subsidiary to exercise the management rights and the power to direct the voting right over the Entrusted Nanshan Shares. Pursuant to the Entrustment Agreement, CMHK has agreed to grant to the Company the management rights and the power to direct the voting right over the Entrusted Nanshan Shares.

2.1 Scope of the entrustment

Rights granted to the Company

Subject to the rights retained by Guangye Investment and the limitations set out in the paragraphs headed “Rights retained by Guangye Investment” and “Limitations on the rights” set out below, the Company is entitled to exercise all shareholders’ rights over the Entrusted Nanshan Shares including:

- (a) requiring Guangye Investment to exercise the voting rights attached to the Entrusted Nanshan Shares in accordance with the instructions of the Company;
- (b) participation in key decision making and selection of management of China Nanshan;
- (c) inspection of minutes of shareholders’ meetings and financial statements of China Nanshan;
- (d) supervision over the operating activities of China Nanshan; and
- (e) other shareholders’ rights provided under applicable laws, the articles of association of China Nanshan, shareholders’ resolutions, board resolutions and the Entrustment Agreement.

The director appointed by Guangye Investment to the board of China Nanshan shall also act in accordance with the instructions of the Company and, subject to those matters set out in the paragraph “Limitations on the rights” below, shall exercise his voting rights in accordance with the directions of the Company. In the event that the director nominated by Guangye Investment fail to act in accordance with the instructions of the Company, the Company shall notify CMHK and such matter shall be resolved between CMHK and Guangye Investment.

Rights retained by Guangye Investment

Under the Entrustment Agreement, Guangye Investment will retain certain rights over the Entrusted Nanshan Shares, including, in particular, the right to receive income and dividend over the Entrusted Nanshan Shares and the right to receive residual assets and properties upon the winding up of China Nanshan. As Guangye Investment is the owner of the Entrusted Nanshan Shares, Guangye Investment has the right to dispose of the Entrusted Nanshan Shares although it has committed to CMHK that it will not, without the prior written consent of CMHK, terminate the entrustment of the Entrusted Nanshan Shares to CMHK.

LETTER FROM THE BOARD

Limitations on the rights

The Company is required to, through CMHK, obtain the prior written consent of Guangye Investment when it exercises its management rights over the Entrusted Nanshan Shares in relation to certain important matters, such as merger, division, termination or liquidation of China Nanshan, and material acquisitions and disposals and other material transactions entered into by China Nanshan.

2.2 Other key terms of the Entrustment Agreement

Consideration

The Company shall pay CMHK a one-off nominal consideration of RMB1.00 under the Entrustment Agreement, which is payable by the Company in cash within seven days after the Entrustment Agreement becoming effective.

Condition precedent

The Entrustment Agreement will take effect upon being approved by the Independent Shareholders at the EGM.

Exclusivity

During the term of the entrustment, CMHK will not exercise any rights it may have over the Entrusted Nanshan Shares and will not grant any management rights and power to direct the voting right over the Entrusted Nanshan Shares to any third party.

Termination of entrustment

The Entrustment Agreement is for an indefinite term and the entrustment of the management rights and the power to direct the voting right over the Entrusted Nanshan Shares by CMHK to the Company will only be terminated upon mutual agreement between CMHK and the Company.

3 INFORMATION ABOUT CHINA NANSHAN AND THE NANSHAN GROUP

China Nanshan is a joint stock company established in 1982 with the approval of the State Council. As of the Latest Practicable Date, the Company, through its wholly-owned subsidiaries, holds an aggregate 185,070,000 ordinary shares of China Nanshan, representing 37.014% of the total issued share capital of China Nanshan. The Entrusted Nanshan Shares are held by Guangye Investment and comprise 117,465,000 ordinary shares of China Nanshan, representing approximately 23.493% of the total issued share capital of China Nanshan. The remaining 39.493% interest in China Nanshan is held by Shenzhen Investment Holdings Co., Ltd., China National Offshore Oil Investment Co., Ltd., China Ocean Oilfields Services (Hong Kong) Limited and Clifford Wong Investments Limited as to 26.103%, 7.831%, 1.644% and 3.915%, respectively. To the best of the Directors' knowledge, the other shareholders of China Nanshan and their ultimate beneficial owners are third parties independent of the Company and the connected persons of the Company under the Listing Rules.

LETTER FROM THE BOARD

The business scope of China Nanshan includes the development of land, ports transport and development of other related industrial, commercial, property and tourism businesses. The principal activity of China Nanshan is investment holding and the principal activities of the Nanshan Group are port operations, port-related operations and property development which are conducted through the subsidiaries of China Nanshan. The three principal subsidiaries of China Nanshan are Chiwan Wharf, Chiwan Petroleum and Nanshan Property Development.

Chiwan Wharf is a joint stock limited company incorporated in the PRC with B shares and A shares issued and listed on the Shenzhen Stock Exchange. The primary business of Chiwan Wharf is development and operations of container, and general and bulk cargo ports and port-related businesses. Chiwan Wharf is also engaged in transportation services and logistics businesses. Chiwan Wharf holds substantial stake in each of Chiwan Container Terminal Co., Ltd. (which operates berth numbers 9 to 13 at the Chiwan Port Area in Shenzhen and in which the Company also indirectly holds a 20% interest through its subsidiary), Shenzhen Chiwan Harbour Container Co., Ltd. (which operates berth number 8 at the Chiwan Port Area in Shenzhen) and the Mawan Companies (which operate berth numbers 0, 5, 6 and 7 at the Mawan Port Area in Shenzhen), as well as interests in operations in general and bulk cargo terminals business. As of the Latest Practicable Date, China Nanshan holds approximately 57.51% interest in Chiwan Wharf and the Company, through its wholly-owned subsidiaries, also holds approximately 7.98% interest in Chiwan Wharf. As of the Latest Practicable Date, Chiwan Wharf holds 37.5% interest in Shenzhen Cyber-Harbour Network Company Limited (a company incorporated in the PRC that specialises in e-business for the maritime logistics industry), 50% interest in Media Port Investments Limited (an investment holding company incorporated in the British Virgin Islands which holds interests in the Mawan Companies) and 20% interest in China Merchants Maritime & Logistics (Shenzhen) Limited (a company incorporated in the PRC and whose principal activities are the development and operation of the Shenzhen Qianhaiwan Logistics Park) and the Company holds a 62.5%, 50% and 60% interests, respectively, in each of these companies.

Chiwan Petroleum is a joint stock limited company incorporated in the PRC with B shares issued and listed on the Shenzhen Stock Exchange. The primary business of Chiwan Petroleum is the provision of ancillary and supporting services in connection with exploration, extraction and production of petroleum and natural gas. Chiwan Petroleum is also engaged in marine engineering and logistics support businesses. As of the Latest Practicable Date, China Nanshan holds approximately 51.79% interest in Chiwan Petroleum.

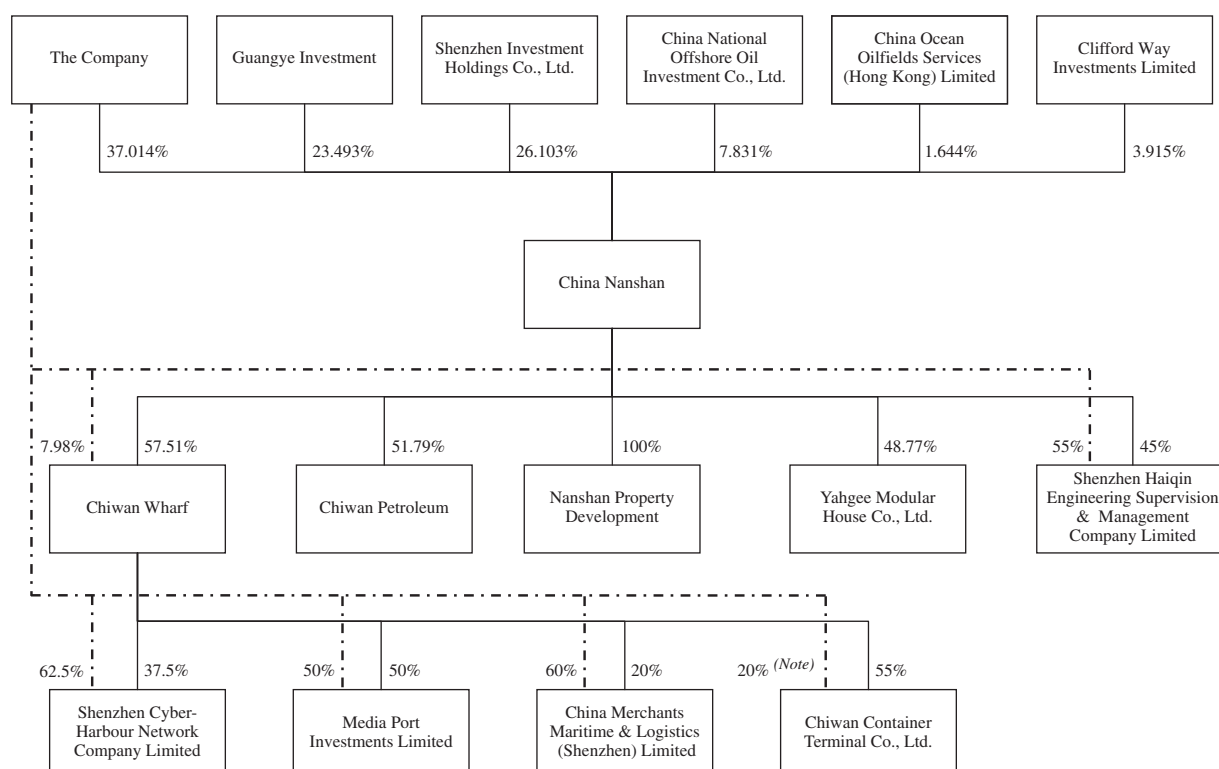
Nanshan Property Development is a limited company incorporated in the PRC and is a wholly-owned subsidiary of China Nanshan. The primary business of Nanshan Property Development is property development, management and leasing.

In addition to the above principal subsidiaries, China Nanshan also holds, through its wholly-owned subsidiary, approximately 48.77% of Yahgee Modular House Co., Ltd., a joint stock limited company incorporated in the PRC with A shares issued and listed on the Shenzhen Stock Exchange and whose principal activity is the construction of modular houses.

LETTER FROM THE BOARD

As of the Latest Practicable Date, China Nanshan also holds an aggregate 45% interest in Shenzhen Haiqin Engineering Supervision & Management Company Limited (a company incorporated in the PRC whose principal activities are the inspection and provision of advisory services in relation to ports construction works) and the Company holds the remaining 55% interest in such company.

A simplified group chart showing the shareholding structure of China Nanshan, its key operating subsidiaries and associates, and certain subsidiaries, associates and jointly controlled entity in which the Company also has interests is set out below:



Note: Such interest is held by the Company through a subsidiary in which the Company holds 60% interest. The effective interest of the Company in Chiwan Container Terminal Co., Ltd. is 12%.

According to the audited consolidated financial statements of China Nanshan for 2009 prepared in accordance with Hong Kong Financial Reporting Standards, the consolidated net asset value attributable to the shareholders of China Nanshan as at 31 December 2009 is RMB4,329 million.

LETTER FROM THE BOARD

The audited consolidated net profits (before and after taxation and extraordinary items) of China Nanshan for the two years ended 31 December 2008 and 31 December 2009 prepared in accordance with Hong Kong Financial Reporting Standards are set out below:

	For the financial year ended	
	31 December 2008	31 December 2009
	<i>RMB million</i>	<i>RMB million</i>
Consolidated profit before taxation and extraordinary items	1,572	1,187
Consolidated profit after taxation and extraordinary items	1,387	1,007

Upon the Entrustment Agreement becoming effective, the Company will be able to exercise management rights and direct the voting right over 23.493% of the total issued share capital of China Nanshan. In accordance with Hong Kong Financial Reporting Standards, this, together with the 37.014% of the total issued share capital of China Nanshan which the Company beneficially owns, will result in the Company being able to consolidate the assets, liabilities and financial results of China Nanshan into the consolidated financial statements of the Company. However, as Guangye Investment has retained the right to receive dividend over the Entrusted Nanshan Shares, the Company will continue to be only entitled to any dividend declared and paid by China Nanshan in respect of its 37.014% shareholding in China Nanshan.

4 POTENTIAL NEW CONTINUING CONNECTED TRANSACTIONS

Upon the Entrustment Agreement becoming effective, China Nanshan will be consolidated into the consolidated financial statements of the Company as a subsidiary. As a result, transactions between connected persons to China Nanshan and its subsidiaries and the Group as well as transactions between connected persons of the Company and its subsidiaries and China Nanshan and its subsidiaries will become connected transactions of the Company. The Company is in the process of identifying potential new continuing connected transactions that may arise as a result of the Entrustment Agreement becoming effective. The Company will comply with the relevant requirements under Chapter 14A of the Listing Rules and make appropriate announcements in respect of such continuing connected transactions. To the extent that any such continuing connected transactions require independent shareholders' approval, a shareholders' circular providing information on such continuing connected transactions will be despatched and independent shareholders' approval will be sought at an extraordinary general meeting to be convened immediately after the EGM.

5 FINANCIAL EFFECTS ON THE GROUP UPON THE ENTRUSTMENT AGREEMENT BECOMING EFFECTIVE

Upon the Entrustment Agreement becoming effective, China Nanshan will be consolidated into the consolidated financial statements of the Company as a subsidiary. The unaudited pro forma statement of assets and liabilities of the Enlarged Group as set out in Part A of Appendix 3 to this circular was prepared as if the Entrustment Agreement had become effective from 31 December 2009. Upon the Entrustment Agreement becoming effective, the Group's unaudited total assets as at 31

LETTER FROM THE BOARD

December 2009 will increase from HK\$52,468 million to HK\$69,720 million and the Group's unaudited total liabilities as at 31 December 2009 will increase from HK\$16,849 million to HK\$25,409 million, resulting in an increase in net assets as at 31 December 2009 from HK\$35,619 million to HK\$44,311 million. Details of all the adjustments made are set out in the unaudited pro forma statement of assets and liabilities of the Enlarged Group set out in Part A of Appendix 3 to this circular. As the Nanshan Group holds a significant amount of property interest, Grant Sherman Appraisal Limited, an independent property valuer, has been appointed to conduct a valuation of the property interest held by the Nanshan Group and the text of such valuation report is set out in Appendix 4 to this circular.

Upon the Entrustment Agreement becoming effective, the financial results of China Nanshan will be consolidated into the Group, and in view of the historical performance of China Nanshan, it is expected that the profit before taxation and profit after taxation of the Company will increase as a result of the Entrustment Agreement becoming effective. However, as Guangye Investment has retained the right to receive dividend over the Entrusted Nanshan Shares, the Company will continue to be only entitled to any dividend declared and paid by China Nanshan in respect of its 37.014% shareholding in China Nanshan.

6 REASONS FOR THE TRANSACTION

The core business of the Group includes port and port-related business. It has been the strategy of the Group to continue to strengthen and develop its port and port-related business through enhancement of the capabilities of existing ports assets as well as investment in new projects, acquisition of quality port-related business, and expansion into container related logistics services inclusive of leasing of properties and warehouses.

The Company has through these years been endeavouring to raise the operating efficiencies of the ports at the West Shenzhen Ports Zone through aligning the interests of these various ports. The Directors expect the Entrustment Agreement, which will enable the Company to further influence, through its ability to direct the voting rights of the director appointed by Guangye Investment to the board of directors of China Nanshan, the business operations of Nanshan Group and thereby enabling the Company to better align the ports operations of the Nanshan Group with those of the Group and to further strengthen the Group's presence in the West Shenzhen Ports Zone, in order to bring strategic benefits to the Group. As such further influence will be exercised by the Company through directing the voting rights held by Guangye Investment or by the director appointed by Guangye Investment to the board of China Nanshan and that as the Company being the single largest shareholder of China Nanshan, has been involved in the affairs of China Nanshan with China Nanshan's daily operations being run by its own management, the Company does not expect to incur material additional management cost to achieve such strategic benefits.

LETTER FROM THE BOARD

The terms of the Entrustment Agreement, including the nominal consideration of RMB1.00, have been determined through arm's length negotiations between the parties. The Directors, including the independent non-executive Directors, consider that the Entrustment Agreement has been entered into on normal commercial terms, is fair and reasonable and in the interests of the Company and the Shareholders as a whole. None of the Directors have a material interest in the Entrustment Agreement and therefore no Director is required to abstain from voting on the board resolution approving the Entrustment Agreement.

7 GENERAL INFORMATION

The Company is one of the leading port investors and developers in China with investments and operations which span across, among others, Hong Kong, Shenzhen, Shanghai, Ningbo, Qingdao, Tianjin, Xiamen Bay and Zhanjiang. The Company also has investments in port projects in Vietnam.

CMHK, the intermediate holding company of the Company incorporated in Hong Kong, was formed on 11 December 1987 as an investment holding company and is an indirect wholly-owned subsidiary of CMG. The principal activities of CMHK are transportation (ports and related services, toll roads, energy shipping and logistics) and financial services (banking, securities, funds and insurance) through its subsidiaries.

Guangye Investment is a company incorporated in the PRC and is a subsidiary of Guangdong Guangye Asset Management Limited Company, a state-owned enterprise established in 2000 with the authorization of the Guangdong provincial government and which is responsible for the administration and management of certain state-owned asset as authorized by the Government. To the best of the Directors' knowledge, Guangye Investment and its ultimate beneficial owner are third parties independent of the Company and the connected persons of the Company under the Listing Rules.

8 LISTING RULES IMPLICATIONS

CMHK holds indirectly 1,352,647,266 shares in the Company, representing approximately 55.59% of the issued shares of the Company as at the Latest Practicable Date. As CMHK is a substantial shareholder of the Company, CMHK is a connected person of the Company as defined under the Listing Rules.

Upon the Entrustment Agreement becoming effective, the financial results of China Nanshan will be consolidated into the consolidated financial statements of the Company. Accordingly, 100% of the assets, revenue and profit of China Nanshan was applied in calculating the applicable percentage ratios set out in Rule 14.07, and as the resulting ratios exceed 5%, therefore the Entrustment Agreement constitutes a non-exempt connected transaction of the Company and is subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules. In addition, since the applicable percentage ratios set out in Rule 14.07 of the Listing Rules exceed 25% but are less than 100%, the Entrustment Agreement also constitutes a major transaction of the Company and is subject to the notification, publication and shareholders' approval requirements under the Listing Rules.

LETTER FROM THE BOARD

9 EGM

A notice convening the EGM to be held at the Ball Room, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Thursday, 12 August 2010 at 9:30 a.m. is set out on pages 164 to 165 of this circular. At the EGM, an ordinary resolution will be proposed to approve the Entrustment Agreement. In accordance with the Listing Rules, CMHK and its associates will abstain from voting on the ordinary resolution approving the Entrustment Agreement.

10 RECOMMENDATION

Samsung Securities has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Entrustment Agreement. Samsung Securities considers that the Entrustment Agreement has been entered into on normal commercial terms, is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, Samsung Securities advises the Independent Shareholders, as well as the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Entrustment Agreement. The text of the letter from Samsung Securities containing its advice and the principal factors and reasons it has taken into consideration in arriving at its advice is set out on pages 16 to 26 of this circular.

The Independent Board Committee, after considering the advice from Samsung Securities, concurs with the views of Samsung Securities and considers the Entrustment Agreement has been entered into on normal commercial terms, is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Entrustment Agreement. The text of the letter from the Independent Board Committee is set out on pages 14 to 15 of this circular.

11 ADDITIONAL INFORMATION

Your attention is also drawn to the letter of the Independent Board Committee which sets out its recommendation to the Independent Shareholders, the letter from Samsung Securities which contains its advice to the Independent Board Committee and the Independent Shareholders, and the additional information set out in the appendices to this circular.

Yours faithfully
By Order of the Board
China Merchants Holdings (International) Company Limited
Fu Yuning
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



招商局國際有限公司

CHINA MERCHANTS HOLDINGS (INTERNATIONAL) COMPANY LIMITED

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

(Stock Code: 144)

30 June 2010

To the Independent Shareholders

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION
ENTRUSTMENT AGREEMENT OVER 23.493% OF
CHINA NANSHAN DEVELOPMENT (GROUP) INCORPORATION***

INTRODUCTION

We refer to the circular dated 30 June 2010 (the “**Circular**”), of which this letter forms part, issued by the Company to its Shareholders. Terms used in this letter shall have the same meaning as defined in the Circular unless the context requires otherwise.

We, being the independent non-executive Directors constituting the Independent Board Committee, are writing to you to set out our opinion in respect of the Entrustment Agreement. The Independent Board Committee was set up to advise whether in its view the terms of the Entrustment Agreement are in the interests of the Company and the Shareholders and are fair and reasonable.

The terms of the Entrustment Agreement are summarised in the “Letter from the Board” set out on pages 4 to 13 of the Circular. In addition, the Independent Board Committee has been advised by Samsung Securities in considering the terms of the Entrustment Agreement. You are strongly urged to read the letter from Samsung Securities to the Independent Board Committee and the Independent Shareholders, which is set out on pages 16 to 26 of the Circular.

RECOMMENDATION

As the Independent Board Committee, we have discussed with the management of the Company the reasons for the Entrustment Agreement and the basis upon which its terms have been determined. We have also discussed with Samsung Securities the basis upon which its advice has been given to us.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Taking into account the recommendations of Samsung Securities, the Independent Board Committee considers that the Entrustment Agreement as described in the “Letter from the Board” in the Circular has been entered into on normal commercial terms, is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Entrustment Agreement, as detailed in the notice of the EGM set out at the end of the Circular.

Yours faithfully,

The Independent Board Committee

Mr. Tsang Kam Lan

Independent non-executive Director

Mr. Kut Ying Hay

Independent non-executive Director

Mr. Lee Yip Wah Peter

Independent non-executive Director

Mr. Li Kwok Heem John

Independent non-executive Director

Mr. Li Ka Fai David

Independent non-executive Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of the letter of advice from Samsung Securities (Asia) Limited to the Independent Board Committee and the Independent Shareholders in relation to the Entrustment Agreement and the transactions contemplated thereunder prepared for the purpose of incorporation in this circular.



SAMSUNG SECURITIES

Suite 4511
Two International Finance Centre
8 Finance Road
Central, Hong Kong

30 June 2010

*To the Independent Board Committee and the Independent Shareholders of
China Merchants Holdings (International) Company Limited*

Dear Sirs,

MAJOR AND CONNECTED TRANSACTION ENTRUSTMENT AGREEMENT OVER 23.493% OF CHINA NANSHAN DEVELOPMENT (GROUP) INCORPORATION*

I. INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect to the Entrustment Agreement, details of which are set out in the letter from the Board (the "Letter from the Board") contained in the circular dated 30 June 2010 issued by the Company to the Shareholders (the "Circular"), of which this letter forms part. Unless otherwise stated, terms defined in the Circular have the same meanings in this letter.

On 18 June 2010, the Company has entered into the Entrustment Agreement with CMHK, its immediate holding company, pursuant to which CMHK agreed to grant its entrusted management rights and power to direct the voting right over 23.493% of China Nanshan Development (Group) Incorporation ("China Nanshan") to the Company for a one-off nominal consideration of RMB1.00.

CMHK is the intermediate holding company and a substantial shareholder of the Company and thus a connected person of the Company. Accordingly, the Entrustment Agreement constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

Upon the Entrustment Agreement becoming effective, the financial results of China Nanshan will be consolidated into the consolidated financial statements of the Company. Accordingly, 100% of the assets, revenue and financial results of China Nanshan was applied in calculating the applicable

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

percentage ratios set out in Rule 14.07, and as the resulting ratios exceed 5%; therefore the Entrustment Agreement constitutes a non-exempt connected transaction of the Company and is subject to the notification, publication and shareholders' approval requirements under the Listing Rules. In addition, since the applicable ratios set out in Rule 14.07 of the Listing Rules exceed 25% but are less than 100%, the Entrustment Agreement also constitutes a major transaction for the Company and is subject to the reporting, announcement and shareholders' approval requirements under the Listing Rules. The EGM will be convened to consider and, if thought fit, to approve the Entrustment Agreement. CMHK and its associates will abstain from voting at the EGM.

II. THE INDEPENDENT BOARD COMMITTEE

The Board currently consists of fourteen Directors, namely Dr. Fu Yuning (Chairman), Mr. Li Yinquan, Mr. Hu Zheng, Mr. Meng Xi, Mr. Su Xingang, Mr. Yu Liming, Mr. Hu Jianhua (Managing Director), Mr. Wang Hong and Mr. Liu Yunshu as Executive Directors; and Mr. Tsang Kam Lan, Mr. Kut Ying Hay, Mr. Lee Yip Wah Peter, Mr. Li Kwok Heem John and Mr. Li Ka Fai David as independent non-executive Directors.

The Independent Board Committee comprises all independent non-executive Directors, namely, Mr. Tsang Kam Lan, Mr. Kut Ying Hay, Mr. Lee Yip Wah Peter, Mr. Li Kwok Heem John and Mr. Li Ka Fai David, has been formed to advise the Independent Shareholders, and Samsung Securities has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to (i) whether the Entrustment Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole; and (ii) whether the terms of the Entrustment Agreement and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned.

III. BASIS OF OUR OPINION

As the independent financial adviser, we have taken all reasonable steps to satisfy and comply with the requirements under Rule 13.80 (together with the notes thereto). In formulating our opinion, we have relied on solely on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations provided to us by the Company and/or its management staff (the "Management") and/or the Directors. We have assumed that all statements, information, opinions and representations contained or referred to in the Circular and all information and representations which have been provided by the Company and/or the Management and/or the Directors, for which it is/they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be so at the date hereof. We have no reason to believe that any information or representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have assumed that all the opinions and representations for matters relating to the Company made or provided by the Directors and/or the Management contained in the Circular have been reasonably made after due and careful enquiry. We consider that we have reviewed sufficient information to enable us to form a reasonable basis for our opinion. We have not, however, conducted any independent verification of the information provided, nor have we carried out any form of in-depth investigation into the business and affairs of the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

IV. PRINCIPAL FACTORS AND REASONS CONSIDERED IN RELATION TO THE ACQUISITION

Upon the Entrustment Agreement becoming effective, the Company shall be granted management rights and power to direct the voting right over 23.493% of the total issued share capital of China Nanshan by CMHK for a one-off nominal consideration of RMB1.00. In formulating our opinion on the terms of the Entrustment Agreement, we have taken into consideration the following principal factors:

1. Principal activities of the Company and its recent financial results

The Company is principally engaged in ports and ports-related operations and investment businesses in China with investments and operations in Hong Kong, Shenzhen, Shanghai, Ningbo, Qingdao, Tianjin, Xiamen Bay and Zhanjiang, as well as port project investments in Vietnam. It is substantially held by CMHK, a wholly-owned subsidiary of CMG, with approximately 55.59% of the Company's total issued share capital. Prior to the Entrustment Agreement, the Company, through its wholly-owned subsidiaries, owns 37.014% of the total issued share capital of China Nanshan, which allows the Company to capture the same proportion of the financial results and net asset value of China Nanshan as an associated company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is a summary of the consolidated operating results and financial positions of the Company for the three years ended 31 December 2007, 2008 and 2009, extracted from the annual reports of the Company for the years ended 31 December 2008 (“2008 Annual Report”) and 31 December 2009 (“2009 Annual Report”):

Table A: Summary of recent financial results of the Company

	For the year ended 31 December		
	2009	2008	2007
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Revenue from continuing operations			
- Ports operations	3,556	4,103	3,318
- Other operations	<u>32</u>	<u>32</u>	<u>27</u>
	3,588	4,135	3,345
Cost of Sales	<u>(2,055)</u>	<u>(2,163)</u>	<u>(1,644)</u>
Gross Profit	<u>1,533</u>	<u>1,972</u>	<u>1,701</u>
Profit for the year from continuing operations	2,965	3,794	3,439
Profit for the year from discontinued operation	<u>492</u>	<u>232</u>	<u>456</u>
Profit for the year	3,457	4,026	3,895
Attributable to			
- Shareholders of the Company	3,238	3,706	3,545
- Minority interest	219	320	350
	As at 31 December		
	2009	2008	2007
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Total assets	52,468	50,493	45,686
Total liabilities	16,849	17,779	17,211
Net assets	35,619	32,714	28,475

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For the year ended 31 December 2009

Revenue of the Group from continuing operations was approximately HK\$3,588 million for the year ended 31 December 2009, which represented a decrease of approximately 13.2% from the previous year. The profit attributable to the shareholders of the Company amounted to HK\$3,238 million, representing a decrease of 12.6% year-on-year. Of this amount, profit from continuing operations was HK\$2,746 million, a decrease of 22.8%. Ports operations and port-related operations business continued to be the largest contributor to the Group's revenue for the year ended 31 December 2009, at approximately HK\$3,556 million, accounting for approximately 99.1% of the Group's total revenue from continuous operation and a decrease of 13.3% year-on-year.

The port projects in which the Group is interested handled a total container throughput volume of approximately 43.87 million TEUs, a decrease of 13.1% year-on-year. Of this volume, those handled by the Group's ports in Mainland China were approximately 38.10 million TEUs, a decrease of 12.6% year-on-year. On the other hand, the Group's port project in Hong Kong recorded a total throughput of 5.77 million TEUs, a decrease of 16.4%.

Net assets were approximately HK\$35,619 million as at 31 December 2009, representing an increase of approximately 8.9% from the last year. The increase is largely attributed to the increase in net asset value in associates.

For the year ended 31 December 2008

As set out in the annual report for the year ended 31 December 2008, revenue of the Group from continuous operations amounted to HK\$4,135 million, an increase of 23.6% year-on-year. The profit attributable to the shareholders of the Company amounted to HK\$3,706 million, representing a year-on-year increase of 4.5%. Of this amount, profit from continuing operations amounted to HK\$3,558 million, representing an increase of 10.7%. Ports operations and port-related operations business continued to be the largest contributor to the Group's revenue for the year ended 31 December 2008, at approximately HK\$4,103 million, accounting for approximately 99.2% of the Group's total revenue from continuous operations and an increase of 23.7% year-on-year.

In 2008, the port projects in which the Group is interested handled a total container throughput volume of 50.48 million TEUs, an increase of 7% over the same figure for last year. Of this volume, those handled by the Group's ports in Mainland China reached 43.58 million TUEs, an increase of 9% year-on-year. On the other hand, the Group's ports in Hong Kong recorded a throughput of 6.9 million TEUs, a slight decrease of 2% year-on-year.

Net assets were approximately HK\$32,714 million as at 31 December 2008, representing an increase of approximately 14.9% from the corresponding period last year. The increase is largely attributed to the increase in net assets in associates as well as the increase in cash and cash equivalent balances.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

2. Background of China Nanshan and its recent financial results

China Nanshan's business scope includes the development of land, ports transport and development of other related industrial, commercial, property and tourism businesses. The principal activity of China Nanshan is investment holding and the principal activities of the Nanshan Group comprise ports operations, port-related operations and property development which are conducted through the subsidiaries of China Nanshan. There are three principal subsidiaries — Chiwan Wharf, Chiwan Petroleum and Nanshan Property Development.

Chiwan Wharf is a joint stock limited company incorporated in the PRC with B shares and A shares issued and listed on the Shenzhen Stock Exchange. The primary business of Chiwan Wharf is development and operations of container and general and bulk cargo, ports and port-related businesses. Chiwan Wharf is also engaged in transportation services and logistics businesses. Chiwan Wharf holds substantial stake in each of Chiwan Container Terminal Co., Ltd. (which operates berth numbers 9 to 13 at the Chiwan Port Area in Shenzhen and in which the Company also indirectly holds a 20% interest through its subsidiary), Shenzhen Chiwan Harbour Container Co., Ltd. (which operates berth number 8 at the Chiwan Port Area in Shenzhen) and the Mawan Companies (which operate berth numbers 0, 5, 6 and 7 at the Mawan Port Area in Shenzhen), as well as interests in operations in general and bulk cargo terminals business. As of the Latest Practicable Date, China Nanshan holds approximately 57.51% interest in Chiwan Wharf and the Company, through its wholly-owned subsidiaries, also holds approximately 7.98% interest in Chiwan Wharf. As of the Latest Practicable Date, Chiwan Wharf holds 37.5% interest in Shenzhen Cyber-Harbour Network Company Limited, 50% interest in Media Port Investments Limited and 20% interest in China Merchants Maritime & Logistics (Shenzhen) Limited and the Company holds the remaining 62.5%, 50% and 60% interest, respectively, in each of these companies.

Chiwan Petroleum is a joint stock limited company incorporated in the PRC with B shares issued and listed on the Shenzhen Stock Exchange. The primary business of Chiwan Petroleum is the provision of ancillary and supporting services in connection with exploration, extraction and production of petroleum and natural gas. Chiwan Petroleum is also engaged in marine engineering and logistics support businesses. As of the date of the Circular, China Nanshan holds approximately 51.79% interest in Chiwan Petroleum.

Nanshan Property Development is a limited company incorporated in the PRC and is a wholly-owned subsidiary of China Nanshan. The primary business of Nanshan Property Development is property development, management and leasing.

In addition to the above principal subsidiaries, China Nanshan also holds, through its wholly-owned subsidiary, approximately 48.77% of Yahgee Modular House Co., Ltd., a joint stock limited company incorporated in the PRC with A shares issued and listed on the Shenzhen Stock Exchange and whose principal activity is the construction of modular houses.

As at the Latest Practicable Date, China Nanshan also holds an aggregate 45% interest in Shenzhen Haiqin Engineering Supervision & Management Company Limited (a company incorporated in the PRC whose principal activities are the inspection and provision of advisory services in relation to ports construction works) and the Company holds the remaining 55% interest in such company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Guangye Investment holds 23.493% of the total issued share capital of China Nanshan and has entrusted the management rights and power to direct the voting right to CMHK. The Company, through its wholly-owned subsidiaries, holds 37.014% of total issued share capital, whereas remaining 39.493% is held by Shenzhen Investment Holdings Co., Ltd., China National Offshore Oil Investment Co., Ltd. China Ocean Oilfields Services (Hong Kong) Limited and Clifford Wong Investment Co., Ltd as to 26.103%, 7.831%, 1.644% and 3.915%, respectively.

Set out below is a summary of the consolidated operating results and financial positions of the Nanshan Group for the three years ended 31 December 2007, 2008 and 2009, extracted from the Accountant's Report for the three years ended 31 December 2007, 2008 and 2009 as set out in Appendix 1 of the Circular:

Table A: Summary of recent financial results of the Nanshan Group

	For the year ended 31 December		
	2009	2008	2007
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Revenue from continuing operations			
- Ports operations	1,770	2,107	2,158
- Property development operations	467	952	1,308
- Manufacturing operations	<u>363</u>	<u>464</u>	<u>121</u>
	2,600	3,523	3,587
Cost of Sales	<u>(1,445)</u>	<u>(1,991)</u>	<u>(1,883)</u>
Gross Profit	<u>1,155</u>	<u>1,532</u>	<u>1,704</u>
Profit for the year from continuing operations	1,007	1,387	1,846
Profit for the year from discontinued operation	<u>607</u>	<u>181</u>	<u>175</u>
Profit for the year	1,614	1,568	2,021
Attributable to			
- Shareholders of China Nanshan	1,042	807	1,107
- Minority interest	572	761	914
	As at 31 December		
	2009	2008	2007
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Interest in associates	1,924	959	956
Total assets	13,563	12,755	11,480
Total liabilities	6,599	6,369	5,830
Net assets	6,964	6,386	5,650

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For the year ended 31 December 2009

Revenue of China Nanshan from continuing operations was approximately RMB2,600 million for the year ended 31 December 2009, which represented a decrease of approximately 26.2% from last year. The profit attributable to the shareholders of China Nanshan amounted to RMB1,042 million, representing an increase of 29.1% year-on-year, which is largely contributed by profit from discontinued operations of RMB556 million. Remaining recurring profit attributable to China Nanshan was RMB486 million, representing a decrease of 29.5% as compared to the previous year. Ports operations business continued to be the largest contributor to China Nanshan's revenue for the year ended 31 December 2009, at approximately RMB1,770 million, accounting for 68.1% of China Nanshan's total revenue and a decrease of 16.0% year-on-year. In addition, revenue from sale of property accounted for RMB467 million, representing 18.0% of the total revenue and 50.9% decrease year-on-year.

Net assets were approximately RMB6,964 million as at 31 December 2009, representing an increase of approximately 9.1% from the corresponding period last year. The increase is largely attributed to the interest in associates retained subsequent to deemed disposal of subsidiary.

For the year ended 31 December 2008

Revenue of China Nanshan from continuing operations was approximately RMB3,523 million for the year ended 31 December 2008, which has decreased for 1.8% as compared to the previous year. The profit attributable to the shareholders of China Nanshan amounted to RMB807 million, representing a decrease of 27.1% year-on-year, which is largely due to a reduction in profit from continuing operations for RMB459 million, representing 24.9% decrease year-on-year. Ports operations business continued to be the largest contributor to China Nanshan's revenue for the year ended 31 December 2008, at approximately RMB2,107 million, accounting for 59.8% of China Nanshan's total revenue and a decrease of 2.4% year-on-year. In addition, revenue from sale of property accounted for RMB952 million representing 27.0% of the total revenue and a decrease of 27.2% year-on-year.

Net assets were approximately RMB6,386 million as at 31 December 2008, representing an increase of approximately 13.0% from the corresponding period last year. The increase is largely attributed to the interest in associates retained subsequent to deemed disposal of subsidiary.

3. Reasons for the Entrustment Agreement

The Company is principally engaged in ports and ports-related operation businesses. As set out in the 2009 Annual Report, the Company believes that acquisitions will contribute to the sustainable growth and will strengthen its position in the port-related services. We also understand from Management that it is the Group's strategy to strengthen and develop its port and port-related business through enhancement of the capabilities of existing ports assets as well as investment in new projects, acquisition of quality port-related business, and expansion into container related logistics services inclusive of leasing of properties and warehouses.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As set out in the “Letter from the Board” of the Circular, the Company has been endeavouring to raise the operating efficiencies of the ports at the West Shenzhen Ports Zone through aligning the interests of these various ports. The Directors believe that the Entrustment Agreement will allow the Company to exert greater influence over the management and operations of China Nanshan through its ability to direct the voting rights of the directors and thereby further strengthening the Company’s presence in the West Shenzhen Ports Zone by controlling the strategies of both the Company and China Nanshan’s existing ports in order to eliminate competition and redistribute resources to increase the operating efficiencies of the ports as a whole and this bring strategic benefits to the Group.

Taking into account that the Entrustment Agreement will (i) establish the Company’s controlling management rights and power to direct the voting right on China Nanshan from 37.014% to 60.507%, and thereby, increase its influence in the West Shenzhen Ports Zone and (ii) is in line with the above strategies of the Company, we concur with the view of the Directors that the Entrustment Agreement was fair and reasonable and in the interests of the Company and its Shareholders as a whole.

4. **Consideration**

The Company shall pay CMHK a one-off nominal consideration of RMB1.00 under the Entrustment Agreement which is substantially lower than the fair value of the subject of the Entrustment Agreement. This will result in a one-off gain of approximately HK\$1,974 million. In view of the substantial gain resulted, we are of the view that the consideration is in the interest of the Independent Shareholders.

5. **Other terms of the Entrustment Agreements**

The Entrustment Agreement is for an indefinite term and the entrustment of the management rights and the power to direct the voting right over the Entrusted Nanshan Shares by CMHK to the Company will only be terminated upon mutual agreement between CMHK and the Company. Under the Entrustment Agreement, Guangye Investment will retain certain rights over the Entrusted Nanshan Shares, including, in particular, the right to receive income and dividends over the Entrusted Nanshan Shares and the right to receive residual assets and properties upon the winding up of China Nanshan. Also, the Company is required to, through CMHK, obtain the prior written consent of Guangye Investment when it exercises its management rights over the Entrusted Nanshan Shares in relation to certain important matters, such as merger, division, termination or liquidation of China Nanshan, and material acquisitions and disposals and other material transactions entered into by China Nanshan.

Although the rights granted to the Company are transferred as nominal value which is far more below the fair value of the Entrusted Nanshan Shares and are for indefinite term, Guangye Investment has not granted all the rights of the Entrusted Nanshan Shares to the Company and retained certain important shareholders’ rights. In view of the foregoing, we are of the opinion that the terms of the Entrustment Agreement, as a whole, are on normal commercial terms.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

6. Possible financial effects of the Acquisition to the Group

6.1 *Earnings*

The Transaction is expected to result in an one-off gain arising from the remeasurement of the Company's existing interests in the Nanshan Group from its carrying value to fair value at the date when the Entrustment Agreement becoming effective. According to the Pro Forma Financial Information, the one-off gain would be approximately HK\$1,974 million, being the difference between the carrying value and fair value as at 31 December 2009 of the Company's existing interests in the Nanshan Group. However, we draw your attention that the one-off gain would be non-cash item.

6.2 *Net assets value*

Prior to the Entrustment Agreement becoming effective, the Company's audited consolidated net assets was approximately HK\$35,619 million according to the 2009 Annual Report, whereas China Nanshan's audited consolidated net assets was approximately RMB6,964 million (equivalent to approximately HK\$7,909 million) according to the Accountant's Report as set out in Appendix 1 of the Circular.

Upon the Entrustment Agreement becoming effective, the Company will have management rights and power to direct the voting right over an aggregate of 60.507% of the total issued share capital of China Nanshan. In accordance with Hong Kong Financial Reporting Standard, the financial results of China Nanshan will be consolidated into the consolidated financial statements of the Company on a line-by-line basis, of which the Company shares 37.014%. The unaudited pro forma net assets upon the Entrustment Agreement becoming effective will be HK\$44,311 million, as set out in Appendix 3 of the Circular.

V. RECOMMENDATION

Having considered the above principal factors and reasons, which include:

- (1) that the Transaction is in accordance with the Company's strategy;
- (2) the Entrustment Agreement is fair and reasonable and on normal commercial terms;
- (3) the consideration is in the interests of the independent shareholders; and
- (4) the possible financial effect of the Transaction.

we are of the view that the terms of the Entrustment Agreement and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable and the entering into of the Entrustment Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Accordingly, we recommend the Independent Board Committee and the Independent Shareholders that the Independent Shareholders should vote in favour of the resolution to be proposed at the EGM to approve the Entrustment Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of

Samsung Securities (Asia) Limited

Datuk Paul Chong
Managing Director

Ivan Chan
Executive Director

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

30 June 2010

The Directors
China Merchants Holdings (International) Company Limited

Dear Sirs

We report on the financial information (the “Financial Information”) of China Nanshan Development (Group) Incorporation (“China Nanshan”) and its subsidiaries (together, the “Nanshan Group”) which comprises the consolidated and company statements of financial position of China Nanshan as at 31 December 2007, 2008 and 2009, and the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Nanshan Group for each of the years ended 31 December 2007, 2008 and 2009 (the “Relevant Periods”), and a summary of significant accounting policies and other explanatory notes. This Financial Information has been prepared by the directors of China Merchants Holdings (International) Company Limited (the “Company”) and is set out in Sections I to III below for inclusion in Appendix 1 to the circular of the Company dated 30 June 2010 (the “Circular”) in connection with the proposed Entrustment Agreement dated 18 June 2010 and entered between the Company and China Merchants Holdings (Hong Kong) Company Limited (“CMHK”), the intermediate holding company, pursuant to which CMHK agreed to grant the management rights and the power to direct the voting rights over 23.493% equity interest in China Nanshan to the Company.

China Nanshan was established in the People's Republic of China (the “PRC”) and registered as a joint stock limited company on 28 September 1982.

As at the date of this report, China Nanshan has direct and indirect interests in the subsidiaries, associates and jointly controlled entities as set out in Notes 40, 41 and 42 of Section II below. Except for Shenzhen Chiwan Wharf Holdings Limited, Shenzhen Chiwan Petroleum Supply Base Company Limited and Yahgee Modular House Company Limited which are listed on the Shenzhen Stock Exchange, all other companies are private companies. All companies have adopted 31 December as their financial year end date.

The consolidated financial statements of China Nanshan for each of the years ended 31 December 2007, 2008 and 2009 (the “Underlying Financial Statements”) were prepared by the directors of China Nanshan in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information has been prepared based on the Underlying Financial Statements with no adjustment made thereon.

Directors' Responsibility for the Financial Information

The directors of the Company are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with HKFRS and accounting policies presently adopted by the Company and its subsidiaries as set out in the audited annual consolidated financial statements of the Company for the year ended 31 December 2009 as set out in 2009 Annual Report of the Company. This responsibility includes selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Reporting Accountant's Responsibility

Our responsibility is to express an opinion on the Financial Information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

Opinion

In our opinion, the Financial Information gives, for the purpose of the Circular, a true and fair view of the state of affairs of China Nanshan and the Nanshan Group as at 31 December 2007, 2008 and 2009 and of the Nanshan Group's results and cash flows for each of the Relevant Periods then ended.

APPENDIX 1 ACCOUNTANT'S REPORT ON THE NANSHAN GROUP

I FINANCIAL INFORMATION OF THE NANSHAN GROUP

The following is the Financial Information of the Nanshan Group prepared by the Directors of the Company for the Relevant Periods.

**CONSOLIDATED INCOME STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007, 2008 AND 2009**

	<i>Note</i>	2007	2008	2009
		<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Continuing operations				
Revenue	5	3,587	3,523	2,600
Cost of sales	8	<u>(1,883)</u>	<u>(1,991)</u>	<u>(1,445)</u>
Gross profit		1,704	1,532	1,155
Other gains, net	7	511	228	222
Other income	7	20	3	16
Distribution costs	8	(40)	(22)	(27)
Administrative expenses	8	<u>(319)</u>	<u>(319)</u>	<u>(346)</u>
Operating profit		1,876	1,422	1,020
Finance income	11	74	102	79
Finance costs	11	<u>(109)</u>	<u>(160)</u>	<u>(119)</u>
Finance costs – net	11	<u>(35)</u>	<u>(58)</u>	<u>(40)</u>
Share of profits less losses of				
Associates	22	210	142	183
Jointly controlled entities	23	<u>32</u>	<u>66</u>	<u>24</u>
Profit before taxation		2,083	1,572	1,187
Taxation	12	<u>(237)</u>	<u>(185)</u>	<u>(180)</u>
Profit for the year from continuing operations		1,846	1,387	1,007
Discontinued operation				
Profit for the year from discontinued operation	13	<u>175</u>	<u>181</u>	<u>607</u>
Profit for the year		<u><u>2,021</u></u>	<u><u>1,568</u></u>	<u><u>1,614</u></u>

APPENDIX 1**ACCOUNTANT'S REPORT ON THE NANSHAN GROUP**

	<i>Note</i>	2007	2008	2009
		<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Attributable to:				
Shareholders of China Nanshan				
- continuing operations		1,002	689	486
- discontinued operation		<u>105</u>	<u>118</u>	<u>556</u>
		<u>1,107</u>	<u>807</u>	<u>1,042</u>
Minority interest				
- continuing operations		844	698	521
- discontinued operation		<u>70</u>	<u>63</u>	<u>51</u>
		<u>914</u>	<u>761</u>	<u>572</u>
Profit for the year		<u>2,021</u>	<u>1,568</u>	<u>1,614</u>
Dividend	15	<u>276</u>	<u>357</u>	<u>258</u>
Basic/diluted earnings per share for profit attributable to shareholders of China Nanshan	16			
- from continuing operations (RMB)		2.00	1.38	0.97
- from discontinued operation (RMB)		<u>0.21</u>	<u>0.24</u>	<u>1.11</u>

APPENDIX 1 ACCOUNTANT'S REPORT ON THE NANSHAN GROUP

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2007, 2008 AND 2009**

	<i>Note</i>	2007	2008	2009
		<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Profit for the year		2,021	1,568	1,614
		-----	-----	-----
Other comprehensive income:				
Increase/(decrease) in fair value of available-for-sale financial assets	24(a)	9	(6)	2
		-----	-----	-----
Total other comprehensive income, net of tax		9	(6)	2
		-----	-----	-----
Total comprehensive income for the year		2,030	1,562	1,616
		=====	=====	=====
Total comprehensive income attributable to:				
- shareholders of China Nanshan		1,116	801	1,044
- minority interest		914	761	572
		-----	-----	-----
		2,030	1,562	1,616
		=====	=====	=====

APPENDIX 1 ACCOUNTANT'S REPORT ON THE NANSHAN GROUP

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2007, 2008 AND 2009**

	<i>Note</i>	2007	2008	2009
		<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
ASSETS				
Non-current assets				
Goodwill	17	23	23	22
Property, plant and equipment	18	4,059	4,529	3,963
Investment properties	19	995	1,335	1,833
Land use rights	20	460	630	696
Interests in associates	22	956	959	1,924
Interests in jointly controlled entities	23	133	188	207
Other financial assets	24	25	19	21
Prepayments	25	192	119	96
Deferred tax assets	34	33	51	51
		<u>6,876</u>	<u>7,853</u>	<u>8,813</u>
		-----	-----	-----
Current assets				
Inventories	26	308	500	124
Development properties for sale	27	1,044	915	983
Debtors, deposits and prepayments	28	1,555	1,774	1,173
Other financial assets	24	—	—	200
Cash and cash equivalents	29	1,697	1,713	2,270
		<u>4,604</u>	<u>4,902</u>	<u>4,750</u>
		-----	-----	-----
Total assets		<u>11,480</u>	<u>12,755</u>	<u>13,563</u>
		-----	-----	-----
EQUITY				
Capital and reserves attributable to shareholders of China Nanshan				
Share capital	30	500	500	500
Reserves		<u>2,617</u>	<u>3,142</u>	<u>3,829</u>
		3,117	3,642	4,329
Minority interest		<u>2,533</u>	<u>2,744</u>	<u>2,635</u>
		-----	-----	-----
Total equity		<u>5,650</u>	<u>6,386</u>	<u>6,964</u>
		-----	-----	-----

APPENDIX 1**ACCOUNTANT'S REPORT ON THE NANSHAN GROUP**

	<i>Note</i>	2007	2008	2009
		<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
LIABILITIES				
Non-current liabilities				
Other financial liabilities	32	—	405	3,632
Other non-current liabilities	33	150	136	147
Deferred tax liabilities	34	<u>132</u>	<u>155</u>	<u>209</u>
		<u>282</u>	<u>696</u>	<u>3,988</u>
Current liabilities				
Creditors and accruals	35	1,958	1,679	1,380
Other financial liabilities	32	3,557	3,918	1,138
Taxation payable		<u>33</u>	<u>76</u>	<u>93</u>
		<u>5,548</u>	<u>5,673</u>	<u>2,611</u>
Total liabilities		<u>5,830</u>	<u>6,369</u>	<u>6,599</u>
Total equity and liabilities		<u>11,480</u>	<u>12,755</u>	<u>13,563</u>
Net current (liabilities)/assets		<u>(944)</u>	<u>(771)</u>	<u>2,139</u>
Total assets less current liabilities		<u>5,932</u>	<u>7,082</u>	<u>10,952</u>

APPENDIX 1 ACCOUNTANT'S REPORT ON THE NANSHAN GROUP

**STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2007, 2008 AND 2009**

	<i>Note</i>	2007	2008	2009
		<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
ASSETS				
Non-current assets				
Property, plant and equipment	18	113	103	94
Land use rights	20	65	62	59
Interests in subsidiaries	21	2,071	2,185	2,390
Interests in associates	22	46	46	46
Interests in jointly controlled entities	23	39	39	39
Advances to subsidiaries	21	172	172	820
		<u>2,506</u>	<u>2,607</u>	<u>3,448</u>
Current assets				
Debtors, deposits and prepayments	28	14	17	11
Advances to subsidiaries	21	1,394	1,755	371
Other financial assets	24(b)	—	—	200
Cash and cash equivalents	29	203	565	791
		<u>1,611</u>	<u>2,337</u>	<u>1,373</u>
Total assets		<u><u>4,117</u></u>	<u><u>4,944</u></u>	<u><u>4,821</u></u>
EQUITY				
Capital and reserves attributable to shareholders of China Nanshan				
Share capital	30	500	500	500
Reserves	31(b)	516	612	572
Total equity		<u><u>1,016</u></u>	<u><u>1,112</u></u>	<u><u>1,072</u></u>

APPENDIX 1**ACCOUNTANT'S REPORT ON THE NANSHAN GROUP**

	<i>Note</i>	2007	2008	2009
		<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
LIABILITIES				
Non-current liabilities				
Other financial liabilities	32	—	—	2,050
Other non-current liabilities	33	<u>1,340</u>	<u>1,434</u>	<u>1,393</u>
		<u>1,340</u>	<u>1,434</u>	<u>3,443</u>
Current liabilities				
Creditors and accruals	35	281	234	229
Other financial liabilities	32	1,450	2,100	—
Advances from subsidiaries	21	29	64	77
Taxation payable		<u>1</u>	<u>—</u>	<u>—</u>
		<u>1,761</u>	<u>2,398</u>	<u>306</u>
Total liabilities		<u>3,101</u>	<u>3,832</u>	<u>3,749</u>
Total equity and liabilities		<u>4,117</u>	<u>4,944</u>	<u>4,821</u>
Net current (liabilities)/assets		<u>(150)</u>	<u>(61)</u>	<u>1,067</u>
Total assets less current liabilities		<u>2,356</u>	<u>2,546</u>	<u>4,515</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007, 2008 AND 2009

	Attributable to the shareholders of China Nanshan			Minority interest	Total
	Share capital	Other reserves	Retained earnings		
	<i>(note 31(a))</i>				
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Balance at 1 January 2007	500	1,626	213	2,406	4,745
Comprehensive income					
Profit for the year	—	—	1,107	914	2,021
Other comprehensive income					
Increase in fair value of available-for-sale financial assets	—	9	—	—	9
Total other comprehensive income, net of tax	—	9	—	—	9
Total comprehensive income	—	9	1,107	914	2,030
Transactions with owners					
Transfer to reserves	—	276	(276)	—	—
Dividends paid	—	—	(338)	(787)	(1,125)
Total transactions with owners	—	276	(614)	(787)	(1,125)
Balance at 31 December 2007	500	1,911	706	2,533	5,650

	Attributable to the shareholders of China Nanshan			Minority interest	Total
	Share capital	Other reserves	Retained earnings		
	<i>(note 31(a))</i>				
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Balance at 1 January 2008	500	1,911	706	2,533	5,650
Comprehensive income					
Profit for the year	—	—	807	761	1,568
Other comprehensive income					
Decrease in fair value of available-for-sale financial assets	—	(6)	—	—	(6)
Total other comprehensive income, net of tax	—	(6)	—	—	(6)
Total comprehensive income	—	(6)	807	761	1,562
Transactions with owners					
Acquisition of additional interests in subsidiaries from minority shareholders	—	—	—	(53)	(53)
Dividends paid	—	—	(276)	(497)	(773)
Total transactions with owners	—	—	(276)	(550)	(826)
Balance at 31 December 2008	500	1,905	1,237	2,744	6,386

	Attributable to the shareholders of China Nanshan			Minority interest	Total
	Share capital	Other reserves	Retained earnings		
	<i>(note 31(a))</i>				
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Balance at 1 January 2009	500	1,905	1,237	2,744	6,386
Comprehensive income					
Profit for the year	—	—	1,042	572	1,614
Other comprehensive income					
Increase in fair value of available-for-sale financial assets	—	2	—	—	2
Total other comprehensive income, net of tax	—	2	—	—	2
Total comprehensive income	—	2	1,042	572	1,616
Transactions with owners					
Transfer to reserves	—	40	(40)	—	—
Disposal of subsidiaries (note 36(b))	—	—	—	(316)	(316)
Dividends paid	—	—	(357)	(365)	(722)
Total transactions with owners	—	40	(397)	(681)	(1,038)
Balance at 31 December 2009	500	1,947	1,882	2,635	6,964

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2007, 2008 AND 2009**

	<i>Note</i>	2007	2008	2009
		<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Cash flows from operating activities				
Net cash inflow from operations	36(a)	1,730	1,363	2,130
PRC corporate income tax paid		(180)	(181)	(143)
PRC corporate income tax refund		11	13	28
Dividends received from associates and jointly controlled entities		60	218	52
Net cash generated from operating activities		<u>1,621</u>	<u>1,413</u>	<u>2,067</u>
Cash flows from investing activities				
Interest income received		78	105	82
Proceeds from disposal of property, plant and equipment and land use rights		133	236	197
Proceeds from disposal of available-for-sale financial assets		11	—	—
Dividends received from available-for-sale financial assets		7	—	7
Repayment of advance to an associate		13	12	76
Purchase of property, plant and equipment, land use rights and investment properties		(1,743)	(1,413)	(1,401)
Capital injection to associates		—	(80)	—
Acquisitions of other financial assets		—	—	(200)
Net cash used in investing activities		<u>(1,501)</u>	<u>(1,140)</u>	<u>(1,239)</u>
Net cash inflow before financing activities carried forward		<u>120</u>	<u>273</u>	<u>828</u>

APPENDIX 1**ACCOUNTANT'S REPORT ON THE NANSHAN GROUP**

	<i>Note</i>	2007	2008	2009
		<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Net cash inflow before financing activities brought forward		120	273	828
Cash flows from financing activities				
Proceeds from new other financial liabilities		4,452	7,874	5,737
Dividends paid		(338)	(276)	(357)
Dividends paid to minority shareholders of subsidiaries		(787)	(497)	(365)
Interest paid		(160)	(250)	(191)
Repayment of other financial liabilities		(2,679)	(7,108)	(5,095)
Net cash generated from/(used in) financing activities		488	(257)	(271)
Increase in cash and cash equivalents		608	16	557
Cash and cash equivalents at 1 January		1,089	1,697	1,713
Cash and cash equivalents at 31 December	29	1,697	1,713	2,270

II NOTES TO THE FINANCIAL INFORMATION

1 General information

China Nanshan Development (Group) Incorporation (“China Nanshan”) was established in the People’s Republic of China (the “PRC”) and registered as a joint stock limited company on 28 September 1982. China Nanshan and its subsidiaries (together, the “Nanshan Group”) are principally engaged in the ports operations, property development and investment operations and manufacturing operations.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to all the Relevant Periods presented, unless otherwise stated.

(a) *Basis of preparation*

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”). The Financial Information has been prepared under the historical cost convention, as modified by the revaluation of investment properties, available-for-sale financial assets and financial assets at fair value through profit or loss.

The preparation of the Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Nanshan Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in note 4.

(i) *Amendment to Standard that is not effective in 2009 but has been early adopted by the Nanshan Group*

- HKAS 24 (Revised) “Related party disclosures” (effective from 1 January 2011). The amendment introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government-related entities and the government. Those disclosures are replaced with a requirement to disclose: (i) the name of the government and the nature of their relationship; (ii) the nature and amount of any individually-significant transactions; and (iii) the extent of any collectively-significant transactions qualitatively or quantitatively. It also clarifies and simplifies the definition of a related party. The Nanshan Group has partially early adopted the government-related entity exemption retrospectively in the Relevant Periods.

- (ii) *Amendments to or new Standards that are not effective in 2009 and have not been early adopted by the Nanshan Group*
- HKAS 27 (Revised) “Consolidated and separate financial statements”. The revised standard requires the effects of all transactions with minority interest to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. In this respect, there is no change from the Nanshan Group’s existing accounting policy. The standard also specifies the accounting treatment when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Nanshan Group will apply HKAS 27 (Revised) prospectively to transactions when control is lost starting from 1 January 2010.
 - HKFRS 3 (Revised) “Business combinations”. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s net assets. When a business combination achieved in stages, the acquiree should remeasure its previously held interest in the acquiree at its fair value at the date of control is obtained, recognising a gain/loss in the income statement. All acquisition-related costs should be expensed. The Nanshan Group will adopt HKFRS 3 (Revised) prospectively to all business combinations starting from 1 January 2010.
 - HKFRS 9 “Financial instruments”. Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity’s business model is to hold the asset to collect the contractual cash flows, and the asset’s contractual cash flows represent only payments of principal and interest (that is, it has only ‘basic loan features’). All other debt instruments are to be measured at fair value through profit or loss. All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment. The Nanshan Group will adopt HKFRS 9 starting from 1 January 2013.

- The Nanshan Group is in the process of making an assessment of the impact of the following new Standards, amendments to Standards and interpretations to existing Standards upon initial application. It is expected that these new Standards, amendments to Standards and interpretations to existing Standards are unlikely to have a significant impact on the Nanshan Group's results of operations and financial position.

		Effective for annual periods beginning on or after
HKAS 24 (Revised)	Related party disclosure (Change of definition of related party)	1 January 2011
HKAS 32 (Amendment)	Classification of rights issue	1 February 2010
HKAS 39 (Amendment)	Eligible hedge items	1 July 2009
HKFRS 1 (Amendment)	Additional exemptions for first time adopters	1 January 2010
HKFRS 2 (Amendment)	Group cash-settled share-based payment transaction	1 January 2010
HK(IFRIC)-Int 14	Prepayments of a minimum funding requirement	1 January 2011
HK(IFRIC)-Int 17	Distribution of non-cash assets to owners	1 July 2009
HK(IFRIC)-Int 19	Extinguishing financial liabilities with equity instruments	1 July 2010

(iii) *HKICPA's improvements to HKFRS*

Amendment to HKFRS 5 as part of the HKICPA's first annual improvements project to HKFRS has been published in October 2008 and HKICPA's second and third annual improvements project to HKFRS have been published in May 2009 and May 2010 respectively. These improvements to HKFRS have introduced certain amendments to those standards set out below. These amendments are not effective in 2009 and have not been early adopted. The Nanshan Group is assessing the impact of these amendments. The Nanshan Group will apply these amendments when they become effective.

- HKAS 1 (Revised) "Presentation of financial statements"²
- HKAS 7 "Statement of cash flows"²
- HKAS 17 "Leases"²

- HKAS 18 “Revenue”²
- HKAS 27 “Consolidated and separate financial statements”³
- HKAS 34 “Interim financial reporting”³
- HKAS 36 “Impairment of assets”²
- HKAS 38 “Intangible assets”¹
- HKAS 39 “Financial instruments: Recognition and measurement”²
- HKFRS 1 “First-time adoption of Hong Kong Financial Reporting Standards”³
- HKFRS 2 “Share-based payment”¹
- HKFRS 3 “Business combinations”¹
- HKFRS 5 “Non-current assets held for sale and discontinued operations”²
- HKFRS 7 “Financial instruments: Disclosures”³
- HKFRS 8 “Operating segments”²
- HK(IFRIC)-Int 9 “Reassessment of embedded derivatives”¹
- HK(IFRIC) - Int 13 “Customer loyalty programmes”³
- HK(IFRIC)-Int 16 “Hedges of a net investment in a foreign operation”²
- HK-Int 4 “Leases - Determination of the length of lease term in respect of Hong Kong land leases”²

1 Effective for the Nanshan Group for the annual periods beginning 1 July 2009.

2 Effective for the Nanshan Group for the annual periods beginning 1 January 2010.

3 Effective for the Nanshan Group for the annual periods beginning 1 January 2011.

(b) Consolidation

The Financial Information includes the financial statements of China Nanshan and all its subsidiaries as at 31 December.

(i) Subsidiaries

Subsidiaries are all entities over which the Nanshan Group has power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Nanshan Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Nanshan Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Nanshan Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Nanshan Group's share of the identifiable net assets acquired is recorded as goodwill (note 2(g)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated.

Accounting policies of subsidiaries have been changed where necessary in the Financial Information to ensure consistency with the policies adopted by the Nanshan Group.

In China Nanshan's statement of financial position, the investments in subsidiaries are stated at cost less provision for impairment losses (note 2(h)). The results of subsidiaries are accounted for by China Nanshan on the basis of dividend received or receivable.

(ii) Transactions with minority interest

The Nanshan Group applies a policy of treating transactions with minority interest as transactions with equity owners of the Nanshan Group. For purchases from minority interest, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to minority interest are also recorded in equity.

(iii) *Associates*

Associates are all entities over which the Nanshan Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Interests in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Nanshan Group's interests in associates include goodwill identified on acquisition, net of any accumulated impairment loss (note 2(g)).

The Nanshan Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Nanshan Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Nanshan Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Nanshan Group and its associates are eliminated to the extent of the Nanshan Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Nanshan Group.

Dilution gains and losses arising in interests in associates are recognised in the consolidated income statement.

In China Nanshan's statement of financial position, the interest in an associate is stated at cost less provision for impairment losses (note 2(h)). The results of the associate are accounted for by China Nanshan on the basis of dividend received or receivable.

(iv) *Joint ventures*

A joint venture is a contractual arrangement whereby the Nanshan Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Joint venture arrangements which involve the establishment of a separate entity in which each venture partner has an interest and joint control with the venturers over the economic activities of the entities are referred to as jointly controlled entities.

Interests in jointly controlled entities are accounted for by the equity method of accounting and are initially recognised at cost. The Nanshan Group's interests in jointly controlled entities include goodwill identified on acquisition, net of any accumulated impairment loss (note 2(g)).

The Nanshan Group's share of its jointly controlled entities post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

Unrealised gains on transactions between the Nanshan Group and its jointly controlled entities are eliminated to the extent of the Nanshan Group's interests in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Nanshan Group.

Dilution gains and losses arising in interests in jointly controlled entities are recognised in the consolidated income statement.

In China Nanshan's statement of financial position, the interest in a jointly controlled entity is stated at cost less provision for impairment losses (note 2(h)). The results of the jointly controlled entity are accounted for by China Nanshan on the basis of dividend received or receivable.

(c) *Segment reporting*

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

(d) *Foreign currency translation*

(i) *Functional and presentation currency*

Items included in the financial statements of each of the entities of the Nanshan Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Financial Information is presented in Renminbi, which is the functional currency and presentation currency of China Nanshan.

(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 within other gains, net in the consolidated income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in consolidated income statement, and other changes in carrying amount are recognised in investment revaluation reserve.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the investment revaluation reserve in equity.

(iii) *Group companies*

The results and financial position of all the Nanshan Group entities 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 closing rate at the date of that statement of financial position;
- income and expenses for each consolidated income statement 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 translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to translation reserve. When a foreign operation other than a subsidiary for which control is retained is partially disposed of or sold, exchange differences that were recorded in translation reserve are recognised in the consolidated income statement as part of the gain or loss on sale.

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 closing rate.

(e) *Property, plant and equipment*

Property, plant and equipment comprise mainly buildings, harbour works, buildings and dockyards, plant, machinery, furniture and equipment, motor vehicles and leasehold improvements. Property, plant and equipment are stated at historical cost less depreciation and impairment losses. 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 Nanshan 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 in the consolidated income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Buildings	Over the shorter of the lease term or 50 years
Harbour works, buildings and dockyard	8 to 50 years
Plant and machinery	3 to 20 years
Furniture and equipment	3 to 20 years

APPENDIX 1 ACCOUNTANT'S REPORT ON THE NANSHAN GROUP

Motor vehicles	5 to 10 years
Leasehold improvements	5 to 20 years or over the lease term, whatever is shorter

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 on interests of the related borrowed funds during the construction period are capitalised as the cost of the property, plant and equipment.

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(h)).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other gains, net in the consolidated income statement.

(f) ***Investment properties***

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields and is not occupied by the Nanshan Group.

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value, representing open market value determined by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Nanshan Group uses alternative valuation methods such as recent prices in less active markets or discounted cash flow projections. These valuations are reviewed annually by valuers. Changes in fair values are recognised in the consolidated income statement as part of other gains, net.

(g) ***Goodwill***

Goodwill represents the excess of the cost of an acquisition over the fair value of the Nanshan Group's share of the net identifiable assets of the acquired subsidiary/associate/jointly controlled entity at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in goodwill. Goodwill on acquisitions of associates and jointly controlled entities is included in interests in associates and interests in jointly controlled entities and is tested for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

(h) *Impairment of investments in subsidiaries, associates, jointly controlled entities and non-financial assets*

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets 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 to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered from an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of the investments in subsidiaries or associates or jointly controlled entities is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or associate or jointly controlled entity in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the Financial Information of the investee's net assets including goodwill.

(i) *Financial assets*

The Nanshan Group classifies its financial assets in the following categories: financial assets at fair value through profit and loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) *Financial assets at fair value through profit and loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets.

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. Loans and receivables are classified as debtors, deposits and prepayments and cash and cash equivalents in the statement of financial position.

(iii) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the end of the reporting period.

Regular way purchases and sales of financial assets are recognised on trade-date - the date on which the Nanshan Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Nanshan Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the consolidated income statement within other gains, net, in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of other income when the Nanshan Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in consolidated income statement; translation differences on non-monetary securities are recognised in other comprehensive income. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in investment revaluation reserve are included in the consolidated income statement as gains and losses on disposal of available-for-sale financial assets.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement when the Nanshan Group's right to receive payments is established.

(j) ***Impairment of financial assets***

(i) *Assets carried at amortised cost*

The Nanshan Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Nanshan Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Nanshan Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - (a) adverse changes in the payment status of borrowers in the portfolio;
 - (b) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Nanshan Group first assesses whether objective evidence of impairment exists.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(ii) *Assets classified as available-for-sale*

The Nanshan Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Nanshan Group uses the criteria refer to (i) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the separate consolidated income statement. Impairment losses recognised in the separate consolidated income statement on equity instruments are not reversed through the separate consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the separate consolidated income statement.

(k) *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average 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). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(l) *Development properties for sale*

Development properties for sale include properties under development and completed properties held for sale.

Properties under development are stated at the lower of cost and net realisable value. Net realisable value is determined by reference to the sale proceeds of properties sold in the ordinary course of business, less applicable variable distribution costs and the anticipated costs to completion, or by management estimates based on prevailing marketing conditions.

Development cost of property comprises payments for land use rights, construction costs and borrowing costs incurred during the construction period. Upon completion, the properties are transferred to completed properties held for sale.

Properties under development are classified as current assets when the construction of the relevant properties commences unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

Completed properties remaining unsold at year end are stated at the lower of cost and net realisable value.

Cost comprises development costs attributable to the unsold properties.

Net realisable value is determined by reference to the sale proceeds of properties sold in the ordinary course of business, less applicable variable distribution costs, or by management estimates based on prevailing marketing conditions.

(m) *Debtors*

Trade debtors are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of 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.

Debtors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

(n) *Cash and cash equivalents*

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

(o) *Share capital*

Share capital is 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.

(p) *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). 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.

(q) *Other financial liabilities*

Other financial liabilities are recognised initially at fair value, net of transaction costs and are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the other financial liabilities using the effective interest method.

Other financial liabilities are classified as current liabilities unless the Nanshan Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(r) *Current and deferred income tax*

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, 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.

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 China Nanshan and its subsidiaries, associates and jointly controlled entities 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.

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

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on interests in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Nanshan Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

(s) *Employee benefits*

The Nanshan Group participates in the employee retirement benefits plan of the respective municipal government in various places in Mainland China where the Nanshan Group operates. The Nanshan Group also has established a pension scheme for employees which is a defined contribution

plan under the approval of local government. The Nanshan 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 Nanshan Group.

The Nanshan Group's contributions to the schemes are expensed as incurred.

(t) ***Provisions***

A provision is recognised when the Nanshan Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

A provision is measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(u) ***Revenue recognition***

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Nanshan Group's activities. Revenue is shown net of value-added tax, sales tax, returns, rebates and discounts and after eliminating sales within the Nanshan Group.

The Nanshan Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Nanshan Group's activities as described below. The Nanshan Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) ***Sales of services***

Revenue from ports service and transportation income, container service and container yard management income are recognised when the relevant services are rendered.

(ii) ***Sales of goods***

Revenue from sale of steel and related equipment is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title is passed.

(iii) *Sales of properties*

Revenue from sales of properties is recognised when the risks and rewards of properties are transferred to the purchasers, which is when the construction of relevant properties has been completed and the properties have been delivered to the purchasers and collectability of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the consolidated statements of financial position as creditors and accruals under current liabilities.

(iv) *Rental income*

Operating lease rental income is recognised on a straight-line basis over the lease period.

(v) *Dividend income*

Dividend income is recognised when the right to receive payment is established.

(vi) *Interest income*

Interest income is recognised on a time-proportion basis using effective interest method.

(v) ***Borrowing costs***

Borrowing costs incurred for the construction of any qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for intended use. Other borrowing costs are expensed.

(w) ***Financial guarantees***

Financial guarantee contracts are contracts that require 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. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of subsidiaries or associates to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, China Nanshan's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with HKAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the consolidated income statement.

Where guarantees in relation to loans or other payables of subsidiaries are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment in the Financial Information of China Nanshan.

(x) *Operating leases*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) including up-front payment of the leasehold land and land use rights, are charged to the consolidated income statement on a straight-line basis over the period of the lease.

(y) *Dividend distribution*

Dividend distribution to China Nanshan's shareholders is recognised as a liability in the Nanshan Group's and China Nanshan's financial statements in the period in which the dividends are authorised by China Nanshan's shareholders or directors.

3 **Financial risk management**

(a) *Financial risk factors*

The Nanshan Group's principal activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk, fair value interest rate risk and cash flow interest rate risk), credit risk, and liquidity risk. The Nanshan Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise any potential adverse effects on the Nanshan Group's financial performance. Risk management is carried out by management of the Nanshan Group under policies approved by the Directors of China Nanshan.

(i) *Market risk*

Foreign exchange risk

Majority of the subsidiaries of China Nanshan operate in Mainland China and most of their transactions are denominated in either Renminbi or Hong Kong dollars. The Nanshan Group is exposed to foreign exchange risk primarily through sales and purchases, capital expenditure and expenses transactions that are denominated in a currency other than the functional currency of the subsidiaries.

The Nanshan Group considers its foreign currency exposure mainly arises from its exposure to movement in the value of the Renminbi against Hong Kong dollars.

The Nanshan Group manages its exposures to foreign currency transactions by monitoring the level of foreign currency receipts and payments. The Nanshan Group ensures that the net exposure to foreign exchange risk is kept to an acceptable level from time to time. The Nanshan Group is presently not using forward exchange contracts to hedge foreign exchange risk arising from sales and purchase, capital expenditure and expenses transactions as the management considers that the present exposure to foreign exchange risk is insignificant.

The Nanshan 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 Nanshan Group's exposure to foreign exchange risk.

57%, 71% and 71% of the Nanshan Group's borrowings as at 31 December 2007, 2008 and 2009 respectively are denominated in Renminbi while the remainings are mainly denominated in Hong Kong dollar. The majority of the Nanshan Group's ports 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.

At 31 December 2007, 2008 and 2009, if Renminbi had strengthened/weakened by 7.3%, 6.2% and 0.2% respectively with all other variables held constant, profit for each of the years ended 31 December 2007, 2008 and 2009 would have been approximately RMB88 million, RMB65 million and RMB2 million higher/lower respectively mainly as a result of increase/decrease in net foreign exchange gains on translation of cash and cash equivalents, debtors, creditors and other financial liabilities denominated in non-functional currency of the relevant group companies.

Price risk

The Nanshan Group is exposed to equity securities price risk because investments held by the Nanshan Group are classified on the consolidated statement of financial position as available-for-sale financial assets and financial assets at fair value through profit or loss. The Directors of China Nanshan are of the opinion that as these investments, individually and in aggregate, are not material to the Nanshan Group, any reasonable changes in fair value within a range of fair value estimates would not significantly affect the results of the Nanshan Group. The Nanshan Group is not exposed to commodity price risks and has not entered into any derivatives to manage exposures of price risk.

Fair value interest rate risk and cash flow interest rate risk

The Nanshan Group's interest rate risk mainly arises from interest-bearing borrowings. Borrowings issued at variable rates expose the Nanshan Group to cash flow interest rate risk whilst borrowings issued at fixed rates expose the Nanshan Group to fair value interest rate risk. Other than the unlisted notes payables, all other borrowings were at floating interest rates.

The Nanshan 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 Nanshan Group did not use any interest rate swap to hedge its interest rate risk during the Relevant Periods.

Other than bank deposits and financial assets at fair value through profit or loss as at 31 December 2007, 2008 and 2009, the Nanshan Group has no significant interest-bearing assets. The Nanshan Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate any significant impact resulting from changes in interest rates on interest-bearing assets.

At 31 December 2007, 2008 and 2009, if interest rates on borrowings had been 100 basis points higher/lower with all other variables held constant, post-tax profit for each of the years ended 31 December 2007, 2008 and 2009 would have been RMB26 million, RMB22 million and RMB48 million lower/higher respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

(ii) *Credit risk*

Credit risk arises if a customer or other counterparty fails to meet its contractual obligations. The credit risk of the Nanshan Group mainly arises from debtors and deposits with banks and financial institutions.

Credit risk on trade debtors is managed by the management of the individual business units and monitored by the Nanshan Group's management on a group basis. The Nanshan Group's trade debtors are mainly contributed by ports operations where their customers are mainly sizable and renowned international liners or market leaders in their industries with low credit risk. For other smaller customers, management assesses their credit quality by considering its financial position, past experience and other relevant factors. The utilisation of credit limits is regularly monitored. Debtors with overdue balances will be requested to settle their outstanding balance.

The Nanshan Group has policies that limit the amount of credit exposure to any financial institutions. The Nanshan Group's bank deposits are all deposited in renowned and established banks or financial institutions in Hong Kong and the PRC. Most of the cash are deposited in State-controlled banking enterprises as of 31 December 2007, 2008 and 2009. Management considers that the credit risk associated with the deposits with banks and financial institutions is low.

The Nanshan Group believes that adequate provision for doubtful debts has been made in the Financial Information. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in their impairment assessments.

(iii) *Liquidity risk*

Cash flow forecasts are prepared by management. Management monitors rolling forecasts on the Nanshan Group's liquidity requirements to ensure the Nanshan Group maintains sufficient liquidity reserves to support sustainability and growth of the Nanshan Group's business. Currently, the Nanshan Group finances its working capital requirements through a combination of funds generated from operations and bank borrowings.

The rolling forecasts of the Nanshan Group's liquidity reserves comprise undrawn borrowing facilities (note 32(c)) and cash and cash equivalents (note 29) on the basis of expected cash flow. The Nanshan Group aims to maintain flexibility in funding while minimising its overall costs by keeping uncommitted credit lines available.

The table below analyses the Nanshan Group's financial liabilities (excluding liabilities of disposal group classified as held for sale) 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.

	Within 1 year			Between 1 and 2 years			Between 2 and 5 years			Over 5 years			Total		
	2007	2008	2009	2007	2008	2009	2007	2008	2009	2007	2008	2009	2007	2008	2009
	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million
Nanshan Group															
Other financial liabilities	3,601	3,947	1,320	—	222	590	—	207	2,256	—	—	1,200	3,601	4,376	5,366
Trade payables	353	475	387	—	—	—	—	—	—	—	—	—	353	475	387
Other payable	1,503	1,107	907	—	—	—	—	—	—	—	—	—	1,503	1,107	907
Amount due to a shareholder	40	32	42	—	—	—	—	—	—	—	—	—	40	32	42
	<u>5,497</u>	<u>5,561</u>	<u>2,656</u>	<u>—</u>	<u>222</u>	<u>590</u>	<u>—</u>	<u>207</u>	<u>2,256</u>	<u>—</u>	<u>—</u>	<u>1,200</u>	<u>5,497</u>	<u>5,990</u>	<u>6,702</u>
China Nanshan															
Other financial liabilities	1,479	2,301	108	—	—	108	—	—	1,021	—	—	1,304	1,479	2,301	2,541
Other payable	179	137	143	—	—	—	—	—	—	—	—	—	179	137	143
Advances from subsidiaries	29	64	77	—	—	—	—	—	—	—	—	—	29	64	77
Amount due to a shareholder	40	32	42	—	—	—	—	—	—	—	—	—	40	32	42
	<u>1,727</u>	<u>2,534</u>	<u>370</u>	<u>—</u>	<u>—</u>	<u>108</u>	<u>—</u>	<u>—</u>	<u>1,021</u>	<u>—</u>	<u>—</u>	<u>1,304</u>	<u>1,727</u>	<u>2,534</u>	<u>2,803</u>

(b) Capital risk management

The Nanshan Group's objectives when managing capital are to safeguard the Nanshan 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 Nanshan Group prepares a five-year rolling forecast of its capital requirement in anticipation of funding requirements for new capital investments, capital expenditures of existing projects and repayment of borrowings. In order to maintain or adjust the capital structure, the Nanshan Group may adjust its debt levels or the mix between short-term or long-term borrowings.

The Nanshan Group monitors capital with reference to, inter alia, the net gearing ratio. This ratio is calculated as net interest bearing debts divided by net assets attributable to the China Nanshan's shareholders.

The net gearing ratios at 31 December 2007, 2008 and 2009 were as follows:

	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Interest bearing other financial liabilities (note 32)	3,557	4,323	4,770
Less: cash and cash equivalents (note 29)	<u>(1,697)</u>	<u>(1,713)</u>	<u>(2,270)</u>
Net interest bearing debts	1,860	2,610	2,500
Net assets attributable to China Nanshan's shareholders	3,117	3,642	4,329
Net gearing ratio	<u>59.7%</u>	<u>71.7%</u>	<u>57.8%</u>

(c) **Fair value estimation**

Effective 1 January 2009, the Nanshan Group adopted the amendment to HKFRS 7 for financial instruments that are measured at their fair values. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Nanshan Group's assets and liabilities that are measured at their fair values at 31 December 2009.

	Level 1	Level 2	Level 3	Total
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Available-for-sale financial assets (note 24)	7	—	14	21
Financial assets at fair value through profit or loss (note 24)	<u>—</u>	<u>200</u>	<u>—</u>	<u>200</u>
	<u>7</u>	<u>200</u>	<u>14</u>	<u>221</u>

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Nanshan Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices
- Other techniques, such as with reference to weighted average of earnings and price-earnings multiples of certain listed companies in the same industry.

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.

Critical accounting estimates and assumptions

The Nanshan Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. 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.

Valuation of investment properties

The fair value of each investment property is individually determined at the end of each reporting period by independent valuers based on a market value assessment. The valuers have relied on the discounted cash flow analysis and the capitalisation of income approach as their primary methods, supported by the direct comparison method. These methodologies are based upon estimates of future results and a set of assumptions specific to each property to reflect its tenancy and cashflow profile. The fair value of each investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

Useful life of property, plant and equipment

Management of the Nanshan 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 competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write down or write off technically obsolete or non-strategic assets that have been abandoned or sold.

Current and deferred income tax

The Nanshan Group is subject to income tax in the PRC. Judgement is required in determining the provision for income tax. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Distinction between investment properties, owner-occupied properties and development properties for sale

The Nanshan Group determines whether a property qualifies as investment property. In making its judgement, the Nanshan Group considers whether the property generates cash flows largely independently of the other assets and the way in which the property is realised. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process. Development properties for sale are those properties not occupied by the Nanshan Group and held for sale in the ordinary course of business.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the Nanshan Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Nanshan Group considers each property separately in making its judgement.

Financial implication of regulations of idle land

Under the PRC laws and regulations, if a property developer fails to develop land according to the terms of a land grant contract, including the designated use of the land and the time of commencement and completion of the property development, the PRC Government may regard the

land as idle and issue a warning or impose a penalty on the developer or reclaim the land. The Nanshan Group has certain tracts of land for which development has not commenced according to the specified terms of the respective land grant contracts. Judgement is required in assessing whether these tracts of land will be subject to the penalty of idle land or may be reclaimed by the Government and thereby resulting in any adverse financial impact to the Nanshan Group. In making this judgement, the Nanshan Group evaluates the extent of development of the whole tracts of land, status of negotiation with the government authorities as to the extension of time of commencement or revision of development plans.

5 Revenue

The principal activities of the Nanshan Group comprise ports operations, property development operations and manufacturing operations. Revenue consists of turnover recognised under the following business activities during the Relevant Periods.

	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Ports service and transportation income, container service and container yard management income	2,082	2,176	1,640
Sales of properties	1,185	716	328
Gross rental income from investment properties	223	259	304
Sales of goods	22	280	243
Others	75	92	85
Total	<u>3,587</u>	<u>3,523</u>	<u>2,600</u>

Pursuant to the relevant tax rules and regulations in the PRC, the major elements of the Nanshan Group's revenue are subject to business tax levied at rates of 3% or 5%. The business tax incurred and set off against the Nanshan Group's revenue for each of the years ended 31 December 2007, 2008 and 2009 amounted to RMB153 million, RMB147 million and RMB108 million respectively.

APPENDIX 1 ACCOUNTANT'S REPORT ON THE NANSHAN GROUP

6 Segment information

The Chief Operation Decision-Maker (“CODM”) has been identified as the key management team of China Nanshan. CODM reviews the Nanshan Group’s internal reports in order to assess performance, allocate resources and determine the operating segments.

The CODM considers the Nanshan Group’s operations from a business perspective. Management assesses the performance of business operations including ports operations, property development operations and manufacturing operations.

Ports operations include container terminal operation, bulk and general cargo terminal operation, logistics park operation and ports transportation operated by the Nanshan Group and the Nanshan Group’s associates and jointly controlled entities. Property development operations include property development, management and leasing. Manufacturing operations include manufacturing of steel and related equipment.

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

The Nanshan Group is domiciled in Mainland China. Almost all of its non-current assets are located in Mainland China and its revenue are derived from operations in Mainland China. There is no single customer who accounted over 10% of the Nanshan Group’s total revenue.

An analysis of the Nanshan Group’s revenue by segments is as follows:

	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Ports operations	2,158	2,107	1,770
Property development operations	1,308	952	467
Manufacturing operations	<u>121</u>	<u>464</u>	<u>363</u>
	<u>3,587</u>	<u>3,523</u>	<u>2,600</u>

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

	For the year ended 31 December 2007			
	Ports operations	Property development operations	Manufacturing operations	Total
	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>
Continuing operations				
Operating profit	1,514	355	7	1,876
Share of profits less losses of				
- Associates	158	52	—	210
- Jointly controlled entities	2	30	—	32
	<u>1,674</u>	<u>437</u>	<u>7</u>	<u>2,118</u>
Finance costs - net	(71)	43	(7)	(35)
Taxation	(149)	(85)	(3)	(237)
Profit/(loss) for the year from continuing operations	1,454	395	(3)	1,846
Profit for the year from discontinued operation	—	—	175	175
Minority interest	(831)	1	(84)	(914)
Profit attributable to shareholders of China Nanshan	<u>623</u>	<u>396</u>	<u>88</u>	<u>1,107</u>
Other information:				
Depreciation and amortisation				
Continuing operations	269	31	41	341
Discontinued operation	—	—	90	90
	<u>269</u>	<u>31</u>	<u>131</u>	<u>431</u>
Capital expenditure	<u>650</u>	<u>167</u>	<u>440</u>	<u>1,257</u>

For the year ended 31 December 2008

	Ports operations	Property development operations	Manufacturing operations	Total
	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>
Continuing operations				
Operating profit	1,324	44	54	1,422
Share of profits less losses of				
- Associates	93	49	—	142
- Jointly controlled entities	4	62	—	66
	1,421	155	54	1,630
Finance costs - net	(66)	37	(29)	(58)
Taxation	(150)	(30)	(5)	(185)
Profit for the year from continuing operations	1,205	162	20	1,387
Profit for the year from discontinued operation	—	—	181	181
Minority interest	(633)	—	(128)	(761)
Profit attributable to shareholders of China Nanshan	572	162	73	807
Other information:				
Depreciation and amortisation				
Continuing operations	216	31	22	269
Discontinued operation	—	—	123	123
	216	31	145	392
Capital expenditure	1,121	90	275	1,486

For the year ended 31 December 2009

	Ports operations	Property development operations	Manufacturing operations	Total
	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>
Continuing operations				
Operating profit	963	20	37	1,020
Share of profits less losses of				
- Associates	97	86	—	183
- Jointly controlled entities	<u>3</u>	<u>21</u>	<u>—</u>	<u>24</u>
	1,063	127	37	1,227
Finance costs - net	(52)	30	(18)	(40)
Taxation	<u>(134)</u>	<u>(46)</u>	<u>—</u>	<u>(180)</u>
Profit for the year from continuing operations	877	111	19	1,007
Profit for the year from discontinued operation	—	—	607	607
Minority interest	<u>(417)</u>	<u>2</u>	<u>(157)</u>	<u>(572)</u>
Profit attributable to shareholders of China Nanshan	<u>460</u>	<u>113</u>	<u>469</u>	<u>1,042</u>
Other information:				
Depreciation and amortisation				
Continuing operations	217	30	26	273
Discontinued operation	<u>—</u>	<u>—</u>	<u>147</u>	<u>147</u>
	<u>217</u>	<u>30</u>	<u>173</u>	<u>420</u>
Capital expenditure	<u>1,091</u>	<u>48</u>	<u>285</u>	<u>1,424</u>

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

As at 31 December 2007				
	Ports operations	Property development operations	Manufacturing operations	Total
	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>
Segment assets (excluding interests in associates and jointly controlled entities)	6,769	1,495	2,094	10,358
Interests in associates	177	779	—	956
Interests in jointly controlled entities	13	120	—	133
Total segment assets	<u>6,959</u>	<u>2,394</u>	<u>2,094</u>	11,447
Deferred tax assets				33
Total assets				<u>11,480</u>
Segment liabilities	<u>2,474</u>	<u>2,236</u>	<u>955</u>	5,665
Taxation payable				33
Deferred tax liabilities				132
Total liabilities				<u>5,830</u>

As at 31 December 2008				
	Ports operations	Property development operations	Manufacturing operations	Total
	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>
Segment assets (excluding interests in associates and jointly controlled entities)	7,342	1,401	2,814	11,557
Interests in associates	720	239	—	959
Interests in jointly controlled entities	13	175	—	188
Total segment assets	<u>8,075</u>	<u>1,815</u>	<u>2,814</u>	12,704
Deferred tax assets				51
Total assets				<u>12,755</u>
Segment liabilities	<u>2,332</u>	<u>2,252</u>	<u>1,554</u>	6,138
Taxation payable				76
Deferred tax liabilities				155
Total liabilities				<u>6,369</u>

As at 31 December 2009

	Ports operations	Property development operations	Manufacturing operations	Total
	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>	<i>RMB' million</i>
Segment assets (excluding interests in associates and jointly controlled entities)	8,322	2,449	610	11,381
Interests in associates	744	275	905	1,924
Interests in jointly controlled entities	<u>12</u>	<u>195</u>	<u>—</u>	<u>207</u>
Total segment assets	<u>9,078</u>	<u>2,919</u>	<u>1,515</u>	13,512
Deferred tax assets				<u>51</u>
Total assets				<u>13,563</u>
Segment liabilities	<u>3,471</u>	<u>2,409</u>	<u>417</u>	6,297
Taxation payable				93
Deferred tax liabilities				<u>209</u>
Total liabilities				<u>6,599</u>

7 Other gains, net and other income

	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Other gains, net			
Increase in fair value of investment properties (note 19)	492	126	214
(Loss)/gain on disposal of land use rights, property, plant and equipment	(7)	2	5
Gain on disposal of an available-for-sale financial asset	11	—	—
Net foreign exchange gains	<u>15</u>	<u>100</u>	<u>3</u>
	<u>511</u>	<u>228</u>	<u>222</u>
Other income			
Dividend income from available-for-sale financial assets	7	—	7
Government subsidies	<u>13</u>	<u>3</u>	<u>9</u>
	<u>20</u>	<u>3</u>	<u>16</u>

8 Expenses by nature

	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Changes in finished goods	151	452	315
Cost of development properties sold	903	723	335
Staff costs (note 9)	347	379	401
Depreciation of property, plant and equipment	329	256	259
Amortisation of land use rights	12	13	14
Auditor's remuneration	2	3	2
Fuel and utilities	126	141	139
Operating lease rentals in respect of			
- land and buildings	79	92	117
Other expenses	<u>293</u>	<u>273</u>	<u>236</u>
Total cost of sales, distribution costs and administrative expenses	<u><u>2,242</u></u>	<u><u>2,332</u></u>	<u><u>1,818</u></u>

9 Staff costs

	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Wages and salaries	308	328	350
Retirement benefit scheme contributions	<u>39</u>	<u>51</u>	<u>51</u>
	<u><u>347</u></u>	<u><u>379</u></u>	<u><u>401</u></u>

10 Directors' and senior management's emoluments

None of the Directors of the Nanshan Group have received or will receive any fees or emoluments in respect of their services to the Nanshan Group during the Relevant Periods.

11 Finance income and costs

	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Interest income from bank deposits	<u>74</u>	<u>102</u>	<u>79</u>
Finance income	<u>74</u>	<u>102</u>	<u>79</u>
	-----	-----	-----
Interest expense on:			
Bank borrowings			
- wholly repayable within five years	(109)	(174)	(69)
- not wholly repayable within five years	—	—	(21)
Unlisted notes payable	<u>(31)</u>	<u>(37)</u>	<u>(73)</u>
Total borrowing costs incurred	(140)	(211)	(163)
Less: amount capitalised in assets under construction	<u>31</u>	<u>51</u>	<u>44</u>
Finance costs	<u>(109)</u>	<u>(160)</u>	<u>(119)</u>
	-----	-----	-----
Finance costs - net	<u>(35)</u>	<u>(58)</u>	<u>(40)</u>

During the Relevant Periods, capitalisation rates ranging from 2.50% to 5.27% per annum were used, representing the weighted average rate of the costs of borrowings used to finance the assets under construction.

12 Taxation

No Hong Kong profits tax has been provided for as the Nanshan Group has no estimated assessable profit derived from Hong Kong for the Relevant Periods.

The Nanshan Group's operations in Mainland China are subject to PRC corporate income tax law of the People's Republic of China ("PRC corporate income tax"). The standard PRC corporate income tax rate is 25%. Before 1 January 2008, the Nanshan Group's operations are subjected to a tax rate of 15% to 33%. For enterprises previously taxed at preferential rate of 15%, PRC corporate income tax rate is 18%, 20%, 22% and 24% in 2008, 2009, 2010 and 2011 respectively whereas 25% standard rate will be applied from year 2012 onwards. Certain of the Nanshan Group's subsidiaries were exempted from the PRC corporate income tax in the first five profit making years and followed by a 50% reduction in the PRC corporate income tax for the next five years thereafter, commencing from the earlier of the first profitable year after offsetting all unexpired tax losses carried forward from the previous years or 1 January 2008.

	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
PRC corporate income tax			
Current year	127	180	126
Deferred taxation (note 34)			
Charge for the year	<u>110</u>	<u>5</u>	<u>54</u>
	<u><u>237</u></u>	<u><u>185</u></u>	<u><u>180</u></u>

The tax on the Nanshan Group's profit before taxation differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the Nanshan Group companies as follows:

	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Profit before taxation (excluding share of profits of associates and jointly controlled entities)	<u>1,841</u>	<u>1,364</u>	<u>980</u>
Expected tax calculated at the weighted average applicable tax rate	174	110	101
Income not subject to taxation	(19)	(16)	(15)
Expenses not deductible for taxation purposes	<u>82</u>	<u>91</u>	<u>94</u>
Taxation charge	<u><u>237</u></u>	<u><u>185</u></u>	<u><u>180</u></u>

The weighted average applicable tax rates were 9.5%, 8.1% and 10.3% for the years ended 31 December 2007, 2008 and 2009 respectively. The increase is mainly caused by the increase in PRC corporate income tax rates.

13 Discontinued operation

On 3 December 2009, the Nanshan Group's equity interest in Yahgee Modular House Company Limited ("Yahgee"), a former subsidiary of the Nanshan Group, was diluted from 65.37% to 48.77% upon the completion of listing of Yahgee's shares on the Shenzhen Stock Exchange for a cash consideration of RMB1,239 million. Yahgee became an associate of the Nanshan Group from that date. A gain on dilution of RMB460 million has been recognised in the consolidated income statement during the year ended 31 December 2009.

The aggregate results and cash flows, as extracted from the published financial statements, of Yahgee included in the consolidated income statement and the consolidated statement of cash flows for the years ended 31 December 2007, 2008 and 2009 are set out below:

	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Revenue	1,592	2,346	1,916
Business tax	(30)	(35)	(37)
Cost of sales	<u>(1,159)</u>	<u>(1,785)</u>	<u>(1,429)</u>
Gross profit	403	526	450
Other gains, net	15	15	8
Distribution costs	(89)	(106)	(111)
Administrative expenses, impairment losses on assets and other operating expenses	<u>(128)</u>	<u>(185)</u>	<u>(143)</u>
Operating profit	201	250	204
Finance costs - net	<u>(17)</u>	<u>(38)</u>	<u>(25)</u>
Profit before taxation	184	212	179
Taxation	<u>(9)</u>	<u>(31)</u>	<u>(32)</u>
Profit after taxation	175	181	147
Gain on deemed disposal of discontinued operation (note 36(b))	<u>—</u>	<u>—</u>	<u>460</u>
Profit for the year from discontinued operation	<u><u>175</u></u>	<u><u>181</u></u>	<u><u>607</u></u>
Attributable to:			
Shareholders of China Nanshan	105	118	556
Minority interest	<u>70</u>	<u>63</u>	<u>51</u>
	<u><u>175</u></u>	<u><u>181</u></u>	<u><u>607</u></u>
Net cash inflow from operating activities	280	118	480
Net cash outflow from investing activities	(286)	(264)	(264)
Net cash inflow from financing activities	<u>16</u>	<u>119</u>	<u>613</u>
Net cash inflow/(outflow) from discontinued operation	<u><u>10</u></u>	<u><u>(27)</u></u>	<u><u>829</u></u>

APPENDIX 1 ACCOUNTANT'S REPORT ON THE NANSHAN GROUP

14 Profit attributable to shareholders of China Nanshan

Profit attributable to shareholders of China Nanshan is dealt with in the financial statements of the China Nanshan as follows:

	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Profit attributable to shareholders	<u>311</u>	<u>372</u>	<u>317</u>

15 Dividend

	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Dividend for the year	<u>276</u>	<u>357</u>	<u>258</u>

At meetings held on 14 April 2008, 24 April 2009 and 26 March 2010, the Directors proposed dividend for each of the years ended 31 December 2007, 2008 and 2009 of total RMB276 million, RMB357 million and RMB258 million respectively.

16 Earnings per share

	2007	2008	2009
Continuing operations			
Profit attributable to shareholders of China Nanshan (RMB'million)	1,002	689	486
Weighted average number of ordinary shares in issue (in million)	<u>500</u>	<u>500</u>	<u>500</u>
Basic earnings per share (RMB)	<u>2.00</u>	<u>1.38</u>	<u>0.97</u>
Discontinued operations			
Profit attributable to shareholders of China Nanshan (RMB'million)	105	118	556
Weighted average number of ordinary shares in issue (in million)	<u>500</u>	<u>500</u>	<u>500</u>
Basic earnings per share (RMB)	<u>0.21</u>	<u>0.24</u>	<u>1.11</u>
Total			
Profit attributable to shareholders of China Nanshan (RMB'million)	1,107	807	1,042
Weighted average number of ordinary shares in issue (in million)	<u>500</u>	<u>500</u>	<u>500</u>
Basic earnings per share (RMB)	<u>2.21</u>	<u>1.62</u>	<u>2.08</u>

The diluted earnings per share of continuing operations equals to the basic earnings per share since there are no dilutive potential shares in issue during the Relevant Periods.

17 Goodwill

	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Carrying value as at 1 January	23	23	23
Disposal of subsidiaries (note 36(b))	—	—	(1)
Carrying value as at 31 December	<u>23</u>	<u>23</u>	<u>22</u>

18 Property, plant and equipment

	Nanshan Group					Total
	Buildings	Harbour works, buildings and dockyard	Plant, machinery, furniture and equipment	Others	Assets under construction	
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	
Net book value at 1 January 2007	542	1,010	1,362	569	96	3,579
Additions	59	76	155	291	532	1,113
Disposals	(50)	—	(64)	(26)	—	(140)
Transfer	43	(5)	3	56	(97)	—
Depreciation	(69)	(60)	(179)	(110)	—	(418)
Impairment	(7)	—	(54)	(14)	—	(75)
Net book value at 31 December 2007	<u>518</u>	<u>1,021</u>	<u>1,223</u>	<u>766</u>	<u>531</u>	<u>4,059</u>
At 31 December 2007						
Cost	757	1,281	2,207	1,017	531	5,793
Accumulated depreciation and impairment	(239)	(260)	(984)	(251)	—	(1,734)
Net book value	<u>518</u>	<u>1,021</u>	<u>1,223</u>	<u>766</u>	<u>531</u>	<u>4,059</u>

	Nanshan Group					Total
	Buildings	Harbour works, buildings and dockyard	Plant, machinery, furniture and equipment	Others	Assets under construction	
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Net book value at 1 January 2008	518	1,021	1,223	766	531	4,059
Additions	18	11	147	183	682	1,041
Disposals	(6)	(1)	(31)	(150)	—	(188)
Transfer	135	34	32	250	(451)	—
Depreciation	(26)	(36)	(173)	(142)	—	(377)
Impairment	—	—	—	(6)	—	(6)
Net book value at 31 December 2008	<u>639</u>	<u>1,029</u>	<u>1,198</u>	<u>901</u>	<u>762</u>	<u>4,529</u>
At 31 December 2008						
Cost	906	1,325	2,292	1,205	762	6,490
Accumulated depreciation and impairment	<u>(267)</u>	<u>(296)</u>	<u>(1,094)</u>	<u>(304)</u>	<u>—</u>	<u>(1,961)</u>
Net book value	<u>639</u>	<u>1,029</u>	<u>1,198</u>	<u>901</u>	<u>762</u>	<u>4,529</u>
Net book value at 1 January 2009	639	1,029	1,198	901	762	4,529
Additions	121	32	75	156	616	1,000
Disposals	(7)	(1)	(5)	(179)	—	(192)
Transfer	179	—	1	455	(635)	—
Disposal of subsidiaries (note 36(b))	(72)	—	(79)	(803)	(16)	(970)
Depreciation	<u>(43)</u>	<u>(40)</u>	<u>(144)</u>	<u>(177)</u>	<u>—</u>	<u>(404)</u>
Net book value at 31 December 2009	<u>817</u>	<u>1,020</u>	<u>1,046</u>	<u>353</u>	<u>727</u>	<u>3,963</u>
At 31 December 2009						
Cost	1,170	1,347	2,121	528	727	5,893
Accumulated depreciation and impairment	<u>(353)</u>	<u>(327)</u>	<u>(1,075)</u>	<u>(175)</u>	<u>—</u>	<u>(1,930)</u>
Net book value	<u>817</u>	<u>1,020</u>	<u>1,046</u>	<u>353</u>	<u>727</u>	<u>3,963</u>

China Nanshan						
	Buildings	Harbour works, buildings and dockyard	Plant, machinery, furniture and equipment	Others	Assets under construction	Total
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Net book value at 1 January 2007	29	102	36	10	7	184
Additions	—	—	3	—	8	11
Disposals	(21)	(3)	(29)	(1)	—	(54)
Depreciation	(4)	(20)	(2)	(2)	—	(28)
Net book value at 31 December 2007	<u>4</u>	<u>79</u>	<u>8</u>	<u>7</u>	<u>15</u>	<u>113</u>
At 31 December 2007						
Cost	10	190	15	15	15	245
Accumulated depreciation and impairment	(6)	(111)	(7)	(8)	—	(132)
Net book value	<u>4</u>	<u>79</u>	<u>8</u>	<u>7</u>	<u>15</u>	<u>113</u>
Net book value at 1 January 2008	4	79	8	7	15	113
Additions	—	—	1	4	1	6
Depreciation	(1)	(10)	(3)	(2)	—	(16)
Net book value at 31 December 2008	<u>3</u>	<u>69</u>	<u>6</u>	<u>9</u>	<u>16</u>	<u>103</u>
At 31 December 2008						
Cost	10	190	14	19	16	249
Accumulated depreciation and impairment	(7)	(121)	(8)	(10)	—	(146)
Net book value	<u>3</u>	<u>69</u>	<u>6</u>	<u>9</u>	<u>16</u>	<u>103</u>
Net book value at 1 January 2009	3	69	6	9	16	103
Additions	—	—	1	—	8	9
Disposals	—	(2)	—	—	—	(2)
Transfer	—	8	—	9	(17)	—
Depreciation	—	(11)	(3)	(2)	—	(16)
Net book value at 31 December 2009	<u>3</u>	<u>64</u>	<u>4</u>	<u>16</u>	<u>7</u>	<u>94</u>
At 31 December 2009						
Cost	10	180	14	28	7	239
Accumulated depreciation and impairment	(7)	(116)	(10)	(12)	—	(145)
Net book value	<u>3</u>	<u>64</u>	<u>4</u>	<u>16</u>	<u>7</u>	<u>94</u>

Notes:

- (a) Included in assets under construction as at 31 December 2007, 2008 and 2009 is capitalised interest of approximately RMB2 million, RMB13 million and RMB25 million respectively.
- (b) At 31 December 2009, plant, machinery, furniture and equipment with net book value of RMB15 million were pledged as security for the Nanshan Group's bank borrowings of RMB20 million (note 32(a)).
- (c) Others comprise motor vehicles and leasehold improvements analysed as follows:

	Nanshan Group					
	Motor vehicles			Leasehold improvements		
	2007	2008	2009	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Net book values	<u>103</u>	<u>102</u>	<u>110</u>	<u>663</u>	<u>799</u>	<u>243</u>

- (d) Depreciation expenses charged for the year are analysed as follows:

	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Continuing operation			
Cost of sales	301	229	222
Administrative expenses	26	24	34
Distribution costs	<u>2</u>	<u>3</u>	<u>3</u>
	329	256	259
Discontinued operation	<u>89</u>	<u>121</u>	<u>145</u>
	<u>418</u>	<u>377</u>	<u>404</u>

- (e) Certain property, plant and equipment of port operations are situated on certain parcels of land with a total area of approximately 3.3 million square meters in Mainland China which were granted for development and use by the relevant PRC Government authorities to the Nanshan Group at nil consideration (the "Land"). No official land use right certificates for the Land were obtained by the Nanshan Group. As of the date of this Financial Information, the Directors of China Nanshan are in the process of negotiating with the relevant PRC Government authorities to obtain the land use right certificates which may be subject to the payment of land transfer fees and the Nanshan Group may possibly be reimbursed by the relevant PRC Government authorities the development costs incurred. After consulting with their PRC legal counsel, the Directors of China Nanshan are of the view that the Nanshan Group is entitled to occupy and use the Land for 50 years starting from 1992. They therefore considered there was no significant impairment risk related to the above assets.

19 Investment properties

	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Carrying value at 1 January	407	995	1,335
Additions	96	214	284
Increase in fair value (note 7)	<u>492</u>	<u>126</u>	<u>214</u>
Carrying value at 31 December	<u><u>995</u></u>	<u><u>1,335</u></u>	<u><u>1,833</u></u>

Notes:

- (a) The investment properties were revalued at 31 December 2007, 2008 and 2009 by, Grant Sherman Appraisal Limited, independent and professionally qualified valuers. Valuations are based on current prices in an active market.
- (b) The Nanshan Group's interests in investment properties located in Mainland China, are held on leases of between 10 to 50 years.
- (c) The following amounts have been recognised in the consolidated income statement:

	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Rental income	223	259	304
Direct operating expense arising from investment properties	<u>(78)</u>	<u>(75)</u>	<u>(90)</u>
	<u><u>145</u></u>	<u><u>184</u></u>	<u><u>214</u></u>

- (d) Certain investment properties of port operations are situated on certain parcels of land with a total area of approximately 3.3 million square meters in Mainland China which were granted for development and use by the relevant PRC Government authorities to the Nanshan Group at nil consideration (the "Land"). No official land use right certificates for the Land were obtained by the Nanshan Group. As of the date of this Financial Information, the Directors of China Nanshan are in the process of negotiating with the relevant PRC Government authorities to obtain the land use right certificates which may be subject to the payment of land transfer fees and the Nanshan Group may possibly be reimbursed by the relevant PRC Government authorities the development costs incurred. After consulting with their PRC legal counsel, the Directors of China Nanshan are of the view that the Nanshan Group is entitled to occupy and use the Land for 50 years starting from 1992. They therefore considered there was no significant impairment risk related to the above assets.

APPENDIX 1 ACCOUNTANT'S REPORT ON THE NANSHAN GROUP

20 Land use rights

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

	Nanshan Group			China Nanshan		
	2007	2008	2009	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Net book value at 1 January	425	460	630	68	65	62
Additions	48	231	140	—	—	—
Disposals (note 38(a))	—	(46)	—	—	—	—
Disposal of subsidiaries (note 36(b))	—	—	(58)	—	—	—
Amortisation	(13)	(15)	(16)	(3)	(3)	(3)
Net book value at 31 December	<u>460</u>	<u>630</u>	<u>696</u>	<u>65</u>	<u>62</u>	<u>59</u>

The Nanshan Group's interests in land use rights located in Mainland China, held on leases of between 10 to 50 years.

21 Interests in subsidiaries

	China Nanshan		
	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Unlisted shares, at cost	1,707	1,821	2,026
Listed shares, at cost	<u>364</u>	<u>364</u>	<u>364</u>
	<u>2,071</u>	<u>2,185</u>	<u>2,390</u>
Market value of listed shares	<u>11,887</u>	<u>4,046</u>	<u>6,874</u>
Advances to subsidiaries - non-current portion (note (a))			
- interest free	—	—	148
- interest bearing	<u>172</u>	<u>172</u>	<u>672</u>
	<u>172</u>	<u>172</u>	<u>820</u>
Advances to subsidiaries - current portion (note (b))			
- interest free	368	250	25
- interest bearing	<u>1,026</u>	<u>1,505</u>	<u>346</u>
	<u>1,394</u>	<u>1,755</u>	<u>371</u>
Advances from subsidiaries - current portion (note (c))			
- interest free	<u>29</u>	<u>64</u>	<u>77</u>

Notes:

- (a) Except for the balance of RMB148 million as at 31 December 2009, which is interest free, the non-current portion of advances to subsidiaries are unsecured, interest bearing at rates ranging from 4.07% to 7.90% per annum and will not be repayable within one year.
- (b) Except for the balances of RMB368 million, RMB250 million and RMB25 million as at 31 December 2007, 2008 and 2009 respectively, which are interest free, the current portion of advances to subsidiaries are unsecured, interest bearing at rates ranging from 4.35% to 7.90% per annum and will be repayable on demand.
- (c) The current portion of advances from subsidiaries are unsecured, interest free, and will be repayable on demand.
- (d) Particulars of the China Nanshan's principal subsidiaries at 31 December 2007, 2008 and 2009 are set out in note 40 to the Financial Information.

APPENDIX 1 ACCOUNTANT'S REPORT ON THE NANSHAN GROUP

22 Interests in associates

	Nanshan Group			China Nanshan		
	2007	2008	2009	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Unlisted investments, at cost	—	—	—	46	46	46
Share of net assets of (note (a)):						
Listed associates	—	—	905	—	—	—
Unlisted associates	760	775	911	—	—	—
	760	775	1,816	46	46	46
Advance to an associate (note (b))	196	184	108	—	—	—
	956	959	1,924	46	46	46
Market value of listed shares	—	—	3,829	—	—	—

Notes:

(a) Movements of share of net assets attributable to the Nanshan Group for the Relevant Periods:

	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Carrying value as at 1 January	815	956	959
Capital injection to associates	—	80	—
Interests in associates subsequent to deemed disposal of subsidiaries (note 36(b))	—	—	905
Share of profits less losses	210	142	183
Repayment of advance to an associate	(13)	(12)	(76)
Dividends received and receivable	(56)	(207)	(47)
Carrying value as at 31 December	956	959	1,924

(b) The advance to an associate is unsecured, interest free and not repayable within next 12 months from the end of reporting period.

- (c) The Nanshan Group's share of revenue, net interest expenses, depreciation and amortisation, profit for the year, assets and liabilities of associates which are included in the consolidated income statement and consolidated statement of financial position using equity method are as follows:

	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Revenue	851	815	1,047
Net interest expenses	14	12	8
Depreciation and amortisation	10	15	29
Profit for the year	<u>210</u>	<u>142</u>	<u>183</u>
Non-current assets	1,768	1,967	2,480
Current assets	1,053	984	2,052
Current liabilities	(1,453)	(1,829)	(2,418)
Non-current liabilities and minority interest	<u>(412)</u>	<u>(163)</u>	<u>(190)</u>
Net assets attributable to the Nanshan Group	<u>956</u>	<u>959</u>	<u>1,924</u>

- (d) Particulars of the Nanshan Group's principal associates at 31 December 2007, 2008 and 2009 are set out in note 41 to the Financial Information.

23 Interests in jointly controlled entities

	Nanshan Group			China Nanshan		
	2007	2008	2009	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Unlisted investments at cost	—	—	—	39	39	39
Share of net assets of jointly controlled entities (note (a))	<u>133</u>	<u>188</u>	<u>207</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>133</u>	<u>188</u>	<u>207</u>	<u>39</u>	<u>39</u>	<u>39</u>

Notes:

- (a) Movements of share of net assets attributable to the Nanshan Group for the Relevant Periods:

	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Carrying value as at 1 January	105	133	188
Share of profits less losses	32	66	24
Dividends received and receivable	<u>(4)</u>	<u>(11)</u>	<u>(5)</u>
Carrying value as at 31 December	<u>133</u>	<u>188</u>	<u>207</u>

- (b) The Nanshan Group's share of revenue, net interest expenses, depreciation and amortisation, profit for the year, assets and liabilities of jointly controlled entities which are included in the consolidated income statement and consolidated statement of financial position using equity method are as follows:

	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Revenue	421	585	517
Net interest expenses	2	2	1
Depreciation and amortisation	4	5	5
Profit for the year	<u>32</u>	<u>66</u>	<u>24</u>
Non-current assets	44	46	42
Current assets	506	499	687
Current liabilities	(149)	(69)	(287)
Non-current liabilities and minority interest	<u>(268)</u>	<u>(288)</u>	<u>(235)</u>
Net assets attributable to the Nanshan Group	<u>133</u>	<u>188</u>	<u>207</u>

- (c) Particulars of China Nanshan's and the Nanshan Group's jointly controlled entities at 31 December 2007, 2008 and 2009 are set out in note 42 to the Financial Information.

24 Other financial assets

	Nanshan Group		
	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Available-for-sale financial assets (note (a))	25	19	21
Financial assets at fair value through profit or loss (note (b))	<u>—</u>	<u>—</u>	<u>200</u>
	25	19	221
Less: Current portion	<u>—</u>	<u>—</u>	<u>(200)</u>
Non-current portion	<u>25</u>	<u>19</u>	<u>21</u>

Notes:

- (a) Available-for-sale financial assets

	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Listed equity investments in Mainland China	11	5	7
Unlisted equity investments in Mainland China	<u>14</u>	<u>14</u>	<u>14</u>
	<u>25</u>	<u>19</u>	<u>21</u>

APPENDIX 1 ACCOUNTANT'S REPORT ON THE NANSHAN GROUP

The movement in available-for-sale financial assets is summarised as follows:

	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Carrying value as at 1 January	16	25	19
Net change in fair value transferred to equity (note 31(a))	<u>9</u>	<u>(6)</u>	<u>2</u>
Carrying value as at 31 December	<u><u>25</u></u>	<u><u>19</u></u>	<u><u>21</u></u>

All available-for-sale financial assets are denominated in Renminbi.

(b) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss held by China Nanshan and the Nanshan Group represent unlisted investments in Mainland China.

25 Prepayments

	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Advanced payments for acquisition of			
- land use rights	192	60	37
- berths	<u>—</u>	<u>59</u>	<u>59</u>
	<u><u>192</u></u>	<u><u>119</u></u>	<u><u>96</u></u>

26 Inventories

	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Raw materials	127	237	48
Work in progress	103	176	64
Finished goods	74	85	11
Spare parts and consumables	<u>4</u>	<u>2</u>	<u>1</u>
	<u><u>308</u></u>	<u><u>500</u></u>	<u><u>124</u></u>

APPENDIX 1 ACCOUNTANT'S REPORT ON THE NANSHAN GROUP

27 Development properties for sale

	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Land use rights in Mainland China	723	610	765
Interest capitalised	28	68	100
Construction costs	<u>260</u>	<u>203</u>	<u>107</u>
Properties under development for sale	1,011	881	972
Completed properties for sale	<u>33</u>	<u>34</u>	<u>11</u>
	<u><u>1,044</u></u>	<u><u>915</u></u>	<u><u>983</u></u>

The Nanshan Group's interests in development properties for sale located in Mainland China are held on leases of between 10 to 50 years.

28 Debtors, deposits and prepayments

	<u>Nanshan Group</u>			<u>China Nanshan</u>		
	2007	2008	2009	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Trade debtors	741	866	378	—	—	—
Less: provision for impairment of receivables (note (a))	<u>(28)</u>	<u>(49)</u>	<u>(8)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Trade debtors, net (note (b))	713	817	370	—	—	—
Amounts due from associates						
- interest free (note (d))	504	49	49	3	3	—
- interest bearing (note (e))	—	479	363	—	—	—
Amounts due from a jointly controlled entity (note (d))	<u>3</u>	<u>3</u>	<u>—</u>	<u>11</u>	<u>11</u>	<u>11</u>
	1,220	1,348	782	14	14	11
Other debtors, deposits and prepayments	<u>335</u>	<u>426</u>	<u>391</u>	<u>—</u>	<u>3</u>	<u>—</u>
	<u><u>1,555</u></u>	<u><u>1,774</u></u>	<u><u>1,173</u></u>	<u><u>14</u></u>	<u><u>17</u></u>	<u><u>11</u></u>

Notes:

- (a) Movements in the provision for impairment of trade debtors are as follows:

	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
At 1 January	27	28	49
Provision for impairment of receivables	2	25	27
Receivables written off for the year	(1)	(4)	(8)
Disposal of subsidiaries	—	—	(60)
At 31 December	<u>28</u>	<u>49</u>	<u>8</u>

The creation and release of provision for impairment of receivables have been included in administrative expenses in the consolidated income statement. The other classes within debtors, deposits and prepayments do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of debtors, deposits and prepayments. The Nanshan Group does not hold any collateral as security.

The individually impaired receivable mainly related to customers which were in unexpected difficult financial situations.

- (b) Bill receivables of RMB6 million, RMB17 million and RMB10 million are included in trade debtors as at 31 December 2007, 2008 and 2009 respectively.

- (c) The Nanshan Group normally requests payments in advance or deposits from customers, with the remaining balances settled immediately upon provision of services or delivery of goods. The ageing analysis of trade debtors is as follows:

	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Less than 1 year	633	703	363
1 - 2 years	57	86	1
Over 2 years	<u>23</u>	<u>28</u>	<u>6</u>
	<u>713</u>	<u>817</u>	<u>370</u>

The trade debtors included in the above ageing are related to a number of independent customers for whom there is no recent history of default.

- (d) The amounts are unsecured, interest free and repayable on demand.
- (e) As at 31 December 2008 and 2009, the amount is unsecured, interest bearing at 7.30% and 5.47% per annum respectively and repayable on demand.

- (f) Trade debtors and amounts due from associates and a jointly controlled entity are denominated in the following currencies:

	Nanshan Group			China Nanshan		
	2007	2008	2009	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Renminbi	1,078	1,345	779	14	14	11
Hong Kong dollar	98	1	3	—	—	—
Other currencies	44	2	—	—	—	—
	<u>1,220</u>	<u>1,348</u>	<u>782</u>	<u>14</u>	<u>14</u>	<u>11</u>

- (g) The carrying amounts of all debtors, deposits and prepayments approximate their fair values.
- (h) Other than prepayments, all amounts included in debtors, deposits and prepayments are financial instruments categorised under loans and receivables.

29 Cash and cash equivalents

	Nanshan Group			China Nanshan		
	2007	2008	2009	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Cash at bank and in hand	1,587	1,227	1,313	93	79	34
Short-term bank deposits	110	486	957	110	486	757
	<u>1,697</u>	<u>1,713</u>	<u>2,270</u>	<u>203</u>	<u>565</u>	<u>791</u>

The weighted average effective interest rate on time deposits as at 31 December 2007, 2008 and 2009 was approximately 1.35 % to 3.50, 1.35% to 3.80% and 1.35% to 2.20% per annum respectively. These deposits had an average maturity period of 7 days, 7 days and 7 days to 1 month respectively.

Cash and cash equivalents are denominated in the following currencies:

	Nanshan Group			China Nanshan		
	2007	2008	2009	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Renminbi	1,543	1,563	2,008	200	563	790
Hong Kong dollar	104	122	212	1	1	—
Other currencies	50	28	50	2	1	1
	<u>1,697</u>	<u>1,713</u>	<u>2,270</u>	<u>203</u>	<u>565</u>	<u>791</u>

APPENDIX 1 ACCOUNTANT'S REPORT ON THE NANSHAN GROUP

30 Share capital

	China Nanshan		
	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Authorised, issued and fully paid: 500,000,000 ordinary shares of RMB1 each At 1 January and 31 December	<u>500</u>	<u>500</u>	<u>500</u>

31 Reserves

(a) *Other reserves*

	Nanshan Group				
	Statutory	Other	Translation	Revaluation	Total
	reserve	capital	reserve	reserve	
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
At 1 January 2007	1,265	355	6	—	1,626
Increase in fair value of available-for-sale financial assets (note 24(a))	—	—	—	9	9
Transfer from retained earnings	<u>276</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>276</u>
At 31 December 2007 and 1 January 2008	1,541	355	6	9	1,911
Decrease in fair value of available-for-sale financial assets (note 24(a))	<u>—</u>	<u>—</u>	<u>—</u>	<u>(6)</u>	<u>(6)</u>
At 31 December 2008 and 1 January 2009	1,541	355	6	3	1,905
Increase in fair value of available-for-sale financial assets (note 24(a))	—	—	—	2	2
Transfer from retained earnings	<u>40</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>40</u>
At 31 December 2009	<u>1,581</u>	<u>355</u>	<u>6</u>	<u>5</u>	<u>1,947</u>

Note:

- (i) The statutory reserves are reserves required under PRC laws and regulations. In accordance with the relevant PRC laws and regulations, 10% of net profit for the year should be appropriated to the statutory reserve up to 50% of the share capital of China Nanshan, its subsidiaries, associates and jointly controlled entities established in the PRC.

(b) *Reserves*

	China Nanshan			
	Statutory reserve	Other capital reserve	Retained earnings	Total
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
At 1 January 2007	371	21	151	543
Profit for the year	—	—	311	311
Dividend paid	—	—	(338)	(338)
At 31 December 2007 and 1 January 2008	371	21	124	516
Profit for the year	—	—	372	372
Dividend paid	—	—	(276)	(276)
At 31 December 2008 and 1 January 2009	371	21	220	612
Profit for the year	—	—	317	317
Transfer from retained earnings	40	—	(40)	—
Dividend paid	—	—	(357)	(357)
At 31 December 2009	<u>411</u>	<u>21</u>	<u>140</u>	<u>572</u>

32 Other financial liabilities

	Nanshan Group			China Nanshan		
	2007	2008	2009	2007	2008	2009
	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million
Short-term bank loans						
- unsecured	2,607	1,818	951	500	—	—
- secured (note a)	—	—	20	—	—	—
Unsecured long-term bank loans, wholly repayable within five years	—	405	2,599	—	—	850
Unsecured long-term bank loans, not wholly repayable within five years	—	—	1,200	—	—	1,200
	2,607	2,223	4,770	500	—	2,050
Unlisted notes payable						
- RMB 950 million, 3.75% guaranteed unlisted notes maturing in 2008	950	—	—	950	—	—
- RMB 2,100 million, 5.01% guaranteed unlisted notes maturing in 2009	—	2,100	—	—	2,100	—
Total	3,557	4,323	4,770	1,450	2,100	2,050
Less: amounts due within one year included under current liabilities	(3,557)	(3,918)	(1,138)	(1,450)	(2,100)	—
Non-current portion	—	405	3,632	—	—	2,050

Notes:

- (a) As at 31 December 2009, a bank loan of RMB20 million was secured by property, plant and equipment with a net book value RMB15 million. There were no secured bank loans as at 31 December 2007 and 2008.
- (b) As at 31 December 2007 and 2008, bank borrowings drawn by certain subsidiaries of China Nanshan of RMB761 million and RMB466 million respectively were secured by corporate guarantees provided by China Nanshan. There were no significant corporate guarantees provided by China Nanshan as at 31 December 2009.
- (c) As at 31 December 2007, 2008 and 2009, the Nanshan Group had undrawn bank loan facilities amounting to RMB3,674 million, RMB6,546 million and RMB12,410 million, which are all uncommitted credit facilities.

(d) The other financial liabilities are repayable as follows:

	Nanshan Group								
	Bank borrowings			Unlisted notes payable			Total		
	2007	2008	2009	2007	2008	2009	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Within 1 year	2,607	1,818	1,138	950	2,100	—	3,557	3,918	1,138
Between 1 and 2 years	—	203	422	—	—	—	—	203	422
Between 2 and 5 years	—	202	2,010	—	—	—	—	202	2,010
Wholly repayable within 5 years	2,607	2,223	3,570	950	2,100	—	3,557	4,323	3,570
Not wholly repayable within 5 years	—	—	1,200	—	—	—	—	—	1,200
	<u>2,607</u>	<u>2,223</u>	<u>4,770</u>	<u>950</u>	<u>2,100</u>	<u>—</u>	<u>3,557</u>	<u>4,323</u>	<u>4,770</u>

	China Nanshan								
	Bank borrowings			Unlisted notes payable			Total		
	2007	2008	2009	2007	2008	2009	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Within 1 year	500	—	—	950	2,100	—	1,450	2,100	—
Between 1 and 2 years	—	—	—	—	—	—	—	—	—
Between 2 and 5 years	—	—	850	—	—	—	—	—	850
Wholly repayable within 5 years	500	—	850	950	2,100	—	1,450	2,100	850
Not wholly repayable within 5 years	—	—	1,200	—	—	—	—	—	1,200
	<u>500</u>	<u>—</u>	<u>2,050</u>	<u>950</u>	<u>2,100</u>	<u>—</u>	<u>1,450</u>	<u>2,100</u>	<u>2,050</u>

(e) The carrying amounts of other financial liabilities are denominated in the following currencies:

	Nanshan Group			China Nanshan		
	2007	2008	2009	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Renminbi	2,021	3,088	3,386	1,450	2,100	2,050
Hong Kong dollar	1,502	1,235	1,384	—	—	—
Other currencies	34	—	—	—	—	—
	<u>3,557</u>	<u>4,323</u>	<u>4,770</u>	<u>1,450</u>	<u>2,100</u>	<u>2,050</u>

(f) The effective interest rates of bank borrowings at the end of the Relevant Periods were as follows:

	Nanshan Group			China Nanshan		
	2007	2008	2009	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Renminbi	6.47%	6.54%	5.12%	6.62%	—	5.28%
Hong Kong dollar	3.89%	4.51%	1.76%	—	—	—
Other currencies	1.41%	—	—	—	—	—

(g) As at 31 December 2009, the fair value of China Nanshan's long-term bank loans was RMB1,925 million. As at 31 December 2008 and 2009, the fair values of the Nanshan Group's long-term bank loans were RMB404 million and RMB3,667 million respectively. The fair value of long-term bank loans was determined by discounting the future cash flows at the current market interest rate available to China Nanshan and the Nanshan Group. Other than long-term bank loans, the carrying amounts of the other financial liabilities approximate their fair values as at the end of each reporting period.

33 Other non-current liabilities

	Nanshan Group			China Nanshan		
	2007	2008	2009	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Rental income receipt in advance from subsidiaries	—	—	—	1,302	1,396	1,355
Rental income receipt in advance from third parties	112	98	93	—	—	—
Others	38	38	54	38	38	38
	<u>150</u>	<u>136</u>	<u>147</u>	<u>1,340</u>	<u>1,434</u>	<u>1,393</u>

34 Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using taxation rates enacted or substantively enacted by the end of the reporting period in the respective jurisdictions. The net movement in the deferred tax assets and liabilities is as follows:

	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
At 1 January	11	(99)	(104)
Charged to consolidated income statement (note 12)	(110)	(5)	(54)
At 31 December	<u>(99)</u>	<u>(104)</u>	<u>(158)</u>

The movement in deferred tax assets and liabilities during the year is as follows:

Deferred tax liabilities

	Fair value of investment properties			Others			Total		
	2007	2008	2009	2007	2008	2009	2007	2008	2009
	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million
At 1 January	—	123	154	5	9	1	5	132	155
Charged/(credited) to consolidated income statement	123	31	54	4	(8)	—	127	23	54
At 31 December	123	154	208	9	1	1	132	155	209

Deferred tax assets

	Provision for doubtful debts and inventories			Others			Total		
	2007	2008	2009	2007	2008	2009	2007	2008	2009
	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million	RMB'million
At 1 January	13	26	27	3	7	24	16	33	51
Credited to consolidated income statement	13	1	—	4	17	—	17	18	—
At 31 December	26	27	27	7	24	24	33	51	51

APPENDIX 1 ACCOUNTANT'S REPORT ON THE NANSHAN GROUP

35 Creditors and accruals

	Nanshan Group			China Nanshan		
	2007	2008	2009	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Trade creditors (note (a))	353	475	387	—	—	—
Amount due to a shareholder (note (b))	40	32	42	40	32	42
	393	507	429	40	32	42
Other payables and accruals	1,565	1,172	951	241	202	187
	<u>1,958</u>	<u>1,679</u>	<u>1,380</u>	<u>281</u>	<u>234</u>	<u>229</u>

Notes:

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

	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Less than 1 year	326	465	382
1 - 2 years	21	6	5
Over 2 years	6	4	—
	<u>353</u>	<u>475</u>	<u>387</u>

(b) The amount is unsecured, interest free and repayable on demand.

(c) The carrying amounts of the trade creditors and amounts due to a shareholder are denominated in the following currencies:

	Nanshan Group			China Nanshan		
	2007	2008	2009	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Renminbi	393	505	426	40	32	42
Other currencies	—	2	3	—	—	—
	<u>393</u>	<u>507</u>	<u>429</u>	<u>40</u>	<u>32</u>	<u>42</u>

(d) Other than accruals, all amounts included in creditors and accruals are financial instruments categorised as financial liabilities at amortised cost.

APPENDIX 1 **ACCOUNTANT'S REPORT ON THE NANSHAN GROUP**

36 Consolidated statement of cash flows

(a) Reconciliation of operating profit to net cash inflow from operations:

	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Operating profit			
— continuing operations	1,876	1,422	1,020
— discontinued operation	<u>201</u>	<u>250</u>	<u>204</u>
	2,077	1,672	1,224
Adjustments for:			
Depreciation and amortisation	431	392	420
Loss/(gain) on disposal of property, plant and equipment and land use rights	7	(2)	(5)
Impairment of property, plant and equipment	75	6	—
Gain on disposal of an available-for-sale financial asset	(11)	—	—
Dividend income from available-for-sale financial assets	(7)	—	(7)
Increase in fair value of investment properties	(492)	(126)	(214)
Provision for impairment of receivables	<u>2</u>	<u>25</u>	<u>27</u>
Operating profit before working capital changes	2,082	1,967	1,445
(Increase)/decrease in inventories	(84)	(192)	63
Decrease/(increase) in development properties for sale	274	129	(68)
Increase in debtors, deposits and prepayments	(599)	(245)	(111)
Increase/(decrease) in other non-current liabilities	112	(14)	11
(Decrease)/increase in creditors and accruals	<u>(55)</u>	<u>(282)</u>	<u>790</u>
Net cash inflow from operations	<u><u>1,730</u></u>	<u><u>1,363</u></u>	<u><u>2,130</u></u>

(b) *Disposal of subsidiaries*

	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Net assets disposed			
Goodwill	—	—	1
Property, plant and equipment	—	—	970
Land use rights	—	—	58
Deferred tax assets	—	—	14
Inventories	—	—	313
Debtors, deposits and prepayments	—	—	688
Creditors and accruals	—	—	(1,062)
Other financial liabilities	—	—	(195)
Taxation payable	—	—	(26)
Minority interest	—	—	(316)
	<u>—</u>	<u>—</u>	<u>445</u>
Interests in associates retained subsequent to deemed disposal	—	—	905
Gain on disposal of subsidiaries (note 13)	<u>—</u>	<u>—</u>	<u>460</u>

APPENDIX 1 ACCOUNTANT'S REPORT ON THE NANSHAN GROUP

37 Commitments

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

	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Authorised but not contracted for			
- Property, plant and equipment	614	753	752
- Land use rights	<u>40</u>	<u>174</u>	<u>135</u>
	654	927	887
	-----	-----	-----
Contracted but not provided for			
- Property, plant and equipment	263	162	172
- Land use rights	<u>188</u>	<u>182</u>	<u>182</u>
	451	344	354
	=====	=====	=====
	<u>1,105</u>	<u>1,271</u>	<u>1,241</u>
	=====	=====	=====

(b) *Commitments under operating leases*

At 31 December 2007, 2008 and 2009, the Nanshan Group had future aggregate minimum lease payments under non-cancellable operating leases for land use rights as follows:

	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Within one year	21	35	22
In the second to fifth year inclusive	<u>277</u>	<u>290</u>	<u>268</u>
	298	325	290
	=====	=====	=====

(c) *Future operating lease receivables*

At 31 December 2007, 2008 and 2009, the Nanshan Group had future aggregate lease receivables under non-cancellable operating leases for land and buildings as follows:

	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Within one year	104	175	4
In the second to fifth year inclusive	<u>11</u>	<u>15</u>	<u>—</u>
	115	190	4
	=====	=====	=====

APPENDIX 1 ACCOUNTANT'S REPORT ON THE NANSHAN GROUP

38 Related party transactions

During the Relevant Periods, China Nanshan was owned by China Merchants Holdings (International) Company Limited, Shenzhen Investment Holdings Company Limited and Guangdong Guangye Investment Holdings Limited as to approximately 37.02%, 26.1% and 23.49% respectively.

Related parties refer to entities which have 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 China Nanshan and its subsidiaries. A summary of significant related party transactions entered into in the normal course of business between the Nanshan Group and its related parties during the Relevant Periods and balances arising from related transactions at 31 December 2007, 2008 and 2009 are as follows:

(a) Transactions with associates:

	<i>Note</i>	2007	2008	2009
		<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Rental income from associates	(i)	5	10	11
Service income from associates	(ii)	21	17	13
Interest income from an associate	(iii)	—	19	16
Net book value of land use rights disposed of to an associate	(iv)	<u>—</u>	<u>46</u>	<u>—</u>

Notes:

- (i) The Nanshan Group leased properties to the associates. Rental income were charged at a fixed amount per month in accordance with respective tenancy agreements.
- (ii) The service fees were charged by reference to market rates.
- (iii) Interest income was charged at interest rate as specified in note 28(e) to the Financial Information on the outstanding amount due from an associate.
- (iv) The transfer of land use right to an associate at a consideration of RMB50 million was in accordance with the transfer agreement entered among the parties.

(b) **Key management compensation**

	2007	2008	2009
	<i>RMB'million</i>	<i>RMB'million</i>	<i>RMB'million</i>
Salaries and other short-term employee benefits	<u>7</u>	<u>6</u>	<u>6</u>

39 Subsequent events

- (a) On 29 January 2010, the Nanshan Group signed an agreement with a subsidiary of China Merchants Group Limited to dispose of its entire 20% equity interest in an associate at a consideration of RMB94 million.
- (b) Pursuant to a capital injection agreement and joint venture agreement dated 11 May 2010, the Nanshan Group agreed to acquire a 40% equity interest in 中海港務(萊州)有限公司 by way of the capital injection of RMB745 million.
- (c) On 26 March 2010, the directors proposed distribution of dividend for the year ended 31 December 2009 amounting to RMB258 million.
- (d) At the Annual General Meetings held on 13 May 2010 and 11 June 2010, the shareholders of certain subsidiaries of China Nanshan approved the distribution of dividend for the year ended 31 December 2009 amounting to RMB269 million in aggregate, of which RMB137 million was attributable to their respective minority shareholders.

40 Particulars of principal subsidiaries

The table below lists only those subsidiaries of China Nanshan which, in the opinion of the Directors, principally affect the results for the Relevant Periods or form a substantial portion of the net assets of the Nanshan Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

Particulars of the China Nanshan's principal subsidiaries are as follows:

Name of subsidiary	Place and date of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of issued capital/ registered capital held by China Nanshan			Principal activities
			2007	2008	2009	
Shenzhen Chiwan Wharf Holdings Limited (A, B Shares listed in the Mainland China) ^{1,5}	PRC, 19 July 1990	RMB644,763,730	57.51%	57.51%	57.51%	Port operations
Shenzhen Chiwan Petroleum Supply Base Co., Ltd (B Shares listed in the Mainland China) ^{1,6}	PRC, 24 July 1995	RMB230,600,000	51.79%	51.79%	51.79%	Port transportation and petroleum services
深圳市南山房地產開發有限公司 (formerly named “深圳市南山開發實業有限公司”) ^{1,7}	PRC, 29 May 2003	RMB300,000,000	100%	100%	100%	Investment holdings, property, development and investments

APPENDIX 1
ACCOUNTANT'S REPORT ON THE NANSHAN GROUP

Name of subsidiary	Place and date of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of issued capital/ registered capital held by China			Principal activities
			Nanshan 2007	2008	2009	
蘇州南山置業有限公司 ^{2,7}	PRC, 24 December 2004	RMB50,000,000	—	100%	100%	Property development
長沙南山房地產開發有限公司 ^{2,7}	PRC, 1 December 2004	RMB50,000,000	100%	100%	100%	Property development
上海南山房地產開發有限公司 ^{2,7}	PRC, 12 January 1995	RMB20,000,000	100%	100%	100%	Property development
蘇州南山房地產開發有限公司 ^{2,7}	PRC, 28 December 2004	RMB50,000,000	100%	100%	100%	Property development
惠州市南山物業管理有限公司 ^{2,7}	PRC, 18 October 2005	RMB1,000,000	100%	100%	100%	Property management
長沙南山物業管理有限公司 ^{2,7}	PRC, 21 November 2006	RMB1,000,000	—	100%	100%	Property management
增城市新康物業管理有限公司 ^{2,7}	PRC, 3 September 1998	RMB1,000,000	—	100%	100%	Property management
赤曉企業有限公司 ^{1,7}	PRC, 28 April 2006	RMB200,000,000	100%	100%	100%	Investment holdings
Yahgee Modular House Company Limited (A Shares listed in the Mainland China) ^{2,8,10}	PRC, 1 March 2005	2008: RMB216,359,000 2007: RMB166,430,000	60%	65.37%	—	Development, manufacture and sales of prefabricated houses
深圳赤曉建築科技有限公司 ^{2,3,7}	PRC, 21 May 1984	RMB27,000,000	100%	100%	100%	Sales of goods
上海松尾鋼結構有限公司 ^{2,3,7}	PRC, 26 March 1996	US\$12,800,000	85%	85%	85%	Design and manufacture of decoration products
深圳市赤灣東方物流有限公司 ^{1,5}	PRC, 15 December 2000	RMB10,000,000	57.51%	57.51%	100%	Provision for logistic services
明江(上海)國際物流有限公司 ^{1,9}	PRC, 8 August 2006	US\$7,000,000	—	—	100%	Provision for logistic services

¹ Directly held by China Nanshan

² Indirectly held by China Nanshan

³ Foreign investment enterprises

⁴ Sino-foreign joint ventures

⁵ The financial statements for each of the years ended 31 December 2007, 2008 and 2009 of the subsidiary were audited by PricewaterhouseCoopers Zhong Tian

⁶ The financial statements for the year ended 31 December 2007 of the subsidiary were audited by PricewaterhouseCoopers Zhong Tian and for each of the years ended 31 December 2008 and 2009 were audited by RSM China Certified Public Accountants

⁷ The financial statements for each of the years ended 31 December 2007, 2008 and 2009 of these subsidiaries were audited by BDO Guangdong Dahua Delu

APPENDIX 1 ACCOUNTANT'S REPORT ON THE NANSHAN GROUP

- ⁸ The financial statements for each of the years ended 31 December 2007 and 2008 of these subsidiaries were audited by 開元信德會計師事務所
- ⁹ The financial statements for the year ended 31 December 2009 of the subsidiary were audited by RSM China Certified Public Accountants
- ¹⁰ Details of changes in equity interests held by the Nanshan Group are set out in note 13 to the Financial Information.

41 Particulars of principal associates

Name of associate	Place and date of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of issued capital/ registered capital held by China Nanshan			Principal activities
			2007	2008	2009	
China Merchants Maritime & Logistics (Shenzhen) Ltd. ^{2,3,5}	PRC, 19 May 2003	RMB400,000,000	40%	40%	40%	Warehousing service
Media Port Investments Limited ^{2,4,6}	British Virgin Islands, 8 August 2002	US\$10	50%	50%	50%	Investment
深圳海勤工程監理有限公司 ^{1,7}	PRC, 12 July 1994	RMB3,000,000	20%	20%	20%	Provision of services on ports construction
Yahgee Modular House Company Limited (A Shares listed in the Mainland China) ^{2,8,9}	PRC, 1 March 2005	RMB290,000,000	—	—	48.77%	Development, manufacture and sales of prefabricated houses

¹ Directly held by China Nanshan

² Indirectly held by China Nanshan

³ Foreign investment enterprises

⁴ Sino-foreign joint ventures

⁵ The financial statements for each of the years ended 31 December 2007, 2008 and 2009 of the associate were audited by PricewaterhouseCoopers Zhong Tian

⁶ The financial statements for each of the years ended 31 December 2007, 2008 and 2009 of the associate were audited by PricewaterhouseCoopers

⁷ The financial statements for each of the years ended 31 December 2007, 2008 and 2009 of the associate were audited by 廣東大華德律會計師事務所

⁸ The financial statements for the year ended 31 December 2009 of the associate were audited by 天健會計師事務所

⁹ Details of change in equity interests held by the Nanshan Group are set out in note 13 to the Financial Information

42 Particulars of principal jointly controlled entities

Name of jointly controlled entity	Place and date of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of issued capital/ registered capital held by			Principal activities
			China Nanshan			
			2007	2008	2009	
Shenzhen Cyber-Harbour Network Co., Limited ^{1,2,3}	PRC, 26 November 2001	RMB5,000,000	37.5%	37.5%	37.5%	Provision of computer network services
惠陽新城市房地產開發有限公司 ^{1,4}	PRC, 26 August 2003	RMB60,000,000	50%	50%	50%	Property development

¹ Indirectly held by China Nanshan

² Sino-foreign joint ventures

³ The financial statements for each of the years ended 31 December 2007, 2008 and 2009 of the jointly controlled entity were audited by 深圳正風利富會計師事務所

⁴ The financial statements for each of the years ended 31 December 2007, 2008 and 2009 of the jointly controlled entity were audited by BDO Guangdong Dahua Delu

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by China Nanshan or any of its subsidiaries in respect of any period subsequent to 31 December 2009. Save as disclosed in “Subsequent events” in note 39 of Section II of this report, no dividend has been declared, made or paid by China Nanshan or any of its subsidiaries of any period subsequent to 31 December 2009.

Yours faithfully
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

APPENDIX 2 MANAGEMENT DISCUSSION AND ANALYSIS OF THE NANSHAN GROUP

China Nanshan is a joint stock company established in 1982 with the approval of the State Council. The business scope of China Nanshan includes the development of land, ports transport and development of other related industrial, commercial, property and tourism businesses. The principal activity of China Nanshan is investment holding and the principal activities of the Nanshan Group are port operations, port-related operations and property development which are conducted through the subsidiaries of China Nanshan. The three principal subsidiaries of China Nanshan are Chiwan Wharf, Chiwan Petroleum and Nanshan Property Development.

On 3 December 2009, Yahgee Modular House Co., Ltd. (“**Yahgee**”) completed the offering and listing of its A shares on the Shenzhen Stock Exchange and as a result, the Nanshan Group’s interest in Yahgee was diluted from approximately 65.37% to 48.77% and Yahgee ceased to be a subsidiary of China Nanshan and became an associated company of the Nanshan Group. A gain on dilution of RMB460 million was resulted and has been recognised in the consolidated income statement of the Nanshan Group during the year ended 31 December 2009. In accordance with HKFRS 5 “Non-current assets held for sale and discontinued operations” issued by the HKICPA, the results and cash flows of Yahgee were presented as discontinued operation in the financial information of China Nanshan prepared in accordance with Hong Kong Financial Reporting Standards set out in Appendix 1 to this circular. The aggregate results and cash flows, as extracted from the published financial statements of Yahgee are set out in Note 13 to the financial information of China Nanshan for the years ended 31 December 2007, 2008 and 2009 prepared in accordance with Hong Kong Financial Reporting Standards set out in Appendix 1 to this circular.

Upon the Entrustment Agreement becoming effective, the financial results of China Nanshan will be consolidated into the consolidated financial statements of the Company as a subsidiary of the Company.

Operating Results

The financial information of the Nanshan Group for the three years ended 31 December 2007, 2008 and 2009 prepared in accordance with Hong Kong Financial Reporting Standards are set out in Appendix 1.

APPENDIX 2 MANAGEMENT DISCUSSION AND ANALYSIS OF THE NANSHAN GROUP

The following table sets forth, for the periods indicated, the Nanshan Group's condensed operating results. Unless otherwise specified, the following analysis is made on the basis of the continuing operations.

	For the year ended 31 December		
	2007	2008	2009
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Continuing operations			
Revenue	3,587	3,523	2,600
Cost of sales	(1,883)	(1,991)	(1,445)
Gross profit	1,704	1,532	1,155
Other gains, net	511	228	222
Administrative expenses	(319)	(319)	(346)
Operating profit	1,876	1,422	1,020
Profit before taxation	2,083	1,572	1,187
Taxation	(237)	(185)	(180)
Profit for the year from continuing operations	1,846	1,387	1,007
Discontinued operation			
Profit for the year from discontinued operation	175	181	607
Profit for the year	2,021	1,568	1,614
Attributable to: Shareholders of China			
Nanshan	1,107	807	1,042

Revenue

The Nanshan Group's revenue consists of revenues from ports operations, property development operations and manufacturing operations. The Nanshan Group's revenue decreased by 26.2% to RMB2,600 million in 2009 compared to RMB3,523 million in 2008. Its revenue in 2008 decreased by 1.8% compared to RMB3,587 million in 2007.

Ports operations

Ports operations include container terminal operations, bulk and general cargo terminal operations, logistics park operations and ports transportation.

Revenue of the Nanshan Group from ports operations decreased by 16.0% to RMB1,770 million in 2009 compared to RMB2,107 million in 2008, primarily due to a decrease in the throughput of containers handled as a result of the depressed import and export trade of China in 2009. Its revenue from ports operations in 2008 decreased by 2.4% compared to RMB2,158 million in 2007 primarily due to a slight decrease in the throughput of containers handled.

Property development operations

Property development operations include property development, management and leasing.

Revenue of the Nanshan Group from property development operations decreased by 50.9% to RMB467 million in 2009 compared to RMB952 million in 2008, primarily due to a decrease in the number of properties and the total GFA delivered to purchasers in 2009. Its revenue from property development operations in 2008 decreased by 27.2% compared to RMB1,308 million in 2007 which is also primarily due to a decrease in the number of properties and the total GFA delivered to purchasers in 2008.

Manufacturing operations

Manufacturing operations include manufacturing of steel and related equipment.

Revenue of the Nanshan Group from manufacturing operations decreased by 21.8% to RMB363 million in 2009 compared to RMB464 million in 2008, primarily due to the general decrease in demand for steel and related equipment as a result of the general economic downturn. Its revenue from manufacturing operations in 2008 substantially increased by 283.5% compared to RMB121 million in 2007 primarily due to the substantial increase in the orders placed by one major customer.

Cost of Sales

The Nanshan Group's cost of sales decreased by 27.4% to RMB1,445 million in 2009 compared to RMB1,991 million in 2008, reflecting the overall decrease in the revenue of the Nanshan Group in 2009. Its cost of sales in 2008 increased by 5.7% compared to RMB1,883 million in 2007 primarily due to the substantial increase in the revenue of the manufacturing operations of the Nanshan Group in 2008 which was partially offset by a decrease in the revenue of the other operating segments of the Nanshan Group in the same year.

Other Gains, Net

The Nanshan Group's other gains consist primarily of increase in fair value of investment properties and net foreign exchange gains. For the years ended 31 December 2007, 2008 and 2009, the Nanshan Group's other gains were RMB511 million, RMB228 million and RMB222 million, respectively. Other gains in 2009 decreased slightly by 2.6% compared to 2008 primarily due to the reduction of net foreign exchange gains in 2009 as compared with 2008 which was partially offset by a greater increase in fair value of investment properties held by the Nanshan Group as a result of the improving market sentiment and the general market and economic conditions in 2009. Other gains in 2008 decreased by 55.4% compared to 2007 primarily due to a substantially lower increase in the fair value of investment properties held by the Nanshan Group in 2008 as compared with 2007 which was partially offset by a substantial increase in foreign exchange gains of the Nanshan Group.

Administrative Expenses

For the years ended 31 December 2007, 2008 and 2009, Nanshan Group's administrative expenses were RMB319 million, RMB319 million and RMB346 million, respectively. Administrative expenses in 2009 increased by 8.5% compared to 2008, primarily due to an increase in staff costs. Administrative expenses in 2008 is the same as that in 2007 as there were substantially no change in the size of the operations of the Nanshan Group in these two years.

Profit Before Taxation from Continuing Operations

As a result of the foregoing, Nanshan Group's profit before taxation from continuing operations for the year ended 31 December 2009 decreased by 24.5% to RMB1,187 million compared to RMB1,572 million for the year ended 31 December 2008, which in turn decreased by 24.5% compared to RMB2,083 million for the year ended 31 December 2007.

Taxation

For the years ended 31 December 2007, 2008 and 2009, the Nanshan Group's taxation charges were RMB237 million, RMB185 million and RMB180 million, respectively. The general decrease in the taxation charges of the Nanshan Group in 2008 and 2009 is due to the decrease in the profit of the Nanshan Group in these two years but partially offset by an increase in the weighted average applicable tax rates of the Nanshan Group in 2008 and 2009 resulting from the increase in PRC corporate income tax rates in these two years.

Profit for the Year from Continuing Operations

As a result of the foregoing, Nanshan Group's profit from continuing operations for the year ended 31 December 2009 decreased by 27.4% to RMB1,007 million compared to RMB1,387 million for the year ended 31 December 2008, which in turn decreased by 24.9% compared to RMB1,846 million for the year ended 31 December 2007.

Profit for the Year from Discontinued Operation

The profit from discontinued operation of the Nanshan Group for the years ended 31 December 2007, 2008 and 2009 were RMB175 million, RMB181 million and RMB607 million, respectively, which represents the profits from the operations of Yahgee. The increase in the profit from discontinuing operation in 2009 and 2008 was primary due to an increase in the sales (particular in 2009) of modular houses by Yahgee.

Profit for the Year

As a result of all the foregoing factors, Nanshan Group's profit for the year (including continuing and discontinued operations) ended 31 December 2009 was RMB1,614 million, representing an increase of increase of 2.9% compared to RMB1,568 million in 2008, and its profit for the year (including continuing and discontinued operations) ended 31 December 2008 decreased by 22.4% compared to RMB2,021 million in 2007.

Capital Resources and Liquidity*Cash and cash equivalents*

The Nanshan Group finances its working capital requirements through a combination of funds generated from operations and bank borrowings. As at 31 December 2007, 2008 and 2009, the Nanshan Group had cash and cash equivalents amounted to RMB1,697 million, RMB1,713 million and RMB2,270 million, respectively. A substantial portion of the cash and cash equivalents held by the Nanshan Group were denominated in Renminbi with the rest being denominated in Hong Kong dollars and other currencies.

Borrowings

The Nanshan Group had total borrowings of RMB3,557 million, RMB4,323 million and RMB4,770 million as at 31 December 2007, 2008 and 2009, respectively. With the exception of the RMB950 million 3.75% guaranteed unlisted notes which matured in 2008 and the RMB2,100 million 5.01% guaranteed unlisted notes which matured in 2009, all the other borrowings of the Nanshan Group in the three years ended 31 December 2007, 2008 and 2009 were at floating rates. For details of the maturity profile and the currencies in which the Nanshan Group's borrowings are denominated and further details of the effective interest rates of these borrowings, please refer to Note 32 to the financial statements of China Nanshan for the years ended 31 December 2007, 2008 and 2009 prepared in accordance with Hong Kong Financial Reporting Standards set out in Appendix 1 to this circular. The Nanshan Group has unutilised bank loan facilities of RMB3,674 million, RMB6,546 million and RMB12,410 million as at 31 December 2007, 2008 and 2009, respectively, all of which are uncommitted credit facilities. As at 31 December 2009, the Nanshan Group has bank loans of RMB20 million secured by property, plant and equipment. There were no secured bank loans as at 31 December 2007 and 2008.

Gearing ratio

The Nanshan Group's net gearing ratio is calculated as net interest-bearing debts divided by net assets attributable to the shareholders of China Nanshan, whereby net interest-bearing debts is calculated as total interest-bearing debts less cash and cash equivalents. As at 31 December 2007, 2008 and 2009, the net gearing ratio of the Nanshan Group were 59.7%, 71.7% and 57.8%, respectively.

Foreign exchange risk

The Nanshan Group's business activities are primarily denominated in Renminbi or Hong Kong dollar. The Nanshan Group is exposed to foreign exchange risk primarily through sales and purchases, capital expenditure and expenses transactions by its subsidiaries (primarily Chiwan Wharf) that are denominated in a currency other than the functional currency of such subsidiaries. The Nanshan Group currently does not conduct any hedging over its foreign exchange exposure arising from sales and purchase, capital expenditure and expenses transactions.

Contingent Liabilities

The Nanshan Group did not have any material contingent liabilities outstanding as at 31 December 2007, 2008 and 2009.

Employee and Remuneration Policies

As at 31 December 2009, the Nanshan Group had approximately 5,100 employees, the majority of whom were based in the PRC. Staff costs for the years ended 31 December 2007, 2008 and 2009 were RMB347 million, RMB379 million and RMB401 million, respectively, which comprise of wages and salaries and contributions to retirement benefit schemes. The remuneration policy of the Nanshan Group is reviewed every year and appropriate adjustments are made to employee remuneration with reference to their performance, the conditions of the human resources market and the general economy.

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

Save for the dilution of the Nanshan Group's interest in Yahgee as described above, there were no other major acquisition or disposal by the Nanshan Group during the years ended 31 December 2007, 2008 and 2009.

APPENDIX 3 FINANCIAL AND OTHER INFORMATION OF THE ENLARGED GROUP

A. UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The following is an illustrative and unaudited pro forma statement of assets and liabilities of the Enlarged Group which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the consolidation of the Nanshan Group by the Group as if the Entrustment Agreement had been effected on 31 December 2009.

The unaudited pro forma statement of assets and liabilities of the Enlarged Group has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Entrustment Agreement been effected as at 31 December 2009 or at any future date.

	Pro forma adjustments (Note 2)			Notes	Unaudited pro forma consolidated assets and liabilities of the Enlarged Group HK\$'million
	Audited consolidated assets and liabilities of the Group as at 31 December 2009 HK\$'million (Note 1)	Audited consolidated assets and liabilities of the Nanshan Group as at 31 December 2009 HK\$'million (Note 3(a))	Other adjustments HK\$'million		
Non-current assets					
Goodwill	2,513	25	881	3(c)	3,419
Property, plant and equipment	10,844	4,501	—		15,345
Investment properties	919	2,082	—		3,001
Leasehold land and land use rights	7,039	790	1,978	3(c)	9,807
Interests in associates	18,787	2,185	(2,116)	3(b)	20,439
			2,106	3(c)	
			(523)	3(d)	
Interests in jointly controlled entities	2,742	235	13	3(c)	2,990
Other financial assets	2,837	24	(664)	3(b)	2,197
Prepayments	68	109	—		177
Deferred tax assets	34	58	—		92
	<u>45,783</u>	<u>10,009</u>	<u>1,675</u>		<u>57,467</u>
Current assets					
Inventories	40	141	—		181
Development properties for sale	—	1,116	185	3(c)	1,301
Debtors, deposits and prepayments	886	1,332	(11)	3(f)	2,207
Other financial assets	—	227	—		227
Cash and cash equivalents	3,206	2,578	—		5,784
	<u>4,132</u>	<u>5,394</u>	<u>174</u>		<u>9,700</u>
Non-current assets held for sale	<u>2,553</u>	<u>—</u>	<u>—</u>		<u>2,553</u>
	<u>6,685</u>	<u>5,394</u>	<u>174</u>		<u>12,253</u>
Total assets	<u>52,468</u>	<u>15,403</u>	<u>1,849</u>		<u>69,720</u>

APPENDIX 3 FINANCIAL AND OTHER INFORMATION OF THE ENLARGED GROUP

	Pro forma adjustments (Note 2)				Unaudited pro forma consolidated assets and liabilities of the Enlarged Group HK\$'million
	Audited consolidated assets and liabilities of the Group as at 31 December 2009 HK\$'million (Note 1)	Audited consolidated assets and liabilities of the Nanshan Group as at 31 December 2009 HK\$'million (Note 3(a))	Other adjustments HK\$'million	Notes	
LIABILITIES					
Non-current liabilities					
Other financial liabilities	9,298	4,125	—		13,423
Other non-current liabilities	—	167	—		167
Deferred tax liabilities	736	237	1,067	3(c)	2,040
	<u>10,034</u>	<u>4,529</u>	<u>1,067</u>		<u>15,630</u>
Current liabilities					
Creditors and accruals	1,593	1,567	10	3(e) (11)	3,159
Loans from the ultimate holding company	2,566	—	—		2,566
Loans from an intermediate holding company	738	—	—		738
Other financial liabilities	1,857	1,292	—		3,149
Taxation payable	61	106	—		167
	<u>6,815</u>	<u>2,965</u>	<u>(1)</u>		<u>9,779</u>
Total liabilities	<u>16,849</u>	<u>7,494</u>	<u>1,066</u>		<u>25,409</u>
Total assets less total liabilities	<u>35,619</u>	<u>7,909</u>	<u>783</u>		<u>44,311</u>

APPENDIX 3 FINANCIAL AND OTHER INFORMATION OF THE ENLARGED GROUP

Notes to the unaudited pro forma statement of assets and liabilities of the Enlarged Group:

1. The amounts are extracted from the consolidated statement of financial position of the Group as at 31 December 2009 set out in the audited consolidated financial statements of the Company.
2. Before the Entrustment Agreement becoming effective, the Group's interests in China Nanshan and certain of its subsidiaries include:
 - 37.014% equity interest in China Nanshan;
 - 20% equity interest in Chiwan Container Terminal Company Limited ("CCT"), a subsidiary of China Nanshan; and
 - 7.983% equity interest in Shenzhen Chiwan Wharf Holdings Limited ("Chiwan Wharf"), a subsidiary of China Nanshan.

The above interests held by the Group are collectively referred to as the "Existing Interests in the Nanshan Group".

Both CCT and Chiwan Wharf are subsidiaries of the Nanshan Group. Their financial information has been consolidated into the consolidated financial statements of the Nanshan Group for the year ended 31 December 2009.

The Nanshan Group also holds 50% equity interest in Media Port Investments Limited ("Media Port") and 20% equity interest in China Merchants Maritime & Logistics (Shenzhen) Limited ("CMML") and the Group holds a 50% and 60% equity interests, respectively, in each of these companies, which are non-wholly owned subsidiaries of the Group.

Upon the Entrustment Agreement becoming effective, the Group is granted the management rights and the power to direct the voting right over the Entrusted Nanshan Shares. As a result, under Hong Kong Accounting Standard 27 "Consolidated and separate financial statements", the Group will have the power to govern the financial and operating policies of the Nanshan Group upon the effective of the Entrustment Agreement notwithstanding the right to receive income and dividend over the Entrusted Nanshan Shares will be retained by Guangye Investment. The Nanshan Group (including CCT and Chiwan Wharf) will be consolidated into the consolidated financial statements of the Company. Besides, the Group's effective equity interests in Media Port and CMML will increase accordingly.

APPENDIX 3 FINANCIAL AND OTHER INFORMATION OF THE ENLARGED GROUP

For the purpose of the unaudited pro forma statement of assets and liabilities of the Enlarged Group, the above transaction is accounted for in accordance with Hong Kong Financial Reporting Standard 3 “Business combinations” (Revised) (“HKFRS 3R”) issued by the Hong Kong Institute of Certified Public Accountants, which is effective and applicable to the Group starting from the accounting period commencing on 1 January 2010.

HKFRS 3R continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the minority interests in the acquiree either at fair value or at the minority interests’ proportionate share of the acquirees’ identifiable net assets. When a business combinations achieved in stages, the acquiree should remeasure its previously held interest in the acquiree at its fair value at the date when control is obtained, recognising a gain/loss in the consolidated income statement. All acquisition-related costs should be expensed.

3. The details of the unaudited pro forma adjustments are as follows:
- (a) This reflects the consolidation of assets and liabilities of the Nanshan Group. The amounts are extracted from the financial information of the Nanshan Group as at 31 December 2009 as set out in the accountant’s report on the Nanshan Group in the Appendix 1 to this circular. For the purpose of this unaudited pro forma assets and liabilities of the Enlarged Group, the balances denominated in RMB have been translated into HK\$ at RMB1 = HK\$1.1357, the exchange rate prevailing as at 31 December 2009.
 - (b) This reflects the remeasurement of the Existing Interests in the Nanshan Group from its carrying value amounted to approximately HK\$2,780 million to the fair value of the Existing Interests in the Nanshan Group which amounted to approximately HK\$4,498 million, as if the Entrustment Agreement had become effective on 31 December 2009 and a gain of approximately HK\$1,974 million (including realisation of certain reserves amounting to approximately HK\$256 million) would be recognised in the consolidated financial statements in accordance with HKFRS 3R. Such fair value of the Existing Interests in the Nanshan Group has been determined by the Directors using a comparable market valuation approach. When applying the comparable market valuation approach, the listed operating units of Existing Interests in the Nanshan Group were appraised by reference to their market value trading on their respective stock exchange as of 30 April 2010 while the non-listed business enterprises were appraised by using the Guideline Publicly Traded Company (the “GPTC”) method.

In GPTC method, the fair market value is based on prices at which stocks of similar companies are trading in a public market. These companies that are comparable to the subject company in terms of business nature and associated risks (the “Comparable Companies”) are selected based on the following relevant criteria: (1) products, (2) markets, (3) earnings and growth, (4) capital structure, (5) nature of competition and (6) the characteristics of driving underlying investment risk and expected rate of return.

APPENDIX 3 FINANCIAL AND OTHER INFORMATION OF THE ENLARGED GROUP

- (c) The identifiable assets and liabilities of the Nanshan Group will be accounted for in the consolidated financial statements of the Enlarged Group at fair value under the purchase method of accounting upon the Entrustment Agreement becoming effective. For illustration purpose, the identifiable assets and liabilities of the Nanshan Group are recorded in the unaudited pro forma statement of assets and liabilities of the Enlarged Group at their fair values as if the Entrustment Agreement had been effective on 31 December 2009. The following assets of the Nanshan Group increase by approximately HK\$3,215 million, net of tax of approximately HK\$1,067 million, in aggregate as a result of the fair value adjustments on the carrying amounts of the relevant assets as determined by the Directors:

	<i>HK\$'million</i>
Leasehold land and land use rights	1,978
Interests in associates	2,106
Interests in jointly controlled entities	13
Development properties for sales	<u>185</u>
Total increase in fair value	<u><u>4,282</u></u>

For the purpose of the unaudited pro forma statement of assets and liabilities of the Enlarged Group, the Group has chosen to account for minority interests in the Nanshan Group at their proportionate share of the Nanshan Group's identifiable net assets.

The estimated goodwill arising is computed as follows:

	<i>HK\$'million</i>	<i>HK\$'million</i>
Fair value of the Existing Interests in the Nanshan Group		4,498
Less:		
Consolidated net assets of attributable to China Nanshan's shareholders as at 31 December 2009	4,916	
Fair value adjustments, net of tax	<u>3,215</u>	
Total fair value of net assets attributable to China Nanshan's shareholders	8,131	
Identifiable net assets attributable to the Group acquired ¹		<u>3,617</u>
Estimated goodwill		<u><u>881</u></u>

¹ The amount represents 37.014% share of identifiable net assets of the Nanshan Group attributable to China Nanshan's shareholders amounted to approximately HK\$3,010 million, plus the sum of 20% and 7.983% share of identifiable net assets of CCT and Chiwan Wharf respectively amounted to approximately HK\$607 million.

APPENDIX 3 FINANCIAL AND OTHER INFORMATION OF THE ENLARGED GROUP

- (d) This reflects the elimination of the interests in associates held by the Nanshan Group against the minority interests of the Group arising from the deemed acquisition of additional equity interests in Media Port and CMML as if the Entrustment Agreement had become effective on 31 December 2009. The differences between the interests in associates held by the Nanshan Group and the relevant share of the carrying amounts of the net assets of Media Port and CMML acquired are recorded as a movement in equity.
 - (e) This reflects the accrual of acquisition-related costs amounting to approximately HK\$10 million to be incurred by the Group to effect the acquisition as if the Entrustment Agreement had become effective on 31 December 2009. The Group accounts for acquisition-related costs as expenses in the period in which the costs are incurred.
 - (f) The unaudited pro forma adjustment reflects the elimination of the inter-company balances of the Enlarged Group as at 31 December 2009.
4. No adjustments have been made to reflect any trading results or other transactions of the Enlarged Group entered into subsequent to 31 December 2009 for the purpose of this unaudited pro forma assets and liabilities of the Enlarged Group.

B. REPORT ON UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES TO THE DIRECTORS OF CHINA MERCHANTS HOLDINGS (INTERNATIONAL) COMPANY LIMITED

We report on the unaudited pro forma financial information set out on pages 113 to 118 under the heading of “Unaudited Pro Forma Statement of Assets and Liabilities of the Enlarged Group” (the “Unaudited Pro Forma Financial Information”) in Part A of Appendix 3 of the circular dated 30 June 2010 (the “Circular”) of the proposed Entrustment Agreement entered between the Company and China Merchants Holdings (Hong Kong) Company Limited (“CMHK”), the intermediate holding company, pursuant to which CMHK agreed to grant the management rights and the power to direct the voting right over the Entrusted Nanshan Shares as defined in this circular to the Company (the “Transaction”). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Transaction might have affected the relevant financial information of the Company and its subsidiaries (together, the “Group”). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages 113 to 118 of the Circular.

Respective Responsibilities of Directors of the Company and the Reporting Accountant

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the consolidated statement of assets and liabilities as at 31 December 2009 as set out in Part A of Appendix 3 under the heading of the “Unaudited Pro Forma Statement of Assets and Liabilities of the Enlarged Group” of this circular with the audited financial statements of the Company for the year ended 31 December 2009 as set out in the 2009 annual report of the Company and the accountant’s report as set out in Appendix 1 of this Circular, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2009 or any future date.

Opinion

In our opinion:

- a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers*Certified Public Accountants*

Hong Kong, 30 June 2010

C. FINANCIAL AND TRADING PROSPECTS**Financial and trading prospects of the Enlarged Group**

The Company is one of the leading port investors and developers in China with investments and operations which span across, among others, Hong Kong, Shenzhen, Shanghai, Ningbo, Qingdao, Tianjin, Xiamen Bay and Zhanjiang. The Company also has investments in port projects in Vietnam.

One of the continuing and key objectives of the Group was the integration and alignment of its business operating capabilities at the West Shenzhen Ports Zone. These efforts, which aim to elevate the Group's overall competitiveness at the West Shenzhen Ports Zone, leverage on the combined capabilities of the ports at the West Shenzhen Port Zone that, in turn, will help to expand the market and to tackle market challenges for all the ports. In 2009, the integration of the Group's container handling and bulk cargo handling operations at the West Shenzhen Ports Zone evidenced a systematic roll-out, aided alongside by increasingly smoothed coordination and cooperation between the ports' commercial and operating functions, thereby effectively securing the Group's share of container handling business in Shenzhen.

In 2009, the profit attributable to the shareholders of the Company amounted to HK\$3,238 million, representing a decrease of 12.6% over that of last year. Of this amount, recurrent profit amounted to HK\$2,589 million, down 21.8% when compared to that for the same period of last year. The proportion of EBITDA derived from the Group's core ports operations, relative to the Group's total, increased to 87.6% from 84.2% for the same period last year. In 2009, the Group recorded revenue of HK\$3,588 million, representing a decrease of 47.5% year-on-year.

While there are varying views towards how the global economy will trend in 2010, recent signs seem to suggest the world's economy is recovering. Against the likelihood of certain governments intending to gradually withdraw their financial support thus resulting in the global economy taking longer time to rebound, the Group is of the belief that the global economy has bottomed and may even have begun to gradually come out from the trough and that the negative impact brought about by the sharp decline in world trade and the collapse of confidence in the market is gradually diminishing. Although it is hard to precisely predict the growth rate of China's foreign trade in 2010, it is certain that China's foreign trade will grow in 2010 along with global economic recovery and the emergence of favourable factors such as increased inventory level expected of major importer and of consumer countries and the full roll out of the China-ASEAN Free Trade Zone since January 2010. These factors combined will further boost the development of China's foreign trade.

Looking into the future, the Group is of the view that China's domestic demand for continuing economic development and the comprehensive competitive advantage Chinese export products commands will have a determinant effect on its import demand for bulk cargoes and will support China's exports. These combined will support the continuing growth of the Group's businesses in container handling and bulk cargo handling. On the other hand, the Group's ongoing efforts that started in recent years in seeking internal refinements through resource optimization and operation improvement have been and will continue to significantly improve its comprehensive efficiency. This, coupled with prudent financial policies, has in turn enhanced the Group's ability to respond constructively to operational risks and environmental changes. The Group believes that, bearing in mind the anticipated recovery in global economy and trade, the Group is well positioned to capture the benefits in the next phase of development.

Upon the Entrustment Agreement becoming effective, the assets, liabilities and financial results of China Nanshan will be consolidated into the consolidated financial statements of the Company. In view of the historical performance of China Nanshan and the strategic benefits that the Group will enjoy through exercising greater influence over the operations of the Nanshan Group (which has substantial ports and ports-related operations in the West Shenzhen Ports Zone through its subsidiaries Chiwan Wharf and Chiwan Petroleum) and better aligning the operations and future development of the Nanshan Group with the Company's objectives and strategies, it is expected that this will have a positive effective on the earnings and the financial results of the Company.

The enhanced management influence which the Company will have on the Nanshan Group will enable the Group to further intensify the integration of the ports and port-related operations of the Enlarged Group in the West Shenzhen Ports Zone, thereby improving resource synergies and utilization efficiency which will lead to the strengthening of the competitiveness of the Enlarged Group in the West Shenzhen Ports Zone. This should place the Enlarged Group in a better position to capture any opportunities resulting from any increase in China's foreign trade and increase its market share in the West Shenzhen Ports Zone.

D. WORKING CAPITAL

Taking into account the expected completion of the Transaction in August 2010 and the financial resources available to the Enlarged Group, including the internally generated funds and the available banking facilities, the Directors are of the opinion that the Enlarged Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular.

E. INDEBTEDNESS¹

As at 30 April 2010, being the latest practicable date for this indebtedness statement prior to the printing of this circular, the Enlarged Group had borrowings of approximately HK\$19,969 million, which comprised bank loans of approximately HK\$8,852 million, guaranteed listed notes with carrying amount of approximately HK\$7,705 million (principal amount of approximately HK\$7,755 million), loans from ultimate holding company of approximately HK\$2,555 million, loans from an intermediate holding company of approximately HK\$795 million and loan from a minority shareholder of a subsidiary of approximately HK\$62 million.

Bank loans of approximately HK\$257 million were secured by property, plant and equipment and the guaranteed listed notes of approximately HK\$7,705 million were secured by corporate guarantees given by the Company. The loans from the ultimate holding company, loans from an intermediate holding company and the loan from the minority shareholder are unsecured.

Save as disclosed aforesaid, and apart from the intra-group liabilities and normal trade debts payable, the Enlarged Group did not have any outstanding mortgages, charges, debentures, loan capital or overdraft, or other similar indebtedness, finance lease or hire-purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities as at 30 April 2010.

¹ Foreign currency amounts have been translated into Hong Kong dollars at the rate of exchange prevailing at the close of business on 30 April 2010 (RMB0.8805:HK\$1 and USD1:HK\$7.7549).

The following is a text of a report received from Grant Sherman Appraisal Limited, an independent valuer, for the purpose of incorporation into this circular.



GRANT SHERMAN APPRAISAL LIMITED

30 June 2010

Room 1701 on 17/F,
Jubilee Centre
No. 18 Fenwick Street
Wanchai
Hong Kong

The Board of Directors
China Merchants Holdings (International) Company Limited
38th Floor, China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Dear Sirs,

In accordance with your instructions to value the properties interests being acquired by China Merchants Holdings (International) Company Limited (the “Company”) and its intermediate holding company, China Merchants Holdings (Hong Kong) Company Limited (“CMHK”), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the property interests as at 30 April 2010.

Market value is defined as the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion.

For properties where market transactions are available, we have valued these property interests by comparison approach. Comparison approach is assuming sale in their existing state by making reference to comparable sales evidences as available in the relevant market.

For properties where there are no market sales comparables, we have valued these property interests on the basis of Depreciated Replacement Cost (“DRC”). DRC is based on an estimate of the Market Value for the existing use of the land, plus the current gross replacement (reproduction) costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimization.

In valuing the property interests, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and The HKIS Valuation Standards on Properties (1st Edition 2005) published by The Hong Kong Institute of Surveyors.

The valuations have been made on the assumption that the owner sells the property interest on the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect their value.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on any of the property valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that all the interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

In valuing the properties, we have assumed that the owner has free and uninterrupted rights to use the properties for the whole of the unexpired term as granted and is entitled to transfer the properties with the residual term without payment of any further premium to the government authorities or any third parties.

We have assumed that all consents, approvals and licenses from relevant government authorities for the properties have been granted without any onerous conditions or undue time delay which might affect their values. It is assumed that all applicable zoning and use regulations and restrictions have been complied with unless nonconformity has been stated, defined, and considered in the appraisal report.

No environmental impact study has been ordered or made. Full compliance with applicable national, provincial and local environmental regulations and laws is assumed unless otherwise stated, defined, and considered in the report. It is also assumed that all required licenses, consents, or other legislative or administrative authority from any local, provincial, or national government or private entity or organization either have been or can be obtained or renewed for any use which the report covers.

We have been provided with copies of extracts of title documents relating to the properties. However, we have not inspected the original documents to verify ownership or to verify any amendments which may not appear on the copies handed to us. Due to the nature of the land registration system in the PRC, we are unable to search the original documents to verify the existing title of the properties or any material encumbrances that might be attached to the properties. In the preparation of our valuation report regarding the properties in the PRC, we have relied to the considerable extent on the legal opinion provided by the Company's legal adviser, Commerce & Finance Law Offices (通商律師事務所) on the PRC laws regarding the titles of the properties in the PRC.

In the course of our valuation, we have relied on a considerable extent on the information provided by your Company on such matters as property title, statutory notices, easements, tenure, occupation, site and floor areas, identification of the properties and all other relevant matters. We have no reason to doubt the truth and accuracy of the information provided to us by the Company. We were also advised by the Company that no material facts have been omitted from the information supplied. All documents have been used as reference only. All dimensions, measurements and areas are approximations.

We have inspected the exterior of the properties and, where possible, the interior of the properties in respect of which we have been provided with such information as we have required for the purpose of our valuation. However, no structural survey has been carried out and it was not possible to inspect the wood work and other parts of the structure which were covered, unexposed or inaccessible. We are therefore, unable to report that the properties are free of rot, infestation or any structural defect. No tests have been carried out on any of the building services.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

We enclose herewith a summary of valuations and valuation certificates.

Respectfully submitted,
For and on behalf of
GRANT SHERMAN APPRAISAL LIMITED
Peggy Y. Y. Lai
MRICS MHKIS RPS (GP)
Associate Director
Real Estate Group

Note: Ms Peggy Y.Y. Lai is a member of the Royal Institution of Chartered Surveyors, a member of the Hong Kong Institute of Surveyors and Registered Professional Surveyors in the General Practice Section, who has over 5 years experience in the valuation of properties in Hong Kong, the PRC and the Asian Region.

SUMMARY OF VALUATION

Group I — Property interests being acquired in PRC mainly for owner occupation purpose

Property	Market value as at 30 April 2010 RMB
1. Land, various buildings and structures located at Chiwan Nanshan District Shenzhen Guangdong Province The People's Republic of China	No commercial value
2. Land, various buildings and structures located at Zhang Peng Village Ma Yong Town Dongguan District The People's Republic of China	632,728,191
3. Land and various buildings and structures located at Shi Yan Town Shenzhen The People's Republic of China	26,454,604
4. Land, various buildings and structures located at No. 301 Nan Du Village Xi Du Town Feng Xian County Shanghai City The People's Republic of China	80,988,399
5. 1st to 4th floor Han Cheng Garden Kindergarten located at Futian District The People's Republic of China	3,148,770
Sub-total:	<hr/> 743,319,964

Group II — Property interests being acquired in PRC mainly for investment purpose

Property	Market value as at 30 April 2010 RMB
6. Land, various buildings, structures and unit 302 Dong Huan Road Yi Long B3-1-111, unit 402 Dong Huan Road Er Long and unit 301 No. 333 Xiang Xie Li Da Dao located at Hua Qiao Town Kun Shan City Jiangsu Province The People's Republic of China	79,938,312
7. Land, various buildings and structures located at Yun Pu Industrial Area Guangzhou Province The People's Republic of China	33,684,785
8. Land, various buildings and structures located at No. 388 Tie Li Road Bao Shan District Shanghai City The People's Republic of China	498,578,351
9. Land, various buildings and structures located at north of Wei Si Road south of Wei Wu Road Lang Fang Development Area The People's Republic of China	56,253,459
10. Land, various buildings and structures located at south of Bao Feng Road, north of Bao Bin Road, west of Ju Yuan Road Tang Gu District Tianjin City The People's Republic of China	251,386,675
11. Land, various buildings and structures located at No. 9 Shun Yun Road Bao Wan Logistic Area Xin Du District Chengdu The People's Republic of China	No commercial value

Property	Market value as at 30 April 2010 RMB
12. Land, various buildings and structures located at Logistic Centre of Long Quan Yi Chengdu Economic Technology Development Area Chengdu The People's Republic of China	No commercial value
13. Numerous units of Hai Wan Building located at No. 53 Wang Pu Road, Hong Kou District, Shanghai City The People's Republic of China	377,127,058
14. Units 505,506 and 706 Fei Cui Lu Zhou No.2 Sen Lin Ban Dao Street and units 201, 202, 203, 204, 301, 302, 303, 401, 402, 403, 404, 502, 503, 504, 602, 603, 604, 701, 702, 703, 704 of Block C and units 201,202,203,301 and 603 of Block D and carparking facilities of Xin Kang Garden Zong He Lu located at Zeng Cheng Shi Guangzhou Province The People's Republic of China	7,559,519
15. Unit B703 Zhao Bei Zong He Lou, Gong Ye Qi Lu and units 403 and 404 of Block 2 Ying Bin Building and unit 402 of Block 15 Hua Guo Shan located at Nanshan District The People's Republic of China	1,712,173
Sub-total:	<hr/> 1,306,240,332

Group III — Property interests being acquired in PRC mainly for development purpose

Property	Market value as at 30 April 2010 RMB
16. Sixteen pieces of land and certain superstructures located at Huiyang District The People's Republic of China	808,832,040
17. A piece of land and certain superstructures located at Nos. 1958 and 1959 Cheng Bei West Road Suzhou Province The People's Republic of China	648,487,263
18. A piece of land and certain superstructures located at Jin Xing Da Dao Xing Cheng Town Wang Cheng County Zhang Sha District The People's Republic of China	151,864,844
19. A piece of land and certain superstructures located at Han Pu Ke Jiao Industrial Zone Wang Cheng County Zhang Sha District The People's Republic of China	240,759,870
20. A piece of land located at north-east corner of the junction of Xiao Xiang Zhong Road and Han Guang Road Yue Lu Zhang Sha District The People's Republic of China	No commercial value
21. A piece of land located at Xiao Kun Shan Town Song Jiang District Shanghai City The People's Republic of China	86,780,016
22. A piece of land located at Ma Yong Town Dongguan District The People's Republic of China	124,928,515
Sub-total:	<u>2,061,652,548</u>
Grand Total:	<u><u>4,111,212,844</u></u>

VALUATION CERTIFICATE

Group I — Property interests being acquired in PRC mainly for owner occupation purpose

Property	Description and Tenure	Particulars of Occupancy	Market value as at 30 April 2010 (RMB)
1. Land, various buildings and structures located at Chiwan Nanshan District Shenzhen Guangdong Province The People's Republic of China	<p>The properties comprise various buildings and structures erected on a site with area of approximately 1,544,350 sq.m.</p> <p>The total gross floor area of these buildings and structures is approximately 468,000 sq.m., mainly built in various stages from 1980's to 2009's.</p> <p>It has 6 berths with a water frontage of approximately 2,059 metres.</p>	Subject property is mainly used for operations of containers, ports and port-related businesses, bulk cargo terminals businesses, and marine engineering and logistics support businesses.	No commercial value <i>see notes (i) and (ii)</i>

Notes:

- i) As no related title documents have been provided, we therefore attribute “no commercial value” for the subject property.
- ii) For reference purpose, the value of the subject property is RMB 3,239,682,925 under the assumption that proper legal title has been granted.
- iii) We have been provided with a PRC legal opinion on the property issued by Commerce & Finance Law Offices (通商律師事務所), the PRC legal adviser, which contains, inter alia, the following information:
 - (a) According to an agreement in relation to the land use matter 《關於處理赤灣港用地有關問題的協議》 dated 23 December 2003 signed between China Nanshan Development (Group) Incorporation (中國南山開發股份有限公司) and Shenzhen Planning and Land Bureau Department (深圳市規劃與國土資源局 (“深圳國土局”)), the land use need to satisfy the requirement of non-commercial nature for a term of 50 years commencing from 28 October 1992 (except the land plots with commercial nature).
 - (b) According to the agreement mentioned in Note iii (a) above, China Nanshan has the right to use the land in Chiwan.
 - (c) China Nanshan has to pay for the annual land use fee.
 - (d) China Nanshan has to apply for relevant the land use right certificate and building ownership certificate.

VALUATION CERTIFICATE

Group I — Property interests being acquired in PRC mainly for owner occupation purpose

Property	Description and Tenure	Particulars of Occupancy	Market value as at 30 April 2010 (RMB)
2. Land, various buildings and structures located at Zhang Peng Village Ma Yong Town Dongguan District The People's Republic of China	<p>The properties comprise various buildings and structures and 1 berth erected on a site with area of approximately 59,044.7 sq.m. and a total sea area of about 51.99 hectares.</p> <p>The total gross floor area of these buildings and structures is approximately 31,450.16 sq.m. built in about 2009.</p>	Subject property is mainly used for marine engineering and logistics support businesses.	632,728,191 <i>see notes (iii) and (iv)</i>

Notes:

- i) According to a State-Owned Land Use Right Certificate No. Dong Fu Gong Yong (2007) 特555 (東府國用第特555號), a site area of approximately 50,944.7 sq.m. have been granted to 東莞深赤灣港務有限公司 for industrial use for a term up to 28 March 2057.
- ii) According to two Sea Area Use Certificates, a total sea area of approximately 51.99 hectares have been granted to 東莞深赤灣港務有限公司 for Port Use for various terms. Their respective certificate no., use term and area are show below:
- | Certificate No. | Sea Area (hectares) | Term |
|--|---------------------|---------------------|
| Gong Hai Certificate No. 094400015 (國海証094400015號) | 24.35 | Up to 26 April 2059 |
| Gong Hai Certificate No. 094400016 (國海証094400016號) | 27.64 | Up to 26 April 2014 |
- iii) With reference to notes (i) and (ii), no related title documents have been provided for the remaining buildings with a total floor area of approximately 31,450.16 sq.m., “no commercial value” has been attributed.
- iv) For reference purpose, the value of the buildings with a total floor area of approximately 31,450.16 sq.m. is RMB 57,107,040 under the assumption that the building ownership certificates has been granted.
- v) We have been provided with a PRC legal opinion on the property issued by Commerce & Finance Law Offices (通商律師事務所), the PRC legal adviser, which contains, inter alias, the following information:
- (a) 東莞深赤灣港務有限公司 has obtained the land use right and the sea use rights under the aforesaid State-Owned Land Use Right Certificate and Sea Area Use Certificates mentioned in Notes (i) and (ii).
- (b) 東莞深赤灣港務有限公司 is entitled to transfer, let or mortgage the land use right and sea use rights mentioned in Notes (i) and (ii).
- (c) No mortgage has been recorded.

VALUATION CERTIFICATE

Group I — Property interests being acquired in PRC mainly for owner occupation purpose

Property	Description and Tenure	Particulars of Occupancy	Market value as at 30 April 2010 (RMB)
3. Land and various buildings and structures located at Shi Yan Town Shenzhen The People's Republic of China	The properties comprise a piece of land together with the buildings and structures erected thereon with a site area of approximately 32,882.1 sq.m. The total gross floor area of the buildings and structures is approximately 7,354.6 sq.m., completed between 1996 and 2006.	Subject property is mainly used for industrial purpose.	26,454,604 <i>see notes (ii) and (iii)</i>

Notes:

- i) According to a Realty Title Certificate No. Shen Fang Di Zi 5000354133 (深房地字第5000354133號), a site area of approximately 32,882.1 sq.m. have been granted to 深圳赤曉建築科技有限公司 for industrial use for a term commencing from 2 March 2000 to 1 March 2050.
- ii) With reference to note i), no related title documents have been provided for the remaining buildings with a total floor area of approximately 7,354.6 sq.m. , “no commercial value” has been attributed.
- iii) For reference purpose, the value of the buildings with a total gross floor area of 7,354.6 sq.m is RMB 8,220,270 under the assumption that the building ownership certificates has been granted.
- iv) We have been provided with a PRC legal opinion on the property issued by Commerce & Finance Law Offices (通商律師事務所), the PRC legal adviser, which contains, inter alia, the following information:
 - (a) 深圳赤曉建築科技有限公司 has obtained the land use right under the aforesaid Realty Title Certificates mentioned in Note (i).
 - (b) 深圳赤曉建築科技有限公司 is entitled to transfer, let or mortgage the land use right mentioned in Note (i).
 - (c) No mortgage has been recorded.

VALUATION CERTIFICATE

Group I — Property interests being acquired in PRC mainly for owner occupation purpose

Property	Description and Tenure	Particulars of Occupancy	Market value as at 30 April 2010 (RMB)
4. Land, various buildings and structures located at No. 301 Nan Du Village Xi Du Town Feng Xian County Shanghai City The People's Republic of China	The properties comprise various buildings and structures erected on a site with an area of approximately 59,706 sq.m. The total floor area of the property is about 9,203 sq.m. is completed in between 1997 and 2009.	Subject property is mainly used for industrial purpose.	80,988,399

Notes:

- i) According to a Realty Title Certificate No. Lu Fang Di Shi Zi (1998) 004279 (滬房地市字(1998)第004279號), a total site area of approximately 59,706 sq.m. and buildings with a total gross floor area of about 9,203 sq.m. have been granted to 上海松尾鋼結構有限公司 for industrial use for a term commencing from 8 July 1996 up to 7 July 2046.
- ii) According to a mortgage contract dated 19 August 2009, the building ownership mentioned in note (i) above is subject to a mortgage created in favour of Bank of China Shanghai Feng Xian Branch (中國銀行上海奉賢支行).
- iii) We have been provided with a PRC legal opinion on the property issued by Commerce & Finance Law Offices (通商律師事務所), the PRC legal adviser, which contains, inter alia, the following information:
 - (a) 上海松尾鋼結構有限公司 has obtained the land use right and building ownerships under the aforesaid Realty Title Certificate mentioned in Note (i).
 - (b) Subject to the restrictions of the mortgage term on the transfer, let of the land use right and building ownership, 上海松尾鋼結構有限公司 is entitled to transfer, let or mortgage the land use right and building ownership of the property.

VALUATION CERTIFICATE

Group I — Property interests being acquired in PRC mainly for owner occupation purpose

Property	Description and Tenure	Particulars of Occupancy	Market value as at 30 April 2010 (RMB)
5. 1st to 4th floor Han Cheng Garden Kindergarten located at Futian District The People's Republic of China	The properties comprise non residential floors with a total gross floor area of 2,481.3 sq.m. completed in about 2007.	Subject property is mainly used for non residential purpose.	3,148,770

Notes:

- i) According to a Realty Title Certificate No. Shen Fang Di Zi 3000576203 (深房地字第3000576203號), a gross floor area of approximately 2,481.3 sq.m. have been granted to 深圳市赤灣物業管理有限公司 for non residential use.
- ii) We have been provided with a PRC legal opinion on the property issued by Commerce & Finance Law Offices (通商律師事務所), the PRC legal adviser, which contains, inter alia, the following information:
 - (a) 深圳市赤灣物業管理有限公司 has obtained the building ownership under the aforesaid Realty Title Certificates mentioned in Note (i).
 - (b) 深圳市赤灣物業管理有限公司 is entitled to transfer, let or mortgage building ownership mentioned in Note (i).
 - (c) No mortgage has been recorded.

VALUATION CERTIFICATE

Group II — Property interests being acquired in PRC mainly for investment purpose

Property	Description and Tenure	Particulars of Occupancy	Market value as at 30 April 2010 (RMB)
6. Land, various buildings, structures and unit 302 Dong Huan Road Yi Long B3-1-111, unit 402 Dong Huan Road Er Long and unit 301 No. 333 Xiang Xie Li Da Dao located at Hua Qiao Town Kun Shan City Jiangsu Province The People's Republic of China	<p>The properties comprise a piece of land together with the buildings and structures erected thereon located at north of Hua Ji Road and 3 residential units located at Hua Qiao Town.</p> <p>The total gross floor area of the residential units is approximately 342.43 sq.m. completed in about 2007.</p> <p>The site area of the land is approximately 266,667 sq.m. and the total gross floor area of the buildings and structures is approximately 143,952 sq.m., completed between 2008 and 2009.</p>	Subject property is mainly used for logistics support businesses and residential purpose.	79,938,312 <i>see notes (iii) and (iv)</i>

Notes:

- i) According to three Building Ownership Certificates, residential units with a total gross floor area of about 342.43 sq.m. have been granted to 昆山寶灣國際物流有限公司. Their respective certificate no. and area are show below:

Certificate No.	Gross Floor Area (sq.m.)
No. Kun Fang Quan Zheng Hua Qiao Zi 131008135 (昆房權証花橋字第131008135號)	108.60
No. Kun Fang Quan Zheng Hua Qiao Zi 131008133 (昆房權証花橋字第131008133號)	107.81
No. Kun Fang Quan Zheng Hua Qiao Zi 131008134 (昆房權証花橋字第131008134號)	126.02

- ii) According to a State-Owned Land Use Right Certificate No. Kun Gong Yong (2006) 12006111149 昆國用(2006)第12006111149號, a site area of approximately 266,667 sq.m. have been granted to 昆山寶灣國際物流有限公司 for industrial use for a term up to 16 December 2056.
- iii) With reference to note (ii), no related title documents have been provided for the remaining buildings with a total floor area of approximately 143,952.23 sq.m. , “no commercial value” has been attributed.
- iv) For reference purpose, the value of the buildings with an area of 143,952.23 sq.m. is RMB 177,105,902 under the assumption that the building ownership certificates has been granted.

- v) We have been provided with a PRC legal opinion on the property issued by Commerce & Finance Law Offices (通商律師事務所), the PRC legal adviser, which contains, inter alia, the following information:
- (a) 昆山寶灣國際物流有限公司 has obtained the land use right and building ownerships under the aforesaid Realty Title Certificates mentioned in Notes (i) and (ii).
 - (b) 昆山寶灣國際物流有限公司 is entitled to transfer, let or mortgage the land use right and building ownerships mentioned in Notes (i) and (ii).
 - (c) No mortgage has been recorded.

VALUATION CERTIFICATE

Group II — Property interests being acquired in PRC mainly for investment purpose

Property	Description and Tenure	Particulars of Occupancy	Market value as at 30 April 2010 (RMB)
7. Land, various buildings and structures located at Yun Pu Industrial Area Guangzhou Province The People's Republic of China	The properties comprise a piece of land together with the buildings and structures erected thereon. The site area of the land is approximately 43,101 sq.m.. The total gross floor area of the buildings and structures is approximately 19,483 sq.m., mainly built in 2006.	Subject property is mainly used for logistics support businesses purpose.	33,684,785

Notes:

- i) According to a Realty Title Certificate No. Yue Fang Di Zheng Zi 0510003961 (粵房地權証字第0510003961號), a site area of approximately 43,101 sq.m. and buildings with a total gross floor area of about 19,483 sq.m. have been granted to 廣州寶灣物流有限公司 for industrial use for a term of 50 years commencing from 26 June 2007.
- ii) We have been provided with a PRC legal opinion on the property issued by Commerce & Finance Law Offices (通商律師事務所), the PRC legal adviser, which contains, inter alia, the following information:
 - (a) 廣州寶灣物流有限公司 has obtained the land use right and building ownerships under the aforesaid Realty Title Certificates mentioned in Note (i).
 - (b) 廣州寶灣物流有限公司 is entitled to transfer, let or mortgage the land use right and building ownerships mentioned in Note (i).
 - (c) No mortgage has been recorded.

VALUATION CERTIFICATE

Group II — Property interests being acquired in PRC mainly for investment purpose

Property	Description and Tenure	Particulars of Occupancy	Market value as at 30 April 2010 (RMB)
8. Land, various buildings and structures located at No. 388 Tie Li Road Bao Shan District Shanghai City The People's Republic of China	The properties comprise various buildings and structures erected on a site with total area of approximately 355,382.4 sq.m. The total gross floor area of these buildings and structures is approximately 176,329.17 sq.m., mainly built in various stages from 2003 to 2008.	Subject property is mainly used for logistics support businesses.	498,578,351 <i>see notes (ii) and (iii)</i>

Notes:

- i) According to four Realty Title Certificates, a total site area of approximately 355,382.4 sq.m. and buildings with a total gross floor area of about 176,329.17 sq.m. have been granted to 上海寶灣國際物流有限公司 for industrial use for various terms. Their respective certificate no., use term and area are show below:

Certificate No.	Site Area (sq.m.)	Term	Gross Floor Area (sq.m.)
No. Lu Fang Di Bao Zi (2004) 047305 (滬房地實字(2004)第047305號)	171,475	8 May 2003 to 7 May 2053	84,605.11
No. Lu Fang Di Bao Zi (2009) 023810 (滬房地實字(2009)第023810號)	46,439	4 September 2006 to 3 September 2056	22,168.72
No. Lu Fang Di Bao Zi (2009) 023811 (滬房地實字(2009)第023811號)	31,400	4 September 2006 to 3 September 2056	15,329.40
No. Lu Fang Di Bao Zi (2009) 023812 (滬房地實字(2009)第023812號)	106,069	13 March 2006 to 12 March 2056	54,225.94

- ii) With reference to note (i), no related title documents have been provided for the remaining buildings with a total floor area of approximately 11,631.17 sq.m., “no commercial value” has been attributed.
- iii) For reference purpose, the value of the buildings with an area of 11,631.17 sq.m. is RMB 30,672,992 under the assumption that the building ownership certificates has been granted.
- iv) We have been provided with a PRC legal opinion on the property issued by Commerce & Finance Law Offices (通商律師事務所), the PRC legal adviser, which contains, inter alias, the following information:
- (a) 上海寶灣國際物流有限公司 has obtained the land use right and building ownerships under the aforesaid Realty Title Certificates mentioned in Note (i).
- (b) 上海寶灣國際物流有限公司 is entitled to transfer, let or mortgage the land use right and building ownerships mentioned in Note (i).
- (c) No mortgage has been recorded.

VALUATION CERTIFICATE

Group II — Property interests being acquired in PRC mainly for investment purpose

Property	Description and Tenure	Particulars of Occupancy	Market value as at 30 April 2010 (RMB)
9. Land, various buildings and structures located at north of Wei Si Road south of Wei Wu Road Lang Fang Development Area The People's Republic of China	The properties comprise various structures being erected on a site with area of approximately 173,646.5 sq.m. The logistic park is expected to complete for operation in 2011.	Subject property is mainly used for developing into a logistic park.	56,253,459

Notes:

- i) According to a State-Owned Land Use Right Certificate No. Lang Kai Gong Yong (2009) 114 (廊開國用(2009)第114號), a site area of approximately 173,646.50 sq.m. have been granted to 廊坊寶灣國際物流有限公司 for industrial use for a term up to 30 October 2059.
- ii) We have been provided with a PRC legal opinion on the property issued by Commerce & Finance Law Offices (通商律師事務所), the PRC legal adviser, which contains, inter alia, the following information:
 - (a) 廊坊寶灣國際物流有限公司 has obtained the land use right under the aforesaid State-Owned Land Use Right Certificate mentioned in Note (i).
 - (b) Subject to the development term stated in the land use right transfer contract, upon completion of 25% or above of the total investment amount 廊坊寶灣國際物流有限公司 is entitled to transfer, let or mortgage the land use right mentioned in Note (i).
 - (c) No mortgage has been recorded.

VALUATION CERTIFICATE

Group II — Property interests being acquired in PRC mainly for investment purpose

Property	Description and Tenure	Particulars of Occupancy	Market value as at 30 April 2010 (RMB)
10. Land, various buildings and structures located at south of Bao Feng Road, north of Bao Bin Road, west of Ju Yuan Road Tang Gu District Tianjin City The People's Republic of China	The properties comprise various buildings and structures erected on a site with area of approximately 320,489.4 sq.m. The total gross floor area of these buildings and structures is approximately 156,004 sq.m., built in 2010.	Subject property is mainly used for logistics support businesses.	251,386,675 <i>see notes (ii) and (iii)</i>

Notes:

- i) According to a State-Owned Land Use Right Certificate No. Tong Shan Gong Yong (2007) 249 (塘單國用(2007)第249號), a site area of approximately 320,489.4 sq.m. have been granted to 天津寶灣國際物流有限公司 for industrial use for a term up to 24 September 2057.
- ii) With reference to note i), no related title documents have been provided for the remaining buildings with a total floor area of approximately 156,004 sq.m. , “no commercial value” has been attributed.
- iii) For reference purpose, the value of the buildings with an area of 156,004 sq.m. is RMB 311,833,545 under the assumption that the building ownership certificates has been granted.
- iv) We have been provided with a PRC legal opinion on the property issued by Commerce & Finance Law Offices (通商律師事務所), the PRC legal adviser, which contains, inter alias, the following information:
 - (a) 天津寶灣國際物流有限公司 has obtained the land use right under the aforesaid State-Owned Land Use Right Certificate mentioned in Note (i).
 - (b) 天津寶灣國際物流有限公司 is entitled to transfer, let or mortgage the land use right mentioned in Note (i).
 - (c) No mortgage has been recorded.

VALUATION CERTIFICATE

Group II — Property interests being acquired in PRC mainly for investment purpose

Property	Description and Tenure	Particulars of Occupancy	Market value as at 30 April 2010 (RMB)
11. Land, various buildings and structures located at No. 9 Shun Yun Road Bao Wan Logistic Area Xin Du District Chengdu The People's Republic of China	The properties comprise various buildings and structures erected on a site with an area of approximately 126,270 sq.m. The total gross floor area of these buildings and structures is approximately 72,598.54 sq.m., completed in 2010.	Subject property is mainly used for logistics support businesses.	No commercial value <i>see notes (i) and (ii)</i>

Notes:

- i) As no related title documents have been provided, we therefore attribute “no commercial value” for the subject property.
- ii) We were instructed to value site are of about 126,270 sq.m.. Therefore, for reference purpose, the value of the subject property is RMB 172,869,142 under the assumption that proper legal title has been granted.
- iii) We have been provided with a PRC legal opinion on the property issued by Commerce & Finance Law Offices (通商律師事務所), the PRC legal adviser, which contains, inter alia, the following information:
 - (a) 成都新都寶灣國際物流有限公司 has to sign the land use right contract with the relevant government department with a site area of about 245 mou and pay the required land premium and taxes.
 - (b) 成都新都寶灣國際物流有限公司 has to apply for the land use right certificate of the subject property.

VALUATION CERTIFICATE

Group II — Property interests being acquired in PRC mainly for investment purpose

Property	Description and Tenure	Particulars of Occupancy	Market value as at 30 April 2010 (RMB)
12. Land, various buildings and structures located at Logistic Centre of Long Quan Yi Chengdu Economic Technology Development Area Chengdu The People's Republic of China	The properties comprise various structures is being erected on a site with area of approximately 214,269 sq.m. The logistic park is expected to complete for operation in 2010.	Subject property is mainly used for developing into a logistic park.	No commercial value <i>see notes (i) and (ii)</i>

Notes:

- i) As no related title documents have been provided, we therefore attribute “no commercial value” for the subject property.
- ii) For reference purpose, the value of the subject property is RMB 78,799,949 under the assumption that proper legal title has been granted.
- iii) We have been provided with a PRC legal opinion on the property issued by Commerce & Finance Law Offices (通商律師事務所), the PRC legal adviser, which contains, inter alia, the following information:
 - (a) 成都龍泉寶灣國際物流有限公司 has paid the land premium and may obtain the land use right certificate without legal impediment.
 - (b) Upon the issue of the land use certificate, 成都龍泉寶灣國際物流有限公司 is entitled to transfer, let or mortgage the land use right of the property.

VALUATION CERTIFICATE

Group II — Property interests being acquired in PRC mainly for investment purpose

Property	Description and Tenure	Particulars of Occupancy	Market value as at 30 April 2010 (RMB)
13. Numerous units of Hai Wan Building located at No. 53 Wang Pu Road, Hong Kou District, Shanghai City The People's Republic of China	The properties comprise 146 guest rooms and office units with a total gross floor area of about 22,465.91 sq.m. completed in about 1999.	Subject property is mainly used for commercial purpose.	377,127,058

Notes:

- i) According to two Realty Title Certificates, a total gross floor area of approximately 22,465.91 sq.m. have been granted to 上海南山房地產開發有限公司. Their respective certificate no. and area are show below:

Certificate No.	Use	Gross Floor Area (sq.m.)
No. Lu Fang Di Hong Zi (2004) 015831 (滬房地虹字(2004) 第015831號)	Special commercial/office	13,073.04
No. Lu Fang Di Hong Zi (2009) 020936 (滬房地虹字(2009) 第0020936號)	office	9,392.87

- ii) We have been provided with a PRC legal opinion on the property issued by Commerce & Finance Law Offices (通商律師事務所), the PRC legal adviser, which contains, inter alias, the following information:

- (a) 上海南山房地產開發有限公司 has obtained building ownership under the aforesaid Realty Title Certificate with a total gross floor area of about 9,392.87 sq.m. mentioned in Note (i).
- (b) Subject to the approval of the relevant government department and payment 上海南山房地產開發有限公司 is entitled to transfer, let or mortgage the building ownership erected on No. Lu Fang Di Hong Zi (2004) 015831 as mentioned in Note (i).
- (c) No mortgage has been recorded.

VALUATION CERTIFICATE

Group II — Property interests being acquired in PRC mainly for investment purpose

Property	Description and Tenure	Particulars of Occupancy	Market value as at 30 April 2010 (RMB)
14. Units 505,506 and 706 Fei Cui Lu Zhou No.2 Sen Lin Ban Dao Street and units 201, 202, 203, 204, 301, 302, 303, 401, 402, 403, 404, 502, 503, 504, 602, 603, 604, 701, 702, 703,704 of Block C and units 201,202,203,301 and 603 of Block D and carparking facilities of Xin Kang Garden Zong He Lu located at Zeng Cheng Shi Guangzhou Province The People's Republic of China	The properties comprise various residential units with a total gross floor area of the approximately 3,544.81 sq.m. and carparking facilities completed in between 1999 and 2006.	Subject property is mainly used for residential purpose.	7,559,519 <i>see notes (iii) and (iv)</i>

Notes:

- i) According to three Realty Title Certificates, residential units with a total gross floor area of about 220.29 sq.m. have been granted to 廣州寶灣物流有限公司. Their respective certificate no. and area are show below:

Certificate No.	Gross Floor Area (sq.m.)
No. Yue Fang Di Zi C6241284 (粵房地証字第C6241284號)	73.43
No. Yue Fang Di Zi C6241442 (粵房地証字第C6241442號)	73.43
No. Yue Fang Di Zi C6241290 (粵房地証字第C6241290號)	73.43

- ii) According to 26 Realty Title Certificates, residential units with a total gross floor area of about 1,724.52 sq.m. have been granted to 深圳市赤灣物業管理有限公司. Their respective certificate no. and area are show below:

Certificate No.	Gross Floor Area (sq.m.)
No. Yue Fang Di Zi C5671012 (粵房地証字第C5671012號)	65.06
No. Yue Fang Di Zi C5671018 (粵房地証字第C5671018號)	63.66
No. Yue Fang Di Zi C5666402 (粵房地証字第C5666402號)	70.42

Certificate No.	Gross Floor Area (sq.m.)
No. Yue Fang Di Zi C6240895 (粵房地証字第C6240895號)	65.06
No. Yue Fang Di Zi C5671011 (粵房地証字第C5671011號)	65.06
No. Yue Fang Di Zi C5671037 (粵房地証字第C5671037號)	70.42
No. Yue Fang Di Zi C5671016 (粵房地証字第C5671016號)	70.42
No. Yue Fang Di Zi C5667601 (粵房地証字第C5667601號)	65.06
No. Yue Fang Di Zi C5671033 (粵房地証字第C5671033號)	70.42
No. Yue Fang Di Zi C5666302 (粵房地証字第C5666302號)	65.06
No. Yue Fang Di Zi C5671036 (粵房地証字第C5671036號)	70.42
No. Yue Fang Di Zi C5671039 (粵房地証字第C5671039號)	70.42
No. Yue Fang Di Zi C5666401 (粵房地証字第C5666401號)	65.06
No. Yue Fang Di Zi C5671035 (粵房地証字第C5671035號)	70.42
No. Yue Fang Di Zi C5671031 (粵房地証字第C5671031號)	70.42
No. Yue Fang Di Zi C5671026 (粵房地証字第C5671026號)	65.06
No. Yue Fang Di Zi C5666403 (粵房地証字第C5666403號)	65.97
No. Yue Fang Di Zi C5671034 (粵房地証字第C5671034號)	70.42
No. Yue Fang Di Zi C5671010 (粵房地証字第C5671010號)	70.42
No. Yue Fang Di Zi C5666404 (粵房地証字第C5666404號)	65.97
No. Yue Fang Di Zi C5671032 (粵房地証字第C5671032號)	57.43
No. Yue Fang Di Zi C5666405 (粵房地証字第C5666405號)	69.63
No. Yue Fang Di Zi C5671030 (粵房地証字第C5671030號)	56.79
No. Yue Fang Di Zi C5671009 (粵房地証字第C5671009號)	57.43
No. Yue Fang Di Zi C5671017 (粵房地証字第C5671017號)	57.60
No. Yue Fang Di Zi C5671038 (粵房地証字第C5671038號)	70.42
Total	<u>1,724.52</u>

- iii) With reference to notes i) and ii), no related title documents have been provided for the remaining residential units with a total floor area of approximately 1,600 sq.m. and carparking facilities, "no commercial value" has been attributed.
- iv) For reference purpose, the value of the residential units with an area of 1,600 sq.m. and carparking facilities is RMB 7,253,440 under the assumption that the building ownership certificates has been granted.
- v) We have been provided with a PRC legal opinion on the property issued by Commerce & Finance Law Offices (通商律師事務所), the PRC legal adviser, which contains, inter alia, the following information:
- (a) 廣州寶灣物流有限公司 has obtained the building ownerships under the aforesaid Realty Title Certificates mentioned in Note (i).
- (b) 廣州寶灣物流有限公司 is entitled to transfer, let or mortgage building ownerships mentioned in Note (i).
- (c) 深圳市赤灣物業管理有限公司 has obtained the building ownerships under the aforesaid Realty Title Certificates mentioned in Note (ii).
- (d) 深圳市赤灣物業管理有限公司 is entitled to transfer, let or mortgage the building ownerships mentioned in Note (ii).
- (e) No mortgage has been recorded.

VALUATION CERTIFICATE

Group II — Property interests being acquired in PRC mainly for investment purpose

Property	Description and Tenure	Particulars of Occupancy	Market value as at 30 April 2010 (RMB) (RMB)
15. Unit B703 Zhao Bei Zong He Lou, Gong Ye Qi Lu and units 403 and 404 of Block 2 Ying Bin Building and unit 402 of Block 15 Hua Guo Shan located at Nanshan District The People's Republic of China	The properties comprise 4 residential units with a total gross floor area of about 395.93 sq.m. completed in between 1984 and 1995.	Subject property is mainly used residential use purpose.	1,712,173 <i>see notes (iii) and (iv)</i>

Notes:

- i) According to a Realty Title Certificate No. Shen Fang Di Zi 4000371774 (深房地字第4000371774號), a residential unit with a gross floor area of about 68.13 sq.m. have been granted to 深圳赤曉建築科技有限公司.
- ii) According to two Realty Title Certificates, residential units with a total gross floor area of about 280.8 sq.m. have been granted to Chiwan Petroleum. Their respective certificate no. and area are show below:

Certificate No.	Gross Floor Area (sq.m.)
No. Shen Fang Di Zi 6006976 (深房地証字第6006976號)	123.0
No. Shen Fang Di Zi 6006977 (深房地証字第6006977號)	157.8

- iii) With reference to notes (i) and (ii), no related title documents have been provided for the remaining residential units with a total floor area of approximately 47 sq.m., "no commercial value" has been attributed.
- iv) For reference purpose, the value of the residential unit with a total gross floor area of 47 sq.m. is RMB 564,000 under the assumption that the building ownership certificates has been granted.
- v) We have been provided with a PRC legal opinion on the property issued by Commerce & Finance Law Offices (通商律師事務所), the PRC legal adviser, which contains, inter alias, the following information:
- (a) 深圳赤曉建築科技有限公司 has obtained the building ownership under the aforesaid Realty Title Certificates mentioned in Note(i).
- (b) 深圳赤曉建築科技有限公司 is entitled to transfer, let or mortgage the building ownerships mentioned in Note (i).

- (c) Chiwan Petroleum has obtained the building ownerships under the aforesaid Realty Title Certificate mentioned in Note(ii).
- (d) Chiwan Petroleum is entitled to transfer, let or mortgage the building ownership mentioned in Note (ii).
- (e) No mortgage has been recorded.

VALUATION CERTIFICATE

Group III — Property interests being acquired in PRC mainly for development purpose

Property	Description and Tenure	Particulars of Occupancy	Market value as at 30 April 2010 (RMB)
16. Sixteen pieces of land and certain superstructures located at Huiyang District The People's Republic of China	The properties comprise sixteen pieces of land with a total site area of approximately 1,000,026.6 sq.m. and certain superstructures.	Subject property is mainly used for future development.	808,832,040

Notes:

- i) According to sixteen State-Owned Land Use Certificates, a total site area of approximately 1,000,026.6 sq.m. have been granted to 惠陽新城市房地產開發有限公司 for various terms. Their respective certificate nos., usage, term and area are show below:

Certificate No.	Site Area (sq.m.)	Usage	Year Term
No. Huiyang Gong Yong (2005) 0100206 (惠陽國用(2005)第0100206號)	167,602.0	commercial/ residential	Up to 30 January 2075
No. Huiyang Gong Yong (2006) 0500316 (惠陽國用(2006)第0500316號)	78,729.0	commercial/ residential	Up to 4 April 2074
No. Huiyang Gong Yong (2006) 0500317 (惠陽國用(2006)第0500317號)	179,591.0	commercial/ residential	Up to 4 April 2074
No. Huiyang Gong Yong (2006) 0500318 (惠陽國用(2006)第0500318號)	44,724.0	commercial/ residential	Up to 4 April 2074
No. Huiyang Gong Yong (2006) 0500319 (惠陽國用(2006)第0500319號)	201,784.0	commercial/ residential	Up to 4 April 2074
No. Huiyang Gong Yong (2007) 0100805 (惠陽國用(2007)第0100805號)	47,456.0	residential	Up to 6 June 2077
No. Huiyang Gong Yong (2007) 0100806 (惠陽國用(2007)第0100806號)	10,754.0	residential	Up to 28 May 2077
No. Huiyang Gong Yong (2007) 0100807 (惠陽國用(2007)第0100807號)	59,319.6	residential	Up to 6 June 2077
No. Huiyang Gong Yong (2007) 0101538 (惠陽國用(2007)第0101538號)	67,456.0	residential	Up to 30 August 2077
No. Huiyang Gong Yong (2007) 0101539 (惠陽國用(2007)第0101539號)	87,712.0	residential	Up to 30 August 2077
No. Huiyang Gong Yong (2008) 0101577 (惠陽國用(2008)第0101577號)	25,195.0	mixed residential	70

Certificate No.	Site Area (sq.m.)	Usage	Year Term
No. Huiyang Gong Yong (2008) 0101578 (惠陽國用(2008)第0101578號)	18,146.0	mixed residential	70
No. Huiyang Gong Yong (2008) 0101938 (惠陽國用(2008)第0101938號)	1,812.0	mixed residential	70
No. Huiyang Gong Yong (2008) 0101939 (惠陽國用(2008)第0101939號)	5,996.0	mixed residential	70
No. Huiyang Gong Yong (2009) 0100398 (惠陽國用(2009)第0100398號)	2,740.0	commercial/ residential	70
No. Huiyang Gong Yong (2009) 0100936 (惠陽國用(2009)第0100936號)	1,010.0	mixed residential	70
Total	<u>1,000,026.6</u>		

ii) We have been provided with a PRC legal opinion on the property issued by Commerce & Finance Law Offices (通商律師事務所), the PRC legal adviser, which contains, inter alias, the following information:

- (a) 惠陽新城市房地產開發有限公司 has obtained the land use rights under the aforesaid State-Owned Land Use Right Certificates mentioned in Note (i).
- (b) 惠陽新城市房地產開發有限公司 is entitled to transfer, let or mortgage the land use rights mentioned in Note (i).
- (c) No mortgage has been recorded.

VALUATION CERTIFICATE

Group III — Property interests being acquired in PRC mainly for development purpose

Property	Description and Tenure	Particulars of Occupancy	Market value as at 30 April 2010 (RMB)
17. A piece of land and certain superstructures located at Nos. 1958 and 1959 Cheng Bei West Road Suzhou Province The People's Republic of China	The properties comprise a site with a total site area of approximately 188,696.7 sq.m. and certain superstructures.	Subject property is mainly used for future development.	648,487,263 <i>see notes (iii) and (iv)</i>

Notes:

- i) According to two State-Owned Land Use Certificates, a total site area of approximately 180,420.29 sq.m. have been granted to 蘇州南山置業有限公司 for residential use for a term up to 6 August 2077. Their respective certificate nos. and area are show below:

Certificate No.	Site Area (sq.m.)
No. Su Gong Yong(2008) 05001481 (蘇國用(2008)第05001481號)	141,241.70
No. Su Gong Yong (2009) 05032672 (蘇國用(2009)第05032672號)	39,178.59

- ii) According to a mortgage contract dated 3 February 2010, the land use right with a site area of approximately 108,484.7 sq.m. under Land Use Right Certificate No. Su Gong Yong (2008) 050001481 as mentioned in Note (i) is subject to a mortgage created in favour of 中信銀行股份有限公司蘇州分行.
- iii) With reference to note i), no related title documents have been provided for the remaining land portion with a total site area of approximately 8,276.41 sq.m. , “no commercial value” has been attributed.
- iv) For reference purpose, the value of the site area of about 8,276.41 sq.m. is RMB 29,748,020 under the assumption that proper legal title has been granted.
- v) We have been provided with a PRC legal opinion on the property issued by Commerce & Finance Law Offices (通商律師事務所), the PRC legal adviser, which contains, inter alias, the following information:
- (a) 蘇州南山置業有限公司 has obtained the land use rights under the aforesaid State-Owned Land Use Right Certificates mentioned in Note (i).
- (b) Subject to the development term stated in the land use right transfer contract, upon completion of 25% or above of the total investment amount and the mortgage term stated in the mortgage contract 蘇州南山置業 is entitled to transfer, let or mortgage the land use right mentioned in Note (i).
- (c) Site area of about 108,484.7 sq.m. out of No. Su Gong Yong (2008) 050001481 is subject to a mortgage made in favour of 中信銀行股份有限公司蘇州分行 for a mortgage term commencing from 3 February 2010 to 8 November 2012.

VALUATION CERTIFICATE

Group III — Property interests being acquired in PRC mainly for development purpose

Property	Description and Tenure	Particulars of Occupancy	Market value as at 30 April 2010 (RMB)
18. A piece of land and certain superstructures located at Jin Xing Da Dao Xing Cheng Town Wang Cheng County Zhang Sha District The People's Republic of China	The properties comprise a site with area of approximately 307,296.1 sq.m. and certain superstructures.	Subject property is mainly used for future development.	151,864,844

Notes:

- i) According to two State-Owned Land Use Certificates, a total site area of approximately 307,296.1 sq.m. have been granted to 長沙南山房地產開發有限公司 for residential use for a term up to 27 July 2075. Their respective certificate nos. and area are show below:

Certificate No.	Site Area (sq.m.)
No. Wang Bian Geng Gong Yong (2008) 220 (望變更國用(2008)第220號)	162,693.3
No. Wang Bian Geng Gong Yong (2008) 221 (望變更國用(2008)第221號)	144,602.8

- ii) We have been provided with a PRC legal opinion on the property issued by Commerce & Finance Law Offices (通商律師事務所), the PRC legal adviser, which contains, inter alias, the following information:

- (a) 長沙南山房地產開發有限公司 has obtained the land use rights under the aforesaid State-Owned Land Use Right Certificates mentioned in Note (i).
- (b) 長沙南山房地產開發有限公司 is entitled to transfer, let or mortgage the land use right mentioned in Note (i).
- (c) No mortgage has been recorded.

VALUATION CERTIFICATE

Group III — Property interests being acquired in PRC mainly for development purpose

Property	Description and Tenure	Particulars of Occupancy	Market value as at 30 April 2010 (RMB)
19. A piece of land and certain superstructures located at Han Pu Ke Jiao Industrial Zone Wang Cheng County Zhang Sha District The People's Republic of China	The properties comprise a site with area of approximately 390,250 sq.m. and certain superstructures.	Subject property is mainly used for future development.	240,759,870

Notes:

- (i) According to a State-Owned Land Use Certificate No. Wang Gong Yong (2007) 298 (望國用意2007)第298號, a site area of approximately 390,250 sq.m. have been granted to 長沙南山房地產開發有限公司 for residential use for a term up to 30 August 2077.
- (ii) We have been provided with a PRC legal opinion on the property issued by Commerce & Finance Law Offices (通商律師事務所), the PRC legal adviser, which contains, inter alia, the following information:
- (a) 長沙南山房地產開發有限公司 has obtained the land use right under the aforesaid State-Owned Land Use Right Certificate mentioned in Note (i).
- (b) Subject to the development term stated in the land use right transfer contract, upon completion of 25% or above of the total investment amount 長沙南山房地產開發有限公司 is entitled to transfer, let or mortgage the land use right mentioned in Note (i)
- (c) 長沙南山房地產開發有限公司 has not yet commence the construction regarding the land use right mentioned in note (i) as required under the land use transfer contract and has not apply for the construction delay approval from the relevant government department, therefore, the site area of about 390,250 sq.m. is subject to the risk of penalty payment or land resumption due to abandon land issue.
- (d) No mortgage has been recorded.

VALUATION CERTIFICATE

Group III — Property interests being acquired in PRC mainly for development purpose

Property	Description and Tenure	Particulars of Occupancy	Market value as at 30 April 2010 (RMB)
20. A piece of land located at north-east corner of the junction of Xiao Xiang Zhong Road and Han Guang Road Yue Lu Zhang Sha District The People's Republic of China	The properties comprise a site with area of approximately 61,604.15 sq.m.	Subject property is mainly used for future development.	No commercial value <i>see notes (ii) and (iii)</i>

Notes:

- i) According to a Land Use Rights Contract (Contract No. XC (1) 先導2010003) (“the Contract”) dated 10 March 2010, a site area of approximately 61,604.15 sq.m. have been granted to 長沙南山房地產開發有限公司 for residential use for a term 70 years.
- (ii) No related title documents have been provided regarding site area of 61,604.15 sq.m., we therefore attribute “no commercial value” for the site area of about 61,604.15 sq.m.
- (iii) For reference purpose, the value of the site area of about 61,604.15 sq.m. is RMB522,652,000 under the assumption that proper legal title has been granted.
- iv) We have been provided with a PRC legal opinion on the property issued by Commerce & Finance Law Offices (通商律師事務所), the PRC legal adviser, which contains, inter alias, the following information:
 - (a) 長沙南山房地產開發有限公司 has paid the land premium and may obtain the land use right certificate without legal impediment.
 - (b) Upon the issue of the land use certificate, 長沙南山房地產開發有限公司 is entitled to transfer, let or mortgage the land use right mentioned in note (i).

VALUATION CERTIFICATE

Group III — Property interests being acquired in PRC mainly for development purpose

Property	Description and Tenure	Particulars of Occupancy	Market value as at 30 April 2010 (RMB)
21. A piece of land located at Xiao Kun Shan Town Song Jiang District Shanghai City The People's Republic of China	The properties comprise a site with total area of approximately 213,861 sq.m.	Subject property is mainly used for future development.	86,780,016

Notes:

- i) According to two Realty Title Certificates, a total site area of approximately 213,861 sq.m. have been granted to 明江(上海)國際物流有限公司 for industrial use for various terms. Their respective certificate no., use term and area are show below:

Certificate No.	Site Area (sq.m.)	Term
No. Lu Fang Di Song Zi (2008) 014151 (滬房地松字(2008)第014151號)	99,966	20 December 2007 to 19 December 2057
No. Lu Fang Di Song Zi (2010) 012326 (滬房地松字(2010)第012326號)	113,895	31 December 2009 to 30 December 2059

- ii) We have been provided with a PRC legal opinion on the property issued by Commerce & Finance Law Offices (通商律師事務所), the PRC legal adviser, which contains, inter alias, the following information:
- (a) 明江(上海)國際物流有限公司 has obtained the land use right under the aforesaid Realty Title Certificate mentioned in Note (i).
- (b) Subject to the development terms compliance as stated in the land use right transfer contract, 明江(上海)國際物流有限公司 is entitled to transfer, let or mortgage the land use right with a site area of about 99,966 sq.m. under No. Lu Fang Di Song Zi (2008) 014151 mentioned in note (i) above.
- (c) 明江(上海)國際物流有限公司, has not yet commence the construction regarding the land use right under No. Lu Fang Di Song Zi (2008) 014151 with a site area of about 99,966 sq.m. mentioned in note (i) as required under the land use transfer contract and has not apply for the construction delay approval from the relevant government department, therefore, the site area of about 99,966 sq.m. is subject to the risk of penalty payment or land resumption due to abandon land issue.
- (d) Subject to the development term stated in the land use right transfer contract, upon completion of 25% or above of the total investment amount, 明江(上海)國際物流有限公司 is entitled to transfer, let or mortgage the land use right with a site area of about 113,895 sq.m. under No. Lu Fang Song Zi (2010) 012326 as mentioned in note (i) above.
- (e) No mortgage has been recorded.

VALUATION CERTIFICATE

Group III — Property interests being acquired in PRC mainly for development purpose

Property	Description and Tenure	Particulars of Occupancy	Market value as at 30 April 2010 (RMB)
22. A piece of land located at Ma Yong Town Dongguan District The People's Republic of China	The properties comprise a site with area of approximately 289,410.35 sq.m.	Subject property is mainly used for future development.	124,928,515 <i>see note (ii)</i>

Notes:

- i) According to two State-Owned Land Use Right Certificate, a total site area of approximately 317,661 sq.m. have been granted to 中國南山開發股份有限公司東莞分公司 (renamed as “中國南山開發(集團)股份有限公司東莞分公司”) for industrial/commercial use for a term up to 11 July 2043.

Their respective certificate no. and area are show below:

Certificate No.	Site Area (sq.m.)
No. Dong Guo Tei 641 (東國特641號)	96,986
No. Dong Guo Tei 642 (東國特642號)	220,675

- ii) We were instructed to value site area of about 289,410.35 sq.m.. Therefore, in course of our valuation, we have only assessed the land portion with a total site area of about 289,410.35 sq.m.
- iii) We have been provided with a PRC legal opinion on the property issued by Commerce & Finance Law Offices (通商律師事務所), the PRC legal adviser, which contains, inter alias, the following information:
- (a) 中國南山開發股份有限公司東莞分公司 has obtained the land use right under the aforesaid Realty Title Certificate mentioned in Note (i).
- (b) 中國南山開發股份有限公司東莞分公司 is entitled to transfer, let or mortgage the land use right mentioned in Note (i).
- (c) No mortgage has been recorded.
- (d) 中國南山開發(集團)股份有限公司東莞分公司 has to apply for the change of name of Stated-Owned land use right certificates mentioned in Note (i) to 中國南山開發(集團)股份有限公司東莞分公司.

1 RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2 FINANCIAL INFORMATION OF THE GROUP

Please refer to the annual reports of the Company for the year ended 31 December 2007, 2008 and 2009 published by the Company on 24 April 2008, 29 April 2009 and 21 April 2010, respectively, which contain information for the three years ended 31 December 2007, 2008 and 2009 with respect to the profits and losses, financial record and position of the Group and the audited consolidated statement of financial position of the Group together with the notes on the annual accounts for the year ended 31 December 2009. The annual reports are available on the Company's website (www.cmhi.com.hk) and the Stock Exchange's website (www.hkexnews.com.hk).

3 MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2009, the date to which the latest published audited financial statements of the Group were made up.

4 DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which: (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive of the Company were deemed or taken to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant

to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) adopted by the Company, to be notified to the Company and the Stock Exchange were as follows:

(a) **Interest in Shares**

Name of Director	Number of Shares	Percentage of issued Shares
Dr. Fu Yuning	539,029 (long position)	0.022%
Mr. Yu Liming	361,092 (long position)	0.015%
Mr. Wang Hong	513,605 (long position)	0.021%
Mr. Lee Yip Wah Peter	147,040 (long position)	0.006%
Mr. Li Kwok Heem John*	1,472,714 (long position)	0.061%

* Mr. Li is deemed to be interested in the Shares which are held by a trust in which his spouse is a beneficiary.

(b) **Share Option Scheme**

The following Directors hold options to subscribe for Shares pursuant to the share option scheme adopted by the Company on 20 December 2001 and revised on 27 August 2002 (the “Existing Scheme”):

Name of Director	Date of grant	Exercise price per Share (HK\$)	Total options granted (and percentage of issued Shares)	Options exercised (and percentage of issued Shares)	Balance of options not exercised as Practicable Date¹ (and percentage of issued Shares)
Dr. Fu Yuning	25 May 2006	23.03	800,000 0.033%	400,000 0.016%	400,000 0.016%
Mr. Li Yinquan	27 October 2004	11.08	500,000 0.021%	450,000 0.018%	50,000 0.002%
	25 May 2006	23.03	400,000 0.016%	— —	400,000 0.016%
Mr. Hu Zheng	27 October 2004	11.08	500,000 0.021%	200,000 0.008%	300,000 0.012%
	25 May 2006	23.03	400,000 0.016%	— —	400,000 0.016%
Mr. Meng Xi	25 May 2006	23.03	400,000 0.016%	200,000 0.008%	200,000 0.008%

Name of Director	Date of grant	Exercise price per Share (HK\$)	Total options granted (and percentage of issued Shares)	Balance of options not exercised as Options at the Latest Practicable Date ¹ (and percentage of issued Shares)	
				exercised (and percentage of issued Shares)	Practicable Date ¹ (and percentage of issued Shares)
Mr. Su Xingang	25 May 2006	23.03	350,000 0.014%	— —	350,000 0.014%
Mr. Yu Liming	25 May 2006	23.03	500,000 0.021%	— —	500,000 0.021%
Mr. Wang Hong	25 May 2006	23.03	650,000 0.027%	500,000 0.021%	150,000 0.006%
Mr. Liu Yunshu	25 May 2006	23.03	500,000 0.021%	100,000 0.004%	400,000 0.016%
			<u>5,000,000</u> <u>0.205%</u>	<u>1,850,000</u> <u>0.076%</u>	<u>3,150,000</u> <u>0.129%</u>

Note:

1. If such options are exercised in full, they will represent 0.129% of the issued share capital of the Company.

The options granted pursuant to the Existing Scheme and not exercised as at the Latest Practicable Date may be exercised at any time during a period of ten years commencing on the date of grant of the options.

Other than the Shares and the share options as set out above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company had any interests or short position in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which are required to be: (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code.

The following Directors hold executive positions with the following Shareholders (details of the shareholding of such Shareholders in the Company are set out in the paragraph headed “Substantial Shareholders’ Interests” in this appendix):

- (i) Dr. Fu Yuning, Mr. Li Yinquan, Mr. Meng Xi, Mr. Yu Liming and Mr. Su Xingang hold executive positions with CMG;

- (ii) Mr. Wang Hong holds executive position with CMHK; and
- (iii) Mr. Hu Zheng holds executive positions with CMG and China Merchants Shekou Industrial Zone Company Limited.

Save as disclosed herein, none of the Directors is a director or employee of a company which has, or is deemed to have, an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

5 LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or claims of material importance and, so far as the Directors are aware, no litigation or claim of material importance is pending or threatened against any member of the Enlarged Group.

6 SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into, or proposed to enter into, any service contract with the Company or any member of the Enlarged Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

7 COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors and their respective associates was interested in any business, apart from the Company's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Company's business and there is no contract or arrangement subsisting at the Latest Practicable Date in which any Director is materially interested and which is significant in relation to the Enlarged Group's business.

8 OTHER INTEREST

As at the Latest Practicable Date, none of the Directors nor any experts named in the paragraph headed "Qualification and Consent of Experts" in this appendix had any direct or indirect interest in any assets which had been, since 31 December 2009, the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to, any member of the Enlarged Group, or are proposed to be acquired or disposed of by, or leased to, any member of the Enlarged Group.

9 QUALIFICATION AND CONSENT OF EXPERTS

The following are the qualifications of the professional advisers who have given opinions or advice contained in this circular:

Names	Qualifications
Samsung Securities	Licensed corporation for types 1, 4 and 6 regulated activity under the SFO
PricewaterhouseCoopers	Certified public accountants
Grant Sherman Appraisal Limited	Independent property valuer

Samsung Securities, PricewaterhouseCoopers and Grant Sherman Appraisal Limited have given and have not withdrawn their written consent to the issue of this circular with the inclusion of their letters and reports, as the case may be, and reference to their name in the form and context in which they respectively appears.

None of Samsung Securities, PricewaterhouseCoopers nor Grant Sherman Appraisal Limited is beneficially interested in the share capital of any member of the Group and none of them has any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

10 MATERIAL CONTRACTS

The following contracts are all the material contracts (not being entered into in the ordinary course of business of the Enlarged Group) entered into by members of the Enlarged Group, within the two years preceding the Latest Practicable Date:

- (a) The Entrustment Agreement.
- (b) The joint venture agreement and asset transfer agreement dated 5 June 2010 entered into between China Merchants International Container Terminal (Qingdao) Co., Ltd. (“CM Qingdao”) and Qingdao Port (Group) Co., Ltd. (“Qingdao Port Group”) pursuant to which CM Qingdao and Qingdao Port Group agreed to establish a joint venture, Qingdao Qianwan West Port United Terminal Co., Ltd. (“Qingdao Terminal JV”). The Qingdao Terminal JV will be owned as to 49% by CM Qingdao and as to 51% by Qingdao Port Group. CM Qingdao and Qingdao Port Group will contribute RMB245,000,000 and RMB255,000,000, respectively to the registered capital of the Qingdao Terminal JV. CM Qingdao and Qingdao Port Group will also transfer certain assets to the Qingdao Terminal JV pursuant to the asset transfer agreement.

- (c) The joint venture agreement dated 29 April 2010 between CMHI Terminals (Vietnam) Limited (“CMHI Vietnam”), Ben Ding Sao Mai Port Development Joint Stock Company (“BSPD”) and Sao Mai Ben Dinh Petroleum Investment Joint Stock Company (“PVSB”), pursuant to which the parties agreed to establish a joint venture company to construct, develop and operate the Vung Tau International Container Port (including a modern warehouse and logistics park) located in the Ba Ria-Vung Tau Province in the Southern Economic Focal Zone of Vietnam. Under the joint venture agreement, CMHI Vietnam, BSPD and PVSB shall each contribute VND490 billion, VND260 billion and VND250 billion respectively in exchange for 49%, 26% and 25% interests respectively in the joint venture company.
- (d) The joint venture agreement dated 18 December 2009 entered into between CM Qingdao and Qingdao New Qianwan Container Terminal Co., Ltd. (“QQCTN”), pursuant to which CM Qingdao and QQCTN agreed to establish a 50:50 joint venture, Qingdao Qianwan United Container Terminal Co., Ltd. (“QQCTU”) in the PRC. CM Qingdao and QQCTN will each contribute RMB1,000,000,000 to the registered capital of QQCTU and each of CM Qingdao and QQCTN shall inject cash as well as transfer assets to QQCTU.
- (e) The share purchase agreement dated 15 November 2008 entered into the Company, Hoi Hung HHH (BVI) Limited (“Hoi-Hung HHH”) and Hempel A/S pursuant to which Hoi-Hung HHH agreed to sell to Hempel A/S, and Hempel A/S agreed to purchase 674,800 ordinary shares of Hempel-Hai Hong (China) Limited at a consideration of HK\$1,146,496,000.
- (f) The heads of agreement dated 23 October 2008 between the Company and Petrovietnam Construction Joint Stock Corporation (“PVC”), pursuant to which the Company and PVC agreed on the principal terms for the establishment of a joint venture company (“Tien Giang JV Company”) to invest, develop and operate the Tien Giang Petroleum Service Industrial Zone in Tien Giang Province, Vietnam. The Tien Giang JV Company will be owned as to 51% by PVC and as to 49% by the Company through its subsidiary. The Group and PVC will contribute US\$9.8 million and US\$10.2 million, respectively, to the charter capital of the Tien Giang JV Company.
- (g) The heads of agreement dated 22 October 2008 between the Company and PVSB, pursuant to which the Company and PVSB agreed on the principal terms for the establishment of a joint venture company (“SMBD JV Company”) to invest, develop, and construct a marine logistic base and a general cargo port at Sao Mai-Ben Dinh area in Vung Tau Province in the Southern Economic Focal Zone of Vietnam. The SMBD JV Company will be owned as to 35% by PVSB and as to 65% by the Company through its subsidiary. The Group and PVSB will contribute US\$39 million and US\$21 million, respectively, to the charter capital of the SMBD JV Company.

- (h) The joint venture agreement dated 8 September 2008 between CMHI Vietnam and Vung Tau International Container Port Investment Joint Stock Company (the “JV Partner”), pursuant to which the parties agreed to establish a joint venture company to construct and operate Ben Dinh Sao Mai Deep Seaport located in the Southern Economic Focal Zone of Vietnam. Under the joint venture agreement, CMHI Vietnam and the JV Partner shall each contribute US\$29.4 million and US\$30.6 million respectively in exchange for 49% and 51% interests respectively in the joint venture company.

11 MISCELLANEOUS

- (a) The company secretary of the Company is Mr. Leung Chong Shun who is a solicitor of the High Court of Hong Kong.
- (b) The registered office of the Company is at 38th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.
- (c) Computershare Hong Kong Investor Services Limited, the share registrar and transfer office of the Company in Hong Kong, is located at 46th Floor and Rooms 1712-16, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong respectively.
- (d) The English text of this circular shall prevail over the Chinese text.

12 DOCUMENTS FOR INSPECTION

Copies of the following documents will be available for inspection at Linklaters, 10th Floor, Alexandra House, Chater Road, Hong Kong during normal business hours on any business day from the date of this circular up to and including 14 July 2010:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for each of the financial years ended 31 December 2008 and 31 December 2009;
- (c) the Entrustment Agreement;
- (d) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 14 to 15 of this circular;
- (e) the letter of advice from Samsung Securities to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 16 to 26 of this circular;
- (f) the accountant’s report of the Nanshan Group from PricewaterhouseCoopers, the text of which is set out in Appendix 1 to this circular;

- (g) the report from PricewaterhouseCoopers on the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix 2 to this circular;
- (h) the property valuation report prepared by Grant Sherman Appraisal Limited, the text of which is set out in Appendix 4 to this circular;
- (i) the written consents from the experts referred to under the paragraph “Qualification and Consent of Experts” in this appendix;
- (j) the contracts referred to under the paragraph “Material Contracts” in this appendix; and
- (k) this circular.

NOTICE OF THE EGM



招商局國際有限公司

CHINA MERCHANTS HOLDINGS (INTERNATIONAL) COMPANY LIMITED

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

(Stock Code: 144)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of the shareholders of China Merchants Holdings (International) Company Limited (the “**Company**”) will be held at the Ball Room, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Thursday, 12 August 2010 at 9:30 a.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

“**THAT** the entrustment agreement dated 18 June 2010 and entered into between the Company and China Merchants Holdings (Hong Kong) Company Limited (“**CMHK**”) in relation to the grant by CMHK to the Company of the management rights and the power to direct the voting right over 23.493% of the total issued share capital of China Nanshan Development (Group) Incorporation, for a one-off nominal consideration of RMB1.00 (the “**Entrustment Agreement**”, copy of which has been produced to this meeting marked “A” and signed by the chairman of this meeting for the purpose of identification), be and is hereby generally and unconditionally approved and any one director of the Company be and is hereby authorised to do all such further things and acts and execute all such further documents and take all such steps which he considers necessary, desirable or expedient to implement and/or give effect to any matters relating to or in connection with the Entrustment Agreement and any of the transactions contemplated thereunder.”

By Order of the Board
Fu Yuning
Chairman

Hong Kong, 30 June 2010

Registered Office:

38th Floor, China Merchants Tower,
Shun Tak Centre,
168-200 Connaught Road Central,
Hong Kong

Notes:

1. A member entitled to attend and vote at the meeting convened pursuant to the above notice is entitled to appoint one or more proxies to attend and vote in his place. A proxy need not be a member of the Company.

NOTICE OF THE EGM

2. In order to be valid, the instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power of attorney or authority, must be deposited at the Company's registered office at 38th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting.
3. Pursuant to Rule 13.39(4) of the Listing Rules, all votes at the extraordinary general meeting will be taken by poll and the Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules. The Chairman of the Meeting will therefore demand a poll for the resolution put to the vote at the extraordinary general meeting pursuant to Article 58 of the Articles of Association of the Company.
4. As at the date of this notice, the Board of Directors of the Company comprises Dr. Fu Yuning, Mr. Li Yinquan, Mr. Hu Zheng, Mr. Meng Xi, Mr. Su Xingang, Mr. Yu Liming, Mr. Hu Jianhua, Mr. Wang Hong and Mr. Liu Yunshu as executive directors; and Mr. Tsang Kam Lan, Mr. Kut Ying Hay, Mr. Lee Yip Wah Peter, Mr. Li Kwok Heem John and Mr. Li Ka Fai David as independent non-executive directors.