

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation and accounting policies

These unaudited consolidated condensed interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants.

These condensed interim financial statements should be read in conjunction with the 2000 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2000 except that the Group has changed certain of its accounting policies following the adoption of the following SSAPs issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 January 2001:

| | |
|--------------------|--|
| SSAP 9 (revised): | Events after the balance sheet date |
| SSAP 14 (revised): | Leases (effective for periods commencing on or after 1 July 2000) |
| SSAP 26: | Segment reporting |
| SSAP 28: | Provisions, contingent liabilities and contingent assets |
| SSAP 29: | Intangible assets |
| SSAP 30: | Business combinations |
| SSAP 31: | Impairment of assets |
| SSAP 32: | Consolidated financial statements and accounting for investments in subsidiaries |

The changes to the Group's accounting policies and the effects of adopting these new policies are set out below:

(a) *SSAP 9 (revised): Events after balance sheet date*

In accordance with the revised SSAP 9, the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in Note 13, opening retained earnings at 1 January 2000 have increased by HK\$142,973,000 which is the reversal of the provision for the 1999 proposed final dividend previously recorded as a liability as at 31 December 1999 although not declared until after balance sheet date. Opening retained earnings at 1 January 2001 have increased by HK\$164,002,000 which is the reversal of the provision for 2000 proposed final dividend previously recorded as a liability as at 31 December 2000 although not declared until after the balance sheet date. A corresponding decrease in current liabilities by HK\$164,002,000 has been reflected in the comparative 31 December 2000 balance sheet.

Changes to headings used in the previously reported 31 December 2000 balance sheet and profit and loss account relating to dividends and profit for the year retained have also been made to reflect the changes resulting from SSAP 9 (revised).

(b) *SSAP 14 (revised): Leases*

In accordance with revised SSAP 14, the Group is required to disclose the aggregate future minimum lease payments, analysed into the periods on which the payment is to be made. This is a change from previous SSAP 14 which only required disclosure of the minimum lease payments payable in the next twelve months, analysed into the periods in which the lease expires. Comparative Information has also been restated to conform to the changed policy.

(c) *SSAP 26: Segment Reporting*

In Note 2 to these condensed interim financial statements the Group has disclosed segment revenue and results as defined under SSAP 26. In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format. Comparative information has been given.



(d) SSAP 30 Business Combinations

Goodwill/Negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary / associated company / jointly controlled entity at the date of acquisition. Goodwill on acquisitions occurring on or after 1 January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life. Goodwill on acquisitions that occurred prior to 1 January 2001 was written off against reserves. The Group has taken advantage of the transitional provisions in SSAP 30 and such goodwill has not been retroactively capitalised and amortised. However any impairment arising on such goodwill is accounted for in accordance with SSAP 31 "Impairment of Assets".

Goodwill arising on major strategic acquisitions of the Group to expand its product or geographical market coverage is amortised over a maximum period of 20 years. For all other acquisitions goodwill is generally amortised over 20 years.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition. For acquisitions after 1 January 2001, negative goodwill is presented in the same balance sheet classification as goodwill.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities, that portion of negative goodwill is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those assets is recognised in the income statement immediately. For acquisitions prior to 1 January 2001, negative goodwill was taken directly to reserves on acquisition. The Group has taken advantage of the transitional provisions in SSAP 30 and such negative goodwill will not be restated.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of or, for pre 1 January 2001 acquisitions, the related goodwill written off against reserves to the extent it has not previously been realised in the profit and loss account.

2. Segment information

Business Segment for the period ended 30 June 2001

The Group is principally engaged in port and port-related business, infrastructure business and industrial manufacturing business.

An analysis of the Group's revenue and results for the period by business segments is as follows:

| | Port and port-related | | Infrastructure | | Industrial manufacturing | | Others | | Group | |
|--|------------------------|------------------|------------------------|------------------|--------------------------|------------------|------------------------|------------------|------------------------|------------------|
| | 6 months ended 30 June | | 6 months ended 30 June | | 6 months ended 30 June | | 6 months ended 30 June | | 6 months ended 30 June | |
| | 2001 HK\$'000 | 2000 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 |
| Revenue | 272,501 | 226,950 | 15,182 | 137,879 | 339,856 | 361,259 | 13,847 | 15,144 | 641,386 | 741,232 |
| Segment results | 168,970 | 131,690 | 43,499 | 69,674 | 36,212 | 60,447 | 29,398 | 6,540 | 278,079 | 268,351 |
| Unallocated income less expenses | | | | | | | | | 2,888 | 762 |
| Operating profit | | | | | | | | | 280,967 | 269,113 |
| Finance costs | | | | | | | | | (40,264) | (49,093) |
| Share of profits less losses of Associates | 221,123 | 204,638 | - | - | 106,103 | 75,265 | - | - | 327,226 | 279,903 |
| Jointly controlled entities | (885) | - | 79,855 | 14,084 | - | - | - | - | 78,970 | 14,084 |
| Gain/(loss) on disposal of associates | | | | | | | | | 5,165 | (19,134) |
| Profit before taxation | | | | | | | | | 652,064 | 494,873 |
| Taxation | | | | | | | | | (51,444) | (44,675) |
| Profit after taxation | | | | | | | | | 600,620 | 450,198 |
| Minority Interests | | | | | | | | | (38,767) | (52,206) |
| Profit attributable to shareholders | | | | | | | | | 561,853 | 397,992 |

The group is organised into three main business segments:

Port and port-related business – port service business consisting of container terminal business, bulk and general cargo terminal business, port transportation and airport cargo handling business and shipping business

Infrastructure business – tollroad operation business

Industrial manufacturing business – paint manufacturing business and container manufacturing business

Geographical segment for the period ended 30 June 2001

The Group's three business segments are operated mainly in Hong Kong and mainland China:

Hong Kong – container terminal business and airport cargo handling business

Mainland China – port service business, infrastructure business and industrial manufacturing business

Others – industrial manufacturing business

The port and port-related business includes shipping activities. The Group's shipping activities cover the World's shipping routes. The directors consider that it would not be meaningful to allocate turnover and operating profit to specific geographical segments for the Group's shipping activities.

An analysis of the Group's turnover and contribution to operating profit for the period by geographical segment is as follows:

| | Turnover 6 months ended 30 June | | Operating Profit 6 months ended 30 June | |
|---|---------------------------------------|------------------|---|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 | 2001 HK\$'000 | 2000 HK\$'000 |
| Operations other than port and port-related business: | | | | |
| Hong Kong | 33,151 | 34,384 | 32,533 | 10,427 |
| Mainland China | 303,817 | 449,432 | 72,762 | 121,817 |
| Others | 31,917 | 30,466 | 3,402 | 5,098 |
| Port and port-related business | 272,501 | 226,950 | 172,270 | 131,771 |
| | 641,386 | 741,232 | 280,967 | 269,113 |

3. Operating profit

Operating profit is stated after crediting and charging the following:

| | 6 months ended 30 June | |
|---|---------------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Crediting | | |
| Gain on disposal of other investments | 29,051 | 607 |
| Unrealised holding gain on listed and other investments | 1,801 | 5,981 |
| Charging | | |
| Depreciation and amortisation on: | | |
| Property, plant and equipment | 64,906 | 65,891 |
| Goodwill | 3,635 | – |
| Toll highway operation rights | 3,038 | 72,044 |
| Loss on disposal of fixed assets | 528 | 323 |

4. Taxation

Taxation on profits arising from mainland China has been calculated based on the estimated assessable profit for the period at the rates of taxation prevailing in the area in which the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents:

| | 6 months ended 30 June | |
|------------------------------------|-----------------------------------|--------------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Mainland China taxation | 5,578 | 6,598 |
| Over provisions in prior periods | (517) | (288) |
| | <u>5,061</u> | <u>6,310</u> |
| Share of taxation attributable to: | | |
| Associates | 45,468 | 38,365 |
| Jointly controlled entities | 915 | – |
| | <u>51,444</u> | <u>44,675</u> |

5. Interim dividend

| | 6 months ended 30 June | |
|--|-----------------------------------|--------------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| 2001 interim dividend of HK7.0 cents (2000: HK5.0 cents) per ordinary share | <u>143,792</u> | <u>102,492</u> |

At the board meeting held on 18 September 2001 the directors declared an interim dividend of HK7.0 cents per share. This proposed dividend is not reflected as a dividend payable in these interim condensed financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2001.

6. Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$561,853,000 (2000: HK\$397,992,000). The diluted earnings per share is based on adjusted earnings of HK\$573,036,000 (2000: HK\$409,108,000).

The basic earnings per share is based on the weighted average of 2,052,392,620 (2000: 2,040,027,166) ordinary shares in issue during the period. The diluted earnings per share is based on 2,115,593,759 (2000: 2,102,024,766) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average of 63,201,139 (2000: 61,997,600) ordinary shares deemed to be issued at no consideration if all outstanding convertible bonds and share options had been exercised.

7. Property, plant and equipment

| | 30 June 2001 HK\$'000 |
|-------------------------------|--------------------------------------|
| Opening net book amount | 2,856,243 |
| Additions | 4,565 |
| Disposals | (528) |
| Depreciation and amortisation | <u>(64,906)</u> |
| Closing net book amount | <u>2,795,374</u> |

8. Intangible assets

| | Toll highway operating rights <i>HK\$'000</i> | Negative goodwill <i>HK\$'000</i> | Total <i>HK'000</i> |
|--|--|---|------------------------|
| 6 months ended 30 June 2001 | | | |
| Opening net book amount | 332,364 | – | 332,364 |
| Acquisition of minority interest in a subsidiary | – | (165,355) | (165,355) |
| Amortisation charge | (3,038) | – | (3,038) |
| Closing net book amount | <u>329,326</u> | <u>(165,355)</u> | <u>163,971</u> |
| At 30 June 2001 | | | |
| Cost | 349,884 | (165,355) | 184,529 |
| Accumulated amortisation | (20,558) | – | (20,558) |
| Net book amount | <u>329,326</u> | <u>(165,355)</u> | <u>163,971</u> |
| At 31 December 2000 | | | |
| Cost | 349,884 | – | 349,884 |
| Accumulated amortisation | (17,520) | – | (17,520) |
| Net book amount | <u>332,364</u> | <u>–</u> | <u>332,364</u> |

9. Debtors, deposits and prepayments

Included in debtors, deposits and prepayments are trade debtors and their ageing analysis is as follows:

| | 0-30 days <i>HK\$'000</i> | 31-60 days <i>HK\$'000</i> | 61-120 days <i>HK\$'000</i> | Over 120 days <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|-----------------------------|------------------------------|-------------------------------|--------------------------------|-------------------------------------|--------------------------|
| Balance at 30 June 2001 | <u>72,762</u> | <u>22,708</u> | <u>20,542</u> | <u>56,361</u> | <u>172,373</u> |
| Balance at 31 December 2000 | <u>108,167</u> | <u>23,217</u> | <u>45,389</u> | <u>71,561</u> | <u>248,334</u> |

The group has a credit policy of allowing an average credit period of 60 days to its customers.

10. Creditors and accruals

Included in creditors and accruals are trade payables and their ageing analysis is as follows:

| | 0-30 days <i>HK\$'000</i> | 31-60 days <i>HK\$'000</i> | 61-120 days <i>HK\$'000</i> | Over 120 days <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|-----------------------------|------------------------------|-------------------------------|--------------------------------|-------------------------------------|--------------------------|
| Balance at 30 June 2001 | <u>95,073</u> | <u>20,293</u> | <u>8,408</u> | <u>7,469</u> | <u>131,243</u> |
| Balance at 31 December 2000 | <u>82,723</u> | <u>19,058</u> | <u>7,302</u> | <u>8,696</u> | <u>117,779</u> |

11. Bank borrowings

| | 30 June 2001 HK\$'000 | 31 December 2000 HK\$'000 |
|--|--------------------------------------|--|
| Bank loans and overdraft | | |
| Unsecured | 505,416 | 716,629 |
| Secured | 222,152 | 227,806 |
| | 727,568 | 944,435 |
| Current portion of long-term liabilities | (410,282) | (447,271) |
| | 317,286 | 497,164 |

At 30 June 2001, the Group's bank loans and overdraft were repayable as follows:

| | Bank loans and overdrafts | |
|----------------------------|--------------------------------------|--|
| | 30 June 2001 HK\$'000 | 31 December 2000 HK\$'000 |
| Within one year | 410,282 | 447,271 |
| In the second year | 48,466 | 204,014 |
| In the third to fifth year | 115,503 | 131,808 |
| After the fifth year | 153,317 | 161,342 |
| | 727,568 | 944,435 |

12. Share capital and options

| | Authorised Ordinary shares of HK\$0.1 each | |
|--|--|-----------------|
| | No. of shares | HK\$'000 |
| At 1 January and 30 June 2001 | 3,000,000,000 | 300,000 |
| | Issued and fully paid Ordinary shares of HK\$0.1 each | |
| | No. of shares | HK\$'000 |
| At 1 January 2001 | 2,050,022,388 | 205,002 |
| Issue of shares on exercise of share options | 4,150,000 | 415 |
| At 30 June 2001 | 2,054,172,388 | 205,417 |

During the period, the Company has issued shares as follows:

| Date of issue | No. of shares issued | Exercise price per share HK\$ | Nominal value of shares issued HK\$'000 | Premium on shares issued HK\$'000 | Total consideration HK\$'000 |
|-----------------|----------------------|----------------------------------|--|--------------------------------------|---------------------------------|
| 18 January 2001 | 158,000 | 5.054 | 16 | 783 | 799 |
| 2 March 2001 | 140,000 | 5.054 | 14 | 694 | 708 |
| 2 March 2001 | 48,000 | 5.615 | 5 | 265 | 270 |
| 8 March 2001 | 3,000,000 | 5.054 | 300 | 14,862 | 15,162 |
| 14 March 2001 | 164,000 | 5.054 | 16 | 812 | 828 |
| 31 May 2001 | 350,000 | 5.054 | 35 | 1,734 | 1,769 |
| 31 May 2001 | 12,000 | 5.630 | 1 | 66 | 67 |
| 6 June 2001 | 228,000 | 5.054 | 23 | 1,130 | 1,153 |
| 11 June 2001 | 50,000 | 5.054 | 5 | 248 | 253 |

During the period, no ordinary shares were repurchased and cancelled.

At an Extraordinary General Meeting of the Company held on 26 June 1992, the Share Option Scheme was approved and adopted. During the period, options to subscribe for 750,000 ordinary shares of the Company were granted to selected employees at an exercise price of HK\$5.63 per share. At 30 June 2001 there were 11,575,000 options outstanding which are exercisable subject to the terms of the Share Option Scheme.

13. Retained earnings

| | |
|--|------------------|
| | <i>HK\$'000</i> |
| At 1 January 2000 as previously reported | 1,491,416 |
| Effect of adopting SSAP 9 (Revised) | 142,973 |
| | <hr/> |
| At 1 January 2000 as restated | 1,634,389 |
| 1999 final dividend paid | (142,973) |
| Share of statutory reserves of jointly controlled entities | (2,426) |
| Profit for the year | 878,068 |
| 2000 interim dividend paid | (102,492) |
| Transfer to reserves | (20,826) |
| | <hr/> |
| At 31 December 2000 | <u>2,243,740</u> |
| Represented by: | |
| Retained earnings | 2,079,738 |
| 2000 final dividend proposed | 164,002 |
| | <hr/> |
| | <u>2,243,740</u> |
| | <i>HK\$'000</i> |
| At 1 January 2001 as previously reported | 2,079,738 |
| Effect of adopting SSAP 9 (Revised) | 164,002 |
| | <hr/> |
| At 1 January 2001 as restated | 2,243,740 |
| Profit for the period | 561,853 |
| 2000 final dividend proposed | (164,002) |
| | <hr/> |
| At 30 June 2001 | <u>2,641,591</u> |
| Represented by: | |
| Retained earnings | 2,497,799 |
| 2001 interim dividend proposed | 143,792 |
| | <hr/> |
| | <u>2,641,591</u> |

14. Contingent liabilities

| | 30 June 2001 HK\$'000 | 31 December 2000 HK\$'000 |
|--|--------------------------------------|--|
| Guarantees for bank loans and overdrafts of subsidiaries | 43,840 | 58,461 |
| Guarantees for bank loans of associates | 98,240 | 101,750 |
| Guarantees for bank loans of an investee | 3,900 | 3,900 |
| Guarantees for convertible bonds issued by a subsidiary | 317,435 | 317,435 |
| | <u>463,415</u> | <u>481,546</u> |

15. Commitments

(a) *Capital commitments for property, plant and equipment*

| | 30 June 2001 HK\$'000 | 31 December 2000 HK\$'000 |
|---------------------------------|--------------------------------------|--|
| Contracted but not provided for | <u>15,573</u> | <u>13,255</u> |

(b) *Commitments under operating leases*

At 30 June 2001, the Group had total future aggregate minimum lease payments under non-cancellable operating leases as follows:

| | 30 June 2001 Land and buildings HK\$'000 | Restated 31 December 2000 Land and buildings HK\$'000 |
|---------------------------------------|---|--|
| Within one year | 4,597 | 4,963 |
| In the second to fifth year inclusive | 9,540 | 12,930 |
| | <u>14,137</u> | <u>17,893</u> |

16. Related party transactions

Significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

| | 6 months ended | |
|---|-----------------------|-----------------|
| | 30 June | |
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Holding companies and fellow subsidiaries | | |
| Rental received | 13,855 | 15,144 |
| Rental paid | 1,224 | 1,224 |
| Transportation services fee paid | 595 | 392 |
| Sale of paints | 3,049 | 3,334 |
| Management fees paid | 6,677 | 6,357 |
| Associated companies and other related parties | | |
| Sale of paints | 112,957 | 127,978 |
| Rental paid | 214 | 214 |
| Deposits by the Group | 53,426 | 257,992 |
| Interest on deposits | 706 | 717 |
| Other connected parties | | |
| Royalties paid | 11,143 | 12,097 |
| Sale of paints | 31,917 | 29,298 |
| Interest paid | 549 | 500 |

The above transactions were entered into on the following bases:

- (i) Transportation services fee, royalties and sales were charged at negotiated prices by reference to market rates.
- (ii) Management fee was charged at cost plus a percentage mark-up and by reference to turnover.
- (iii) Rental charged by the Group were based on independent property valuation reports and in accordance with the tenancy agreement entered into in January 2000.
- (iv) Rental charged to the Group was based on mutual agreement.
- (v) Interest paid and received was based on market rates.

17. Subsequent events

On 6 July 2001, options to subscribe for 700,000 ordinary shares of the Company were granted to selected employees at an exercise price of HK\$5.61 per share.

On 7 August 2001, 500,000 shares of HK\$0.1 each of the Company were repurchased by the Company at prices ranging from HK\$4.725 to HK\$4.775 per share on the Hong Kong Stock Exchange. Such repurchase involved a total cash outlay of HK\$2,373,750 and was made pursuant to the general mandate granted by the shareholders at the annual general meeting held on 18 June 2001 and in accordance with the Listing Rules of the Hong Kong Stock Exchange.