

## NOTES TO CONDENSED INTERIM ACCOUNTS

### 1. Principal accounting policies

These unaudited consolidated condensed interim accounts ("condensed interim accounts") are prepared in accordance with Statement of Standard Accounting Practice 2.125, "Interim Financial Reporting", issued by the Hong Kong Society of Accountants, and Appendix 16 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The condensed interim accounts should be read in conjunction with the 2001 annual accounts.

The principal accounting policies and methods of computation used in the preparation of the condensed interim accounts are consistent with those used in the annual accounts for the year ended 30 June 2001, except that the Group has changed certain of its accounting policies following the adoption of the following Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 January 2001.

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 relevant changes to the Group's principal accounting policies and the related effects of adopting these new SSAPs are set out below:

(a) SSAP 26: Segment reporting

In note 2 to the condensed interim accounts, the Group has disclosed segment turnover and the operating 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.

(b) SSAP 30: Business combinations

Goodwill on acquisitions occurring on or after 1 July 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 July 2001 was taken to reserves. The Group has adopted 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".

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

(c) SSAP 31: Impairment of assets

SSAP 31 "Impairment of assets" requires that the carrying amount of an asset is reduced to reflect the decline in value when the recoverable amount of an asset has declined below its carrying amount. In determining the recoverable amount of assets, expected cash flows are discounted to their present values.

The assessment on the carrying amounts of assets has indicated impairment losses for fixed assets of HK\$77,500,000 which have been provided for in the interim accounts for the six months ended 31 December 2001.

## 2. Turnover

Turnover represents income from cargo and container handling and storage, and road freight services, net of business tax. An analysis of the Group's turnover and contribution to operating profit/(loss) by principal activities for the period is as follows:

	Turnover for the six months ended 31 December		Operating profit/(loss) for the six months ended 31 December	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Principal activities:				
Cargo handling and storage	27,901	27,328	(5,448)	(15,716)
Container handling and storage	42,172	32,494	7,121	333
Road freight services	3,387	3,298	(1,642)	(1,211)
Loss on disposal of a subsidiary and partial disposal of jointly controlled entities (note 8)	-	-	(90,020)	-
Impairment losses on fixed assets (note 1(c))	-	-	(77,500)	-
Other overheads	-	-	(7,322)	(16,937)
	<b>73,460</b>	63,120	<b>(174,811)</b>	(33,531)

The principal market of the Group is located in the People's Republic of China (the "PRC").

## 3. Operating loss

Operating loss is stated after charging cost of services rendered of HK\$52,942,000 (2000: HK\$50,276,000) and crediting an amount of HK\$4,905,000, representing a write back of the accumulated losses less reserves of a former subsidiary as a result of its deconsolidation from the Group during the period (note 11).

## 4. Taxation

No provision for Hong Kong profits tax has been provided as the Group has no estimated assessable profit for the six months ended 31 December 2001 (2000: HK\$Nil). Taxation on profits outside Hong Kong has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates. Certain subsidiaries operating in the PRC are entitled to a 100% tax relief from corporate income tax for the period, accordingly no corporate income tax has been made for the estimated assessable profit of those subsidiaries for the period.

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

	<b>For the six months ended 31 December</b>	
	<b>2001 HK\$'000</b>	2000 HK\$'000
Company and subsidiaries		
PRC taxation	<b>40</b>	44
Share of taxation attributable to:		
Jointly controlled entities		
Hong Kong profits tax	<b>12,076</b>	11,591
Associated companies		
Hong Kong profits tax	<b>21,144</b>	23,096
PRC taxation	<b>22</b>	–
	<b>33,282</b>	34,731

There was no material unprovided deferred tax charge for the period (2000: HK\$Nil).

#### 5. **Minority interests**

Minority interests of HK\$4,643,000 for the six months ended 31 December 2001 (2000: HK\$8,218,000) represent the minority interests' share of losses less profits of non-wholly owned subsidiaries of the Group.

#### 6. **Dividend**

	<b>For the six months ended 31 December</b>	
	<b>2001 HK\$'000</b>	2000 HK\$'000
4% cumulative convertible redeemable preference shares	<b>67,489</b>	67,489

#### 7. **(Loss)/earnings per share**

The calculation of basic (loss)/earnings per share is based on the Group's profit attributable to shareholders of HK\$12,541,000 (2000: HK\$164,743,000) less preference share dividend of HK\$67,489,000 (2000: HK\$67,489,000) and the weighted average of 2,059,968,000 (2000: 2,059,968,000) ordinary shares in issue during the period.

The diluted loss per share for the six months ended 31 December 2001 is not presented as the conversion of preference shares is anti-dilutive.

The diluted earnings per share for the six months ended 31 December 2000 was based on 5,253,622,306 ordinary shares which were the weighted average number of 2,059,968,000 ordinary shares in issue during the period plus the weighted average of 3,193,654,306 ordinary shares deemed to be issued on the conversion of all preference shares.

The conversion of share options was not dilutive as the exercise price of the Company's outstanding options was higher than the fair value per ordinary share for the six months ended 31 December 2001 and 2000.

## 8. Loss on disposal of a subsidiary and partial disposal of jointly controlled entities

Pursuant to a share subscription agreement entered into between the Group, CSX World Terminals Hong Kong Limited ("CSXHK"), an associated company of the Company and Pacific Container Limited, an associated company of the Company, on 11 October 2001 (the "Subscription Agreement"), Pacific Owner Limited ("POL"), a wholly owned subsidiary of the Company, issued the subscription shares (the "Subscription Shares") to CSXHK at a consideration of HK\$242,336,000 ("Consideration"). POL holds an equity interest of 66.1% in CSXWT Terminal 8 Limited ("CSXWT8"), jointly controlled entity of the Company, which in turn holds an equity interest of 29.5% in Asia Container Terminals Limited ("ACT"), jointly controlled entity of the Company. ACT has carried out projects in relation to the completion of the construction of Container Terminal No. 9 and the subsequent operation and management of that terminal or Container Terminal No. 8 West under a berth swap agreement entered into between ACT and Modern Terminals Limited ("ACT project").

CSXHK has the right to direct all decision makings of POL and CSXWT8 in relation to the ACT project and has assumed all the funding obligations and contingent liabilities of POL in connection with ACT project with effect from the date of completion of the Subscription Agreement, i.e., 16 November 2001, ("Completion Date").

CSXHK has the right to convert the Subscription Shares issued into ordinary shares of POL which will lead to a disposal of POL to CSXHK. If CSXHK does not exercise its right to convert, the Company has a right to compel such conversion or redeem the Subscription Shares.

In view of the loss of control on POL prior to the conversion of the Subscription Shares and the directors' intention of converting the Subscription Shares, the Group has accounted for the disposal of the equity interest in POL, and therefore the relevant equity interest in CSXWT8 and ACT held by POL, on completion of the Subscription Agreement. The loss on disposal has been charged to the profit and loss account during the period.

## 9. Fixed assets

The Group acquired fixed assets of HK\$11,870,000 and disposed of fixed assets with net book value of HK\$583,000 during the six months ended 31 December 2001.

Fixed assets of a former subsidiary with net book value of HK\$78,651,000 were deconsolidated during the period (note 11).

## 10. Debtors, deposits and prepayments

Included in debtors, deposits and prepayments are trade debtors (net of provision) and their age analysis is as follows:

	<b>At 31 December 2001 HK\$'000</b>	At 30 June 2001 HK\$'000
Within 90 days	<b>17,205</b>	28,888
91-180 days	<b>717</b>	8,311
181-365 days	<b>198</b>	9,775
Total	<b>18,120</b>	46,974

The Group grants an average credit period of 30-90 days to its customers.

Trade debtors (net of provision) as at 30 June 2001 included trade debtors (net of provision) of HK\$27,892,000 of a former subsidiary which were deconsolidated during the period (note 11).

## 11. Non-trading securities

Pursuant to an Operating and Management Agreement (an "Agreement") entered into between Nanjing Huining Wharfs Co., Ltd. ("Huining"), a subsidiary of the Company, and the other shareholder of Huining (the "Minority Shareholder") on 30 August 2001, the Minority Shareholder has agreed to act as the new operator for Huining for its unexpired tenure up to 2 June 2019 ("Unexpired Tenure") at a consideration of RMB18,000,000 ("Consideration") to be paid to the Group from Huining.

On 24 December 2001, the Agreement was approved by the relevant PRC authorities. With effect from that date, the Minority Shareholder is responsible for the daily operation and management of Huining. The investment in Huining has been reclassified by the Group from subsidiary to non-trading securities and carried at a nominal amount of HK\$1. The net liabilities of Huining previously consolidated by the Group up to that date have been deconsolidated accordingly.

The Consideration, which has been recognised as deferred income, will be amortised on a straight line basis over the Unexpired Tenure.

## 12. Bank loan – secured

Short term bank loan of HK\$5,610,000 was secured by bank balances of HK\$6,385,000.

## 13. Creditors and accruals

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

	At 31 December 2001 HK\$'000	At 30 June 2001 HK\$'000
Within 90 days	934	3,326
91-180 days	–	383
181-365 days	–	11
Over 365 days	–	514
<b>Total</b>	<b>934</b>	<b>4,234</b>

Trade creditors as at 30 June 2001 included trade creditors of HK\$2,808,000 of a former subsidiary which were deconsolidated during the period (note 11).

## 14. Share capital

	4% cumulative convertible redeemable preference shares ("Preference Shares") of HK\$0.10 each		Ordinary shares ("Ordinary Shares") of HK\$0.10 each		Total
	Number of shares	HK\$'000	Number of shares	HK\$'000	HK\$'000
<i>Authorised:</i>					
At 1 July 2001 and 31 December 2001	4,000,000,000	400,000	7,800,000,000	780,000	1,180,000
<i>Issued and fully paid:</i>					
At 1 July 2001 and 31 December 2001	3,193,654,306	319,365	2,059,968,000	205,997	525,362

The Preference Shares are redeemable, at the sole discretion of the Company, on the fifth anniversary date of their issue, at HK\$1.048 each, together with any unpaid dividend. Alternatively, at the sole discretion of the Company, on the fifth anniversary date of their issue, they may be compulsorily converted into Ordinary Shares.

All preference shareholders have the right (the "Conversion Right") to convert any or all of their Preference Shares into fully paid Ordinary Shares, where one Preference Share will be convertible into one Ordinary Share, subject to adjustment, in circumstances, such as the consolidation or sub-division of Ordinary Shares. The Conversion Right is exercisable at any time during a period of five years from the date of issue of the Preference Shares.

None of the Preference Shares was converted during the period. The exercise in full of the Conversion Rights attached to the 3,193,654,306 Preference Shares in issue at 31 December 2001 would have, with the present capital structure of the Company, resulted in the issue of 3,193,654,306 additional Ordinary Shares.

#### Share Options

On 11 April 1997, a share option scheme was adopted by the Company (the "1997 Share Option Scheme") under which the directors may, at their discretion, grant options to executive directors and full-time employees of the Company and its subsidiaries to subscribe for ordinary shares in the Company during the period from 11 April 1997 to 10 April 2000. Share Options granted may be exercised at any time during the period as determined by the directors notwithstanding that the scheme period may have expired.

On 21 June 1999, the Company approved another share option scheme under which the directors may, at their discretion, grant options to directors and full-time employees of the Company and its subsidiaries to subscribe for ordinary shares in the Company during the period from 21 June 1999 to 20 June 2002.

Subsequent to the amendment of Chapter 17 of the Listing Rules in September 2001, a new share option scheme was adopted by the Company on 6 December 2001 (the "2001 Share Option Scheme") whereby the directors of the Company are authorised, at their discretion, to offer to any director (including executive directors and independent non-executive directors) or employee of the Company or a subsidiary to subscribe for the ordinary shares of the Company. The 2001 Share Option Scheme will remain in force for a period of 10 years commencing on 6 December 2001.

The aggregate number of shares which may be issued under the 2001 Share Option Scheme and any other schemes must, when aggregated, be limited to 10% of the issued ordinary share capital of the Company as at the date of approval of the 2001 Share Option Scheme. Options lapsed in accordance with the terms of the 2001 Share Option Scheme and any other schemes will not be counted for the purpose of calculating the 10% limit.

No option was granted or exercised during the period.

## 15. Reserves

	Share premium	Capital redemption reserve	Special reserve	Exchange reserve	Investment revaluation reserve	Goodwill reserve	Other reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2001	4,770,803	1,054	272,737	4,238	-	(2,265,164)	415	169,287	2,953,370
Movement in fair value	-	-	-	-	(3,868)	-	-	-	(3,868)
Release upon impairment in value	-	-	-	-	3,868	-	-	-	3,868
Release upon deconsolidation of a subsidiary	-	-	-	(920)	-	-	-	-	(920)
Release upon partial disposal of a jointly controlled entity	-	-	-	-	-	270,722	-	-	270,722
Transfer of reserves	-	-	-	-	-	-	2,795	(2,795)	-
Profit for the period	-	-	-	-	-	-	-	12,541	12,541
Dividend	-	-	-	-	-	-	-	(67,489)	(67,489)
<b>At 31 December 2001</b>	<b>4,770,803</b>	<b>1,054</b>	<b>272,737</b>	<b>3,318</b>	<b>-</b>	<b>(1,994,442)</b>	<b>3,210</b>	<b>111,544</b>	<b>3,168,224</b>

## 16. Significant related party transactions

	Note	For the six months ended 31 December	
		2001 HK\$'000	2000 HK\$'000
Rental and other related expenses paid to a fellow subsidiary	(a)	<b>1,026</b>	1,381
Rental charged by a minority shareholder of a subsidiary	(b)	<b>4,199</b>	4,199
Interest charged by a minority shareholder of a subsidiary	(c)	<b>2,708</b>	–
Reimbursement of payroll expenses to an intermediate holding company	(d)	<b>1,612</b>	2,033

### Notes:

- (a) A subsidiary of the Group entered into a lease agreement with a fellow subsidiary, New World Tower Company Limited, a subsidiary of the ultimate holding company, to lease office space for a period of 3 years commencing on 19 June 1998 at a monthly rental of HK\$206,640, exclusive of rates, management fees and air conditioning charges. The lease agreement was renewed on 12 June 2001 for a period of 3 years commencing with effect from 19 June 2001 at a monthly rental of HK\$147,600 exclusive of rates, management fees and air conditioning charges.
- (b) The rental expense represented the leasing of land and buildings and port facilities from a minority shareholder of a subsidiary. The rental charge was based on an agreement entered into between the minority shareholder and a subsidiary of the Company.
- (c) The interest was charged on the amount due to a minority shareholder of a subsidiary at the prevailing bank borrowing rate in the PRC.
- (d) In March 2000, the Group acquired port and port-related investments from New World Infrastructure Limited ("NWI"), an intermediate holding company of the Company (the "Acquisition"). Subsequently, the Company has agreed to reimburse NWI the payroll of certain of its employees who are responsible, on a full-time basis, for the administration of the port projects acquired by the Group from NWI. As these employees remain under the employment of NWI after the Acquisition, the Company has reimbursed NWI their payroll on a cost basis. The reimbursement of payroll expenses to NWI has been included in the staff costs.
- (e) The Group has amounts due from non-wholly owned subsidiaries, which are unsecured, interest free, and have no fixed terms of repayment. The balances as at 31 December 2001 were as follows:

	At 31 December 2001 HK\$'000	At 30 June 2001 HK\$'000
Suzhou Huisu International Container Freight Wharfs Co., Ltd.	<b>14,327</b>	12,239
Xiamen Xiang Yu Quay Co., Ltd.	<b>197,391</b>	197,391
Xiamen Xiangyu Free Trade Zone Huijian Quay Co., Ltd.	<b>126,748</b>	121,097
Xiamen Xinyuan Container Terminal Co., Ltd.	<b>1,970</b>	1,970

- (f) During the six months ended 31 December 2001, two wholly owned subsidiaries of the Company executed corporate guarantees in favour of a finance company in respect of an equipment loan facility granted to Xiamen Xiang Yu Quay Co., Ltd., a 92% owned subsidiary of the Group. The loan was fully repaid in July 2001 and the corporate guarantees were released since then.

- (g) A corporate guarantee has been given by NWI in favour of certain banks for banking facilities granted to Asia Container Terminals Limited ("ACT"), a jointly controlled entity of the Group, to the extent of approximately HK\$990 million as at 31 December 2001, in proportion to the Group's interest in ACT. The proportionate amount utilised against such facilities at 31 December 2001 which was secured by the guarantee amounted to approximately HK\$155 million.

As mentioned in note 8, CSXHK has agreed to counter-indemnify NWI the corporate guarantee of approximately HK\$585 million, as included above, given in relation to ACT pursuant to the Subscription Agreement.

- (h) The shares in a jointly controlled entity, which were pledged to a syndicate of financial institutions to secure a loan facility granted to that jointly controlled entity, were released after such loan had been fully repaid during the six months ended 31 December 2001.

## 17. Contingent liabilities

Prior to the acquisition of assets on 15 March 2000, New World Development Company Limited ("NWD"), the ultimate holding company, and/or NWI have assumed certain contingent liabilities to third parties with respect to certain subsidiaries and jointly controlled entities of all port and port-related investing subsidiaries of NWI (the "Obligations"), including inter alia, the guarantees as detailed in notes 16 (g) and 18(e) respectively, to the condensed interim accounts. Pursuant to the conditional sale and purchase agreement entered into between the Company, NWI, and Lotsgain Limited, a wholly owned subsidiary of NWI, on 23 December 1999 (the "S&P Agreement"), the Company has agreed to counter-indemnify NWD and/or NWI and/or Lotsgain Limited in the event that they are required to make any payments under the Obligations. The S&P Agreement was approved by the independent shareholders of the Company on 15 February 2000.

As mentioned in note 8, such contingent liabilities has been reduced as a result of the counter-indemnity by CSXHK pursuant to the Subscription Agreement.

## 18. Commitments

At the balance sheet date, the Group had the following outstanding commitments:

- (a) The Group's capital commitments for the acquisition of port facilities and terminal equipment are as follows:

	<b>At 31 December 2001</b>	At 30 June 2001
	<b>HK\$'000</b>	HK\$'000
Contracted but not provided for	<b>14,374</b>	3,732
Authorised but not contracted for	<b>182,535</b>	205,740
	<b>196,909</b>	209,472

- (b) The Group's contracted commitments in respect of capital or loan contributions to the PRC subsidiaries amounted to approximately HK\$56,084,000 (30 June 2001: HK\$56,084,000).

- (c) The Group's total future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings are as follows:

	<b>At 31 December 2001</b>	At 30 June 2001
	<b>HK\$'000</b>	HK\$'000
Not later than one year	<b>1,998</b>	10,376
Later than one year but not later than five years	<b>2,901</b>	37,484
Later than five years	–	108,528
	<b>4,899</b>	156,388

The total future aggregate minimum lease payments under non-cancellable operating leases as at 30 June 2001 included payments of HK\$150,520,000 of a former subsidiary which were deconsolidated during the period (note 11).

- (d) Details of the Group's share of capital commitments of jointly controlled entities not included above are as follows:

	<b>At 31 December 2001</b>	At 30 June 2001
	<b>HK\$'000</b>	HK\$'000
Contracted but not provided for	<b>196,283</b>	531,382
Authorised but not contracted for	<b>122,927</b>	139,365
	<b>319,210</b>	670,747

The above commitments include an amount of approximately HK\$291 million, representing the Group's share of capital commitments of ACT (including its share of development costs of Container Terminal No. 9 in Hong Kong ("CT9") and the related berth swap arrangement).

ACT had obtained banking facilities to finance 60% of its share of development costs for CT9 and would reduce the funds to be injected by the Group accordingly.

- (e) Certain subsidiaries and jointly controlled entities are parties to agreements with third parties in respect of the joint development of CT9, the related berth swap arrangement and the financing/funding therefor. The Group's attributable share of such capital commitments as at 31 December 2001 has been disclosed in note (d) above. In the event of default of any of the third parties, the subsidiaries and jointly controlled entities will be required to provide additional funds for the project.

NWI has given guarantees in respect of these obligations of the subsidiaries and jointly controlled entities to provide additional funds. Had NWI required to perform its obligations under the guarantees, the maximum amount of the additional liabilities assumed, in addition to the Group's share of the capital commitments as disclosed in note (d) above, would be approximately HK\$1,482 million, out of which approximately HK\$876 million has been counter-indemnified by CSXHK pursuant to the Subscription Agreement.

## 19. Subsequent event

On 11 January 2002, an agreement for the acquisition of a 20% interest in Suzhou Huisu International Container Freight Wharfs Co. Ltd. ("Huisu") has been approved by the relevant PRC authorities; thereafter the Company's equity interest in Huisu has been increased from 55% to 75%.