

# Notes to the Accounts

## 1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the consolidated accounts are set out below:

### (a) Basis of preparation of the accounts

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (the "HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, investment properties are stated at fair value and certain leasehold buildings are carried at valuation as at 31st December 1994 less accumulated depreciation and impairment losses.

In the current year, the Group adopted the following new or revised Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 33	:	Discontinuing operations
SSAP 34 (revised)	:	Employee benefits

The adoption of these new or revised accounting standards in this year did not have significant effect on the accounts for the year ended 31st December 2002 except for the reclassification of cash flows presented in the consolidated cash flow statement into operating, investing and financing activities and the presentation of consolidated statement of changes in equity.

### (b) Group accounting

#### (i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends income.

## 1 PRINCIPAL ACCOUNTING POLICIES (Continued)

### (b) Group accounting (Continued)

#### (ii) Joint ventures

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

The consolidated profit and loss account includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and goodwill (net of accumulated amortisation) on acquisition.

#### (iii) Associated companies

An associated company is a company, not being a subsidiary and joint venture, in which an equity interest is held for long term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and goodwill (net of accumulated amortisation) on acquisition.

#### (iv) Gain or loss on disposal

The gain or loss on the disposal of a subsidiary, a jointly controlled entity or an associated company represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill, including goodwill previously taken to reserves, which was not previously charged or recognised in the consolidated profit and loss account.

### (c) Fixed assets

#### (i) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods greater than 20 years are valued annually by independent valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to the operating profit. Any subsequent increases are credited to the operating profit up to the amount previously debited.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

## 1 PRINCIPAL ACCOUNTING POLICIES (Continued)

### (c) Fixed assets (Continued)

#### (ii) Other fixed assets

Fixed assets other than investment properties (note 1(c)(i)) are stated at cost or valuation less accumulated depreciation/amortisation and impairment losses.

Effective from 30th September 1995 no further revaluations of the Group's leasehold land and buildings have been carried out. The Group places reliance on paragraph 80 of SSAP 17, "Property, plant and equipment", issued by the HKSA, which provides exemption from the need to make regular revaluations for such assets.

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over the expected useful lives to the Group.

#### (iii) Depreciation

Investment properties held on leases with unexpired period of 20 years or less are depreciated over the remaining portion of the leases.

Leasehold land is amortised based on the cost/valuation less accumulated impairment losses over the remaining period of the lease on a straight line basis.

Land use rights represent amounts paid for use of land in China mainland under operating leases. Land use rights are amortised based on the cost less accumulated impairment losses over the remaining period of lease on a straight line basis.

Containers are depreciated at cost less accumulated impairment losses on a straight line basis over their estimated useful lives of 15 years, after taking into account of the residual value of 10% on cost.

Other fixed assets, other than leasehold land, land use rights and containers, are depreciated at rates sufficient to write off their cost or valuation less accumulated impairment losses over their estimated useful lives to their respective residual values estimated by the directors on a straight line basis. The estimated useful lives of other fixed assets are summarised as follows:

Buildings	25 to 50 years
Motor vehicles	5 years
Leasehold improvements	5 years or the remaining period of the lease, whichever is shorter
Furniture, fixtures and equipment	5 years
Plant and machinery	5 years

No depreciation is provided for computer system under development and construction in progress. Computer development costs recognised as assets are depreciated, upon completion of development, using the straight line method over their useful lives, not exceeding a period of 5 years.

## 1 PRINCIPAL ACCOUNTING POLICIES (Continued)

### (c) Fixed assets (Continued)

#### (iv) Impairment of fixed assets

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

#### (v) Gain or loss on sale of fixed assets

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained profits and is shown as a movement in reserves.

#### (vi) Capitalisation of fixed assets

All direct and indirect costs relating to the construction of plant and machinery including interest costs on related borrowed funds during the construction period and operating results prior to the commissioning date are capitalised as construction in progress.

A plant is considered to be commissioned when it is capable of producing saleable quality output in commercial quantities on an ongoing basis.

Costs associated with developing or maintaining computer systems are recognised as an expense as incurred. However, costs that are directly associated with identifiable and unique computer systems controlled by the Group and have probable economic benefit exceeding the cost and beyond one year are recognised as assets. Direct costs include staff costs of the development team, consultancy fees and an appropriate portion of relevant overheads. Expenditure which enhances or extends the performance of computer systems beyond their original specification is recognised as a capital improvement and added to the original cost of the computer systems.

### (d) Goodwill/negative goodwill

Goodwill represents the excess of purchase consideration over the fair value of the Group's share of the net assets of subsidiaries, associated companies and jointly controlled entities acquired at the date of acquisition.

Negative goodwill represents the excess of the fair values ascribed to the net assets of subsidiaries, associated companies and jointly controlled entities acquired over the purchase consideration.

Goodwill on acquisitions occurring on or after 1st January 2001 is included in intangible assets and is amortised using the straight line method over its estimated useful life of not exceeding 20 years. Goodwill/negative goodwill on acquisitions that occurred prior to 1st January 2001 was taken to reserves.

Where an indication of impairment exists, the carrying amount of goodwill, including goodwill previously taken to reserves, is assessed and written down immediately to its recoverable amount.

## 1 PRINCIPAL ACCOUNTING POLICIES (Continued)

### (e) Assets under leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases.

#### (i) Leases – where the Group is the lessee

Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight line basis over the lease periods.

#### (ii) Leases – where the Group is the lessor

When the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 1(c)(iii) above. Revenue arising from assets leased out under operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in notes 1(m)(i) and (v) below.

Finance leases for assets leased out are leases of assets which contain a provision giving the lessee an option to acquire legal title to the assets upon the fulfillment of certain conditions stated in the contracts.

When assets are leased out under finance lease, the present value of the minimum lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

Revenue on containers leased out under finance leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 1(m)(i) below.

### (f) Investments in securities

#### (i) Investment securities

Listed and unlisted investments which are intended to be held on a continuing basis are stated at cost less provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such investment is reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs and write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

#### (ii) Other investments

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

## 1 PRINCIPAL ACCOUNTING POLICIES (Continued)

### (g) Inventories

Inventories, including spare parts, consumables and resaleable containers, are stated at the lower of cost and net realisable value. Costs are calculated on first-in first-out basis for spare parts and consumables and on weighted average basis for resaleable containers. Net realisable value of spare parts and consumables is the expected amount to be realised from use as estimated by the directors whereas that of resaleable containers is determined on the basis of anticipated sales proceeds less estimated selling expenses.

### (h) Accounts receivable

Provision is made against accounts receivable to the extent that they are considered to be doubtful. Accounts receivable in the balance sheet is stated net of such provision.

### (i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

### (j) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

### (k) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

### (l) Deferred taxation

Deferred taxation is accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or receivable in the foreseeable future.

## 1 PRINCIPAL ACCOUNTING POLICIES (Continued)

### (m) Revenue recognition

The Group recognises revenue on the following bases:

(i) Revenue from container leasing

Rental income from containers under operating leases is recognised on a straight line basis over the period of each lease. Direct costs or reimbursements from lessees relating to the lifting and storage of containers are included in cost of sales when incurred or occurred.

Revenue on containers leased out under finance leases is allocated to accounting period to give a constant periodic rate of return on the Group's net investment in the lease in each period. Direct costs relating to the negotiations and arrangement of a contract are written off in the profit and loss account when incurred.

(ii) Revenue from container handling, transportation and storage

Revenue from container handling and transportation is recognised when the services are rendered.

Revenue from container storage is recognised on a straight line basis over the period of storage.

(iii) Revenue from container terminal operations

Revenue from container terminal operations is recognised when the services rendered are complete and the vessel leaves the berth.

(iv) Container management income

Container management income is recognised when the services are rendered.

(v) Operating lease rental income from investment properties

Operating lease rental income from investment properties is recognised on a straight line basis over the period of each lease.

(vi) Revenue from sale of containers

Revenue from sale of containers is recognised on the transfer of risks and rewards on ownership, which generally coincides with the time when the containers are delivered to customers and title has passed. Direct costs relating to the lifting and storage of containers for sale are expensed as incurred.

(vii) Interest income

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(viii) Dividend income

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

(ix) Income on sale of investment securities

Income on sale of investment securities is recognised when the title to the investments is passed to the purchaser.

## 1 PRINCIPAL ACCOUNTING POLICIES (Continued)

### (n) Employee benefits

#### (i) Retirement benefit costs

The Group contributes to defined contribution retirement schemes which are available to all employees in Hong Kong and the United States of America. The assets of the schemes are held separately from those of the Group in independently administered funds. The Group's contributions to these schemes are expensed as incurred.

Pursuant to the relevant regulations of the governments in Germany, Italy, Japan, the United Kingdom, the United States of America and China mainland, the subsidiaries of the Group in these countries participate in respective government benefit schemes (the "Schemes") whereby the subsidiaries are required to contribute to the Schemes for the retirement benefits of eligible employees. The subsidiaries in Japan and the United Kingdom also contribute to the Schemes for other benefits of eligible employees.

Contributions made to the Schemes are calculated either based on certain percentages of the applicable payroll costs or fixed sums that are determined with reference to salary scale as stipulated under the requirements of the respective countries. The governments of the respective countries are responsible for the entire benefit obligations payable to the retired employees. The only obligation of the Group with respect to the Schemes is to pay the ongoing contributions required by the Schemes. Contributions to the Schemes are charged to the profit and loss account as incurred.

#### (ii) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

#### (iii) Equity compensation benefits

Share options are granted to directors and employees. No compensation cost is recognised in the consolidated profit and loss account in connection with share options granted. When the share options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium.

#### (iv) Bonus entitlements

The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.



## 1 PRINCIPAL ACCOUNTING POLICIES (Continued)

### (o) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

### (p) Translation of foreign currencies

Transactions in currencies other than United States dollars are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in currencies other than United States dollars at the balance sheet date are translated at exchange rates ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries, associated companies and jointly controlled entities expressed in currencies other than United States dollars are translated at the exchange rates ruling at the balance sheet date whilst their profit and loss accounts expressed in currencies other than United States dollars are translated at the average exchange rates during the year. Exchange differences arising are dealt with as a movement in reserves.

In prior years, the profit and loss accounts of subsidiaries, associated companies and jointly controlled entities were translated at closing rates. This represents a change in accounting policy. However, the translation of the profit and loss accounts of subsidiaries, associated companies and jointly controlled entities expressed in currencies other than United States dollars in the prior year has not been restated as the effect of this change is not significant to the accounts.

### (q) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments are presented as the primary reporting format.

Unallocated costs represent corporate expenses and corporate finance costs less corporate interest income. Segment assets consist primarily of fixed assets, inventories, receivables and operating cash, and mainly exclude investments in securities, investments in joint ventures and associated companies. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets, including additions resulting from acquisitions through purchases of subsidiaries.

### (r) Financial instruments

The Group manages interest rate exposure of the loans by interest rate swap contracts. Any differential to be paid or received on an interest rate swap contract is recognised as a component of interest expense over the period of the contract.

## 2 TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in container leasing, container handling and storage and container terminal operations. Revenues recognised during the year are as follows:

	2002 US\$'000	2001 US\$'000
Turnover		
Container rentals under operating leases	224,440	208,342
Finance lease income on containers	545	1,001
Container handling, transportation and storage income	8,790	9,608
Terminal operation income	7,850	5,720
Container management income	19	–
	<u>241,644</u>	<u>224,671</u>
Other revenues		
Sale of inventories	7,048	6,885
Interest income	3,794	5,178
Dividend income from unlisted investment	5,003	–
Gross rental income from investment properties	55	51
	<u>15,900</u>	<u>12,114</u>
Total revenues	<u>257,544</u>	<u>236,785</u>

### (a) Primary reporting format – business segments

The Group has categorised its businesses into the following segments:

- (i) container leasing
- (ii) container terminal and related businesses
- (iii) banking
- (iv) other operations
- (v) corporate
- (vi) PRC investment securities

There are no sales or other transactions between the business segments for the years ended 31st December 2002 and 2001.

## 2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

### (a) Primary reporting format – business segments (Continued)

#### Segment turnover and results

	2002						Total US\$'000
	Container leasing US\$'000	Container terminal and related businesses US\$'000	Banking US\$'000	Other operations US\$'000	Corporate US\$'000	PRC investment securities US\$'000	
Turnover							
External sales	<u>225,004</u>	<u>16,640</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>241,644</u>
Segment results	<u>86,358</u>	<u>6,641</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>92,999</u>
Unallocated costs							
– net corporate expenses	-	-	-	-	(3,498)	-	(3,498)
– corporate finance costs	-	-	-	-	(638)	-	(638)
– corporate interest income	-	-	-	-	2,699	-	2,699
Operating profit/(loss) after finance costs	<u>86,358</u>	<u>6,641</u>	<u>-</u>	<u>-</u>	<u>(1,437)</u>	<u>-</u>	<u>91,562</u>
Share of profits less losses of							
– jointly controlled entities	-	2,890	-	5,861	-	-	8,751
– associated companies	-	59,005	8,456	-	-	-	67,461
Profit before taxation							167,774
Taxation							<u>(11,515)</u>
Profit after taxation							156,259
Minority interests							<u>(1,699)</u>
Profit attributable to shareholders							<u>154,560</u>

## 2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

### (a) Primary reporting format – business segments (Continued)

#### Segment turnover and results (Continued)

	2001						
	Container leasing US\$'000	Container terminal and related businesses US\$'000	Banking US\$'000	Other operations US\$'000	Corporate US\$'000	PRC investment securities US\$'000	Total US\$'000
Turnover							
External sales	<u>209,343</u>	<u>15,328</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>224,671</u>
Segment results	83,857	1,009	–	–	–	14,137	99,003
Unallocated costs							
– net corporate expenses	–	–	–	–	(3,187)	–	(3,187)
– corporate finance costs	–	–	–	–	(743)	–	(743)
– corporate interest income	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>3,611</u>	<u>–</u>	<u>3,611</u>
Operating profit/(loss) after finance costs	<u>83,857</u>	<u>1,009</u>	<u>–</u>	<u>–</u>	<u>(319)</u>	<u>14,137</u>	<u>98,684</u>
Share of profits less losses of							
– jointly controlled entities	–	3,801	–	5,620	–	–	9,421
– associated companies	–	47,805	9,007	–	–	–	<u>56,812</u>
Profit before taxation							164,917
Taxation							<u>(9,566)</u>
Profit after taxation							155,351
Minority interests							<u>(1,011)</u>
Profit attributable to shareholders							<u>154,340</u>

## 2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

### (a) Primary reporting format – business segments (Continued)

#### Segment balance sheet and other segment information

	Container leasing US\$'000	Container and related businesses US\$'000	Banking US\$'000	Other operations US\$'000	Corporate US\$'000	Total US\$'000
<b>2002</b>						
Segment assets	1,140,061	34,649	-	-	-	1,174,710
Investments in joint ventures	(4,754)	24,576	-	26,230	-	46,052
Investments in associated companies	-	136,331	160,080	-	-	296,411
Investment securities	-	66,876	-	-	-	66,876
Unallocated assets						<u>171,327</u>
Total assets						<u>1,755,376</u>
Segment liabilities	(448,075)	(8,891)	-	-	-	(456,966)
Minority interests	-	(8,312)	-	-	-	(8,312)
Unallocated liabilities						<u>(2,196)</u>
Total liabilities						<u>(467,474)</u>
Capital expenditure	155,314	1,294	-	-	113	156,721
Depreciation and amortisation	86,230	1,173	-	-	279	87,682
Impairment losses recognised in						
– profit and loss account	15,997	-	-	-	-	15,997
– other properties revaluation reserve	165	-	-	-	-	165
Other non-cash expenses	2,531	3,280	-	-	5	5,816
<b>2001</b>						
Segment assets	1,136,689	37,366	-	-	-	1,174,055
Investments in joint ventures	481	25,022	-	21,588	-	47,091
Investments in associated companies	-	173,506	158,250	-	-	331,756
Investment securities	-	37,299	-	-	-	37,299
Unallocated assets						<u>148,546</u>
Total assets						<u>1,738,747</u>
Segment liabilities	(509,522)	(9,111)	-	-	-	(518,633)
Minority interests	-	(7,509)	-	-	-	(7,509)
Unallocated liabilities						<u>(12,311)</u>
Total liabilities						<u>(538,453)</u>
Capital expenditure	166,394	1,994	-	-	595	168,983
Depreciation and amortisation	79,504	1,217	-	-	239	80,960
Impairment losses recognised in						
– profit and loss account	5,680	-	-	-	-	5,680
– other properties revaluation reserve	248	-	-	-	-	248
Other non-cash (income)/expenses	(4,816)	3,450	-	-	36	(1,330)

## 2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

### (b) Secondary reporting format – geographical segments

The movements of containers under operating leases or finance leases are known through report from the lessees but the Group is not able to control the movements of containers except to the degree that the movements are restricted by the terms of the leases or where safety of the containers is concerned. It is therefore impracticable to present segment information by geographical areas.

The activities of container terminal and related businesses, other operations and corporate are carried out in Hong Kong and China mainland while that of banking operation is predominantly carried out in Hong Kong.

## 3 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2002 US\$'000	2001 US\$'000
<i>Crediting</i>		
Recovery of bad debts	2,999	41
Gross rental income under operating sublease	426	222
Profit on sale of listed investment	–	14,137
Reversal of provision for container repairs and maintenance expense	–	6,156
<i>Charging</i>		
Depreciation/amortisation		
– owned fixed assets leased out under operating leases	84,384	77,750
– other owned fixed assets	3,298	3,210
Impairment losses of (including in other operating expenses) (note 12)		
– containers	15,056	4,377
– leasehold land and buildings	941	1,303
Cost of inventories sold	8,929	8,350
Auditors' remuneration	437	451
Loss on disposal of fixed assets	25	215
Write-off of computer system development costs (note 12)	436	–
Loss on compensation for loss of containers from a fellow subsidiary	25	228
Outgoings in respect of investment properties	6	6
Provision for bad and doubtful debts, net	1,142	514
Provision for loan to an investee company (note 16)	3,296	3,450
Provision for inventories	832	265
Rental expense under operating leases		
– land and buildings leased from third parties	2,965	2,984
– land and buildings leased from a fellow subsidiary	714	714
– plant and machinery	394	449
Revaluation deficit of investment properties (note 12(b))	60	154
Total staff costs (including directors' emoluments)	13,506	12,216
Less: Amounts capitalised in computer system under development	(176)	(234)
	<b>13,330</b>	<b>11,982</b>

#### 4 FINANCE COSTS

	2002 US\$'000	2001 US\$'000
Interest expense on		
– bank loans	10,786	16,273
– other loans wholly repayable within five years	2,639	6,356
– other loans not wholly repayable within five years	479	973
– loans from a minority shareholder of a subsidiary wholly repayable within five years	106	146
– trade payables	–	49
Loss on interest rate swap contracts	1,454	204
	<b>15,464</b>	<b>24,001</b>
Other incidental borrowing costs	2,555	5,523
	<b>18,019</b>	<b>29,524</b>

#### 5 SHARE OF PROFITS LESS LOSSES OF ASSOCIATED COMPANIES

The share of profits less losses of associated companies in 2002 includes a gain of US\$7,474,000 (2001: US\$Nil) on disposal of entire interest in a co-operative joint venture owned by an associated company.

#### 6 TAXATION

	2002 US\$'000	2001 US\$'000
Company and subsidiaries		
Hong Kong profits tax	723	260
China mainland taxation	257	139
Overseas taxation	106	239
Over provision in prior years	(15)	(6)
	<b>1,071</b>	<b>632</b>
Share of taxation attributable to:		
Jointly controlled entities		
China mainland taxation	1,049	1,129
Associated companies		
Hong Kong profits tax	8,505	7,012
China mainland taxation	890	793
	<b>11,515</b>	<b>9,566</b>

Hong Kong profits tax has been provided at a rate of 16% (2001: 16%) on the estimated assessable profit for the year. A substantial portion of the Group's profit neither arises in nor is derived from Hong Kong. Accordingly, that portion of the Group's profit is not subject to Hong Kong profits tax.

Taxation on profits from container terminal operations in China mainland has been calculated at an effective tax rate of 7.5% (2001: 7.5%) on the estimated assessable profit for the year. The subsidiary in China mainland is eligible for a 50% relief from corporate income tax of 15% for five years since 1998.

## 6 TAXATION (Continued)

Taxation on overseas profit has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The Group's profits from container leasing are exempt from income tax in China mainland in accordance with a notice granting temporary exemption of income tax on rental payments made to foreign container leasing companies operating in international transportation (Guo Shui Fa (1993) No. 49) issued by the State Tax Bureau of the People's Republic of China (the "PRC") on 12th March 1993.

The Group is also exempt from business tax on its rental income in relation to the lease of containers and interest income earned in China mainland in accordance with a notice granting exemption from business tax for foreign enterprises earning such income but having no establishment in China mainland (Guo Shui Fa (1997) No. 35) issued by the State Tax Bureau of the PRC on 14th March 1997.

The deferred tax charge/(credit) for the year has not been provided in respect of the following:

	2002 US\$'000	2001 US\$'000
Accelerated depreciation allowances	18,164	14,470
Other timing differences	61	301
Tax losses	(9,816)	(11,545)
	<b>8,409</b>	<b>3,226</b>

Deferred tax on the revaluation surplus and deficit of the leasehold land and buildings and investment properties has not been quantified as this does not constitute a timing differences for deferred taxation purposes.

## 7 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of US\$72,334,000 (2001: US\$105,171,000).

## 8 DIVIDENDS

	2002 US\$'000	2001 US\$'000
Interim, paid, of US1.410 cents (2001: US1.218 cents) per ordinary share	30,278	26,091
Final, proposed, of US2.308 cents (2001: US1.795 cents) per ordinary share	49,546	38,456
Additional dividends paid on shares issued due to the exercise of share options before the closure of register of members		
– 2001/2000 final	80	26
– 2001 interim	–	3
	<b>79,904</b>	<b>64,576</b>



## 8 DIVIDENDS (Continued)

Note:

At a meeting held on 26th March 2003, the directors declared a final dividend of HK 18 cents (US 2.308 cents) per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts until it has been approved at the annual general meeting, but will be reflected as an appropriation of retained profits for the year ending 31st December 2003.

## 9 EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of US\$154,560,000 (2001: US\$154,340,000) and on the weighted average number of 2,146,159,454 (2001: 2,141,192,588) ordinary shares in issue during the year.

### (b) Diluted earnings per share

Diluted earnings per share for the year ended 31st December 2002 is calculated based on the profit attributable to shareholders of US\$154,560,000 (2001: US\$154,340,000) and the weighted average number of 2,146,159,454 (2001: 2,141,192,588) ordinary shares in issue during the year and the 80,810 (2001: 2,886,490) ordinary shares deemed to be issued at no consideration if all outstanding dilutive share options had been exercised.

## 10 RETIREMENT BENEFIT COSTS

The Group contributes to defined contribution retirement schemes which are available to all employees in Hong Kong and the United States of America and to the retirement benefit schemes operated by governments of Germany, Italy, Japan, the United Kingdom, the United States of America and China mainland (collectively the "Retirement Schemes").

The retirement benefit costs charged to the profit and loss account represent contributions paid and payable by the Group to the Retirement Schemes and amounted to US\$706,000 (2001: US\$620,000). Contributions totalling US\$16,000 (2001: US\$8,000) were payable to the Retirement Schemes as at 31st December 2002 and are included in trade and other payables. No forfeited contributions were utilised during the year (2001: US\$7,000). Forfeited contributions available as at 31st December 2002 to reduce future contributions amounted to US\$100,000 (2001: US\$31,000).

The assets of the Retirement Schemes are held separately from those of the Group in independently administered funds.

## 11 DIRECTORS' AND MANAGEMENT'S EMOLUMENTS

### (a) Directors' emoluments

The aggregate amounts of emoluments paid to directors of the Company during the year are as follows:

	2002 US\$'000	2001 US\$'000
Fees	256	231
Salaries, housing and other allowances, benefits in kind	1,464	1,259
Bonuses	74	37
Retirement benefit costs	2	2
	<u>1,796</u>	<u>1,529</u>

## 11 DIRECTORS' AND MANAGEMENT'S EMOLUMENTS (Continued)

### (a) Directors' emoluments (Continued)

The above amounts include directors' fees of US\$88,462 (2001: US\$88,462) paid to independent non-executive directors.

As at 31st December 2002, two directors of the Company had a total of 3,000,000 (2001: 3,000,000) share options granted by the Company on 1st July 1996 under the share option scheme adopted by the Company on 30th November 1994 (the "Share Option Scheme"). The options are exercisable at HK\$5.53 per share at any time within ten years from the date of grant, subject to certain conditions as set out in note 21(b)(i) to the accounts.

As at 31st December 2002, one director of the Company had 5,000,000 (2001: 5,000,000) share options granted by the Company on 20th May 1997 under the Share Option Scheme. The options are exercisable at HK\$8.80 per share at any time within ten years from the date of grant, subject to certain conditions as set out in note 21(b)(ii) to the accounts.

As at 1st January 2002, nine directors of the Company had a total of 2,600,000 (2001: 2,800,000) share options which were granted by the Company on 6th April 2000 under the Share Option Scheme. The options are exercisable at HK\$3.584 per share at any time from the first date of the thirteenth month from the date of grant to the end of the twenty-fourth month from the date of grant. During the year, two (2001: one) directors exercised 400,000 (2001: 200,000) share options granted by the Company on 6th April 2000 under the Share Option Scheme. Benefits in kind included the difference between the aggregate amount of the market price of the Company's shares issued at the date of exercise of share options and the consideration paid by the directors under the Share Option Scheme during the year. Details of the movement of share options during the year are set out in note 21(b) to the accounts.

The consideration paid for each offer of share options by the directors was HK\$1.00.

The directors' emoluments are analysed as follows:

	Number of directors	
	2002	2001
Emoluments band		
US\$Nil – US\$128,205 (HK\$Nil – HK\$1,000,000)	16	13
US\$128,206 – US\$192,308 (HK\$1,000,001 – HK\$1,500,000)	1	–
US\$192,309 – US\$256,410 (HK\$1,500,001 – HK\$2,000,000)	–	–
US\$256,411 – US\$320,513 (HK\$2,000,001 – HK\$2,500,000)	2	1
US\$320,514 – US\$384,615 (HK\$2,500,001 – HK\$3,000,000)	–	1
US\$384,616 – US\$448,718 (HK\$3,000,001 – HK\$3,500,000)	–	–
US\$448,719 – US\$512,821 (HK\$3,500,001 – HK\$4,000,000)	–	–
US\$512,822 – US\$576,923 (HK\$4,000,001 – HK\$4,500,000)	–	1
US\$576,924 – US\$641,025 (HK\$4,500,001 – HK\$5,000,000)	–	–
US\$641,026 – US\$705,128 (HK\$5,000,001 – HK\$5,500,000)	–	–
US\$705,129 – US\$769,230 (HK\$5,500,001 – HK\$6,000,000)	1	–
	<b>20</b>	<b>16</b>

The above analysis includes three (2001: three) individuals whose emoluments were among the five highest in the Group.

## 11 DIRECTORS' AND MANAGEMENT'S EMOLUMENTS (Continued)

### (b) Management's emoluments

Details of the aggregate emoluments paid to the two (2001: two) individuals whose emoluments were the highest in the Group and have not been included in the directors' emoluments above are set out below:

	2002 US\$'000	2001 US\$'000
Salaries, housing and other allowances, benefits in kind	694	604
Bonuses	34	19
Retirement benefit costs	15	3
	<u>743</u>	<u>626</u>

The emoluments fell within the following bands:

	Number of individuals	
	2002	2001
Emoluments band		
US\$Nil – US\$128,205 (HK\$Nil – HK\$1,000,000)	–	–
US\$128,206 – US\$192,308 (HK\$1,000,001 – HK\$1,500,000)	–	–
US\$192,309 – US\$256,410 (HK\$1,500,001 – HK\$2,000,000)	–	–
US\$256,411 – US\$320,513 (HK\$2,000,001 – HK\$2,500,000)	–	1
US\$320,514 – US\$384,615 (HK\$2,500,001 – HK\$3,000,000)	1	1
US\$384,616 – US\$448,718 (HK\$3,000,001 – HK\$3,500,000)	1	–
	<u>2</u>	<u>2</u>

During the year, no emoluments had been paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office. No directors waived or agreed to waive any emoluments during the year.

## 12 FIXED ASSETS

### Group

	Leasehold land and buildings		Investment properties	Land use rights		Construction	Containers	Motor vehicles	Leasehold improvements	Furniture, fixtures and equipment	Plant and machinery	Computer system	Total
	in Hong Kong	outside Hong Kong	in Hong Kong	outside Hong Kong	in progress	under development							
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000							
Cost or valuation													
At 1st January													
2002	21,722	12,053	885	1,856	44	1,422,805	1,519	2,121	7,833	13,638	1,578	1,486,054	
Additions	-	18	-	-	933	153,745	241	1	318	178	1,287	156,721	
Revaluation deficit													
(note 12(b))	-	-	(60)	-	-	-	-	-	-	-	-	(60)	
Disposals/ transfer/ write off													
	-	-	-	-	-	(48,100)	(166)	(3)	(821)	(165)	(436)	(49,691)	
Reclassification													
	-	-	-	-	(321)	-	-	-	1,549	-	(1,228)	-	
At 31st December													
2002	21,722	12,071	825	1,856	656	1,528,450	1,594	2,119	8,879	13,651	1,201	1,593,024	
Accumulated depreciation/ amortisation and impairment losses													
At 1st January 2002													
	4,961	2,007	-	296	-	452,094	892	1,976	4,422	5,631	-	472,279	
Impairment losses recognised in													
- consolidated profit and loss account	922	19	-	-	-	15,056	-	-	-	-	-	15,997	
- other properties revaluation reserve	165	-	-	-	-	-	-	-	-	-	-	165	
Depreciation/amortisation													
charge for the year	531	401	-	74	-	84,384	193	39	1,453	607	-	87,682	
Disposals/transfer/ write off													
- accumulated impairment losses	-	-	-	-	-	(1,488)	-	-	-	-	-	(1,488)	
- accumulated depreciation	-	-	-	-	-	(28,699)	(149)	(2)	(807)	(112)	-	(29,769)	
At 31st December													
2002	6,579	2,427	-	370	-	521,347	936	2,013	5,068	6,126	-	544,866	
Net book value													
At 31st December													
2002	15,143	9,644	825	1,486	656	1,007,103	658	106	3,811	7,525	1,201	1,048,158	
At 31st December													
2001	16,761	10,046	885	1,560	44	970,711	627	145	3,411	8,007	1,578	1,013,775	

## 12 FIXED ASSETS (Continued)

	Leasehold land and buildings		Investment properties	Land use rights		Construction	Containers	Motor vehicles	Leasehold improvements	Furniture, fixtures and equipment	Plant and machinery	Computer system	Total
	in	outside	in	outside	in	under							
	Hong Kong	Hong Kong	Hong Kong	Hong Kong	progress	development							
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000

The analysis of cost or valuation of the above assets as at 31st December 2002 is as follows:

At cost	1,749	12,071	–	1,856	656	1,528,450	1,594	2,119	8,879	13,651	1,201	1,572,226
At professional valuation												
– 1994	19,973	–	–	–	–	–	–	–	–	–	–	19,973
– 2002	–	–	825	–	–	–	–	–	–	–	–	825
	<u>21,722</u>	<u>12,071</u>	<u>825</u>	<u>1,856</u>	<u>656</u>	<u>1,528,450</u>	<u>1,594</u>	<u>2,119</u>	<u>8,879</u>	<u>13,651</u>	<u>1,201</u>	<u>1,593,024</u>

The analysis of cost or valuation of the above assets as at 31st December 2001 is as follows:

At cost	1,749	12,053	–	1,856	44	1,422,805	1,519	2,121	7,833	13,638	1,578	1,465,196
At professional valuation												
– 1994	19,973	–	–	–	–	–	–	–	–	–	–	19,973
– 2001	–	–	885	–	–	–	–	–	–	–	–	885
	<u>21,722</u>	<u>12,053</u>	<u>885</u>	<u>1,856</u>	<u>44</u>	<u>1,422,805</u>	<u>1,519</u>	<u>2,121</u>	<u>7,833</u>	<u>13,638</u>	<u>1,578</u>	<u>1,486,054</u>

## 12 FIXED ASSETS (Continued)

Notes:

- (a) The Group's interests in investment properties and leasehold land and buildings at their net book values are analysed as follows:

	Group	
	2002 US\$'000	2001 US\$'000
In Hong Kong, held on leases of over 50 years	15,968	17,646
Outside Hong Kong, held on leases of between 10 to 50 years	9,644	10,046
	<b>25,612</b>	<b>27,692</b>

- (b) The investment properties as at 31st December 2002 and 2001 were revalued on an open market value basis by DTZ Debenham Tie Leung Limited, an independent professional property valuer. The revaluation deficit was accounted for in the consolidated profit and loss account (note 3).
- (c) Certain leasehold land and buildings in Hong Kong as at 31st December 2002 were revalued in 1994 on an open market value basis by C.Y. Leung & Company Limited (now known as DTZ Debenham Tie Leung Limited), an independent professional property valuer.

The carrying amount of these leasehold land and buildings as at 31st December 2002 would have been US\$13,009,000 (2001: US\$14,563,000) had the leasehold land and buildings been carried at cost less accumulated depreciation/amortisation and impairment losses in the accounts.

- (d) The aggregate cost, accumulated depreciation and accumulated impairment losses as at 31st December 2002 of the leased assets other than investment properties (note 12(b)), where the Group is the lessor, represented containers leased to a fellow subsidiary and third parties under operating leases and amounted to US\$1,521,075,000 (2001: US\$1,420,379,000), US\$503,402,000 (2001: US\$447,717,000) and US\$17,945,000 (2001: US\$4,377,000) respectively.
- (e) The accumulated impairment losses of fixed assets as at 31st December 2002 amounted to US\$20,602,000 (2001: US\$5,928,000).
- (f) Certain containers with an aggregate net book value of US\$278,378,000 as at 31st December 2002 (2001: US\$253,778,000) were pledged as security for loan facilities granted by banks and third parties.
- (g) During the year, the Group transferred containers with an aggregate net book value of US\$9,081,000 (2001: US\$8,044,000) to inventories.
- (h) As at 31st December 2002, the accumulated staff costs capitalised in computer system under development amounted to US\$179,000 (2001: US\$442,000).

### 13 INVESTMENTS IN SUBSIDIARIES

	Company	
	2002 US\$'000	2001 US\$'000
Unlisted shares, at cost (note b)	159,654	159,654
Amounts due from subsidiaries (note a)	936,159	936,950
Amounts due to subsidiaries (note a)	–	(243)
Provision	(47,820)	(35,395)
	<b>1,047,993</b>	<b>1,060,966</b>

#### Notes:

(a) The amounts due from/(to) subsidiaries are unsecured and have no fixed terms of repayment. The balances were interest free except for an amount of US\$897,000 due from a subsidiary as at 31st December 2001 which bore interest at a rate of 8% per annum and was repaid during the year.

(b) Details of the subsidiaries as at 31st December 2002 are as follows:

Name	Place of incorporation/ establishment	Place of operation	Principal activities	Issued share capital/ paid-up capital	Group equity interest	
					2002	2001
* Allgood International Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US\$1	100%	100%
# * Bauhinia 97 Ltd.	Cayman Islands	Hong Kong	Investment holding	2 ordinary shares of US\$1 each	100%	100%
Cheer Hero Development Limited	Hong Kong	Hong Kong	Container handling, storage and stevedoring	10,000 ordinary shares of HK\$10 each	75%	75%
COSCO Container Services Limited	Hong Kong	Hong Kong	Investment holding, depot handling, storage and container repairing	2 ordinary shares of HK\$1 each	100%	100%
@ # * COSCO Pacific (China) Investments Co., Ltd.	PRC	PRC	Investment holding	US\$30,000,000	100%	100%
# COSCO Pacific Management Company Limited	Hong Kong	Hong Kong	Investment holding and provision of management services	2 ordinary shares of HK\$1 each	100%	100%
# * COSCO Pacific Nominees Limited	British Virgin Islands	Worldwide	Provision of nominee services	1 ordinary share of US\$1	100%	100%

### 13 INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment	Place of operation	Principal activities	Issued share capital/ paid-up capital	Group equity interest	
					2002	2001
* COSCO Ports (Shekou) Limited (formerly known as Florens Investments Company Limited)	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US\$1	100%	100%
# COSCO Ports (Holdings) Limited (formerly known as Florens Ports Investments Limited)	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US\$1	100%	100%
* COSCO Qingdao Terminal Holdings Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US\$1	100%	100%
# * CPL Treasury Limited	British Virgin Islands	Hong Kong	Dormant	1 ordinary share of US\$1	100%	100%
Crestway International Limited	British Virgin Islands	Hong Kong	Investment holding	50,000 ordinary shares of US\$1 each	100%	100%
# * Elegance Investment Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US\$1	100%	100%
Fairbreeze Shipping Company Limited	Hong Kong	Hong Kong	Property investment	5,000 ordinary shares of HK\$100 each	100%	100%
* Famous International Limited	British Virgin Islands	Worldwide	Investment holding and sale of old containers	1 ordinary share of US\$1	100%	100%
* Fentalic Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US\$1	100%	100%
Florens Container Corporation S.A.	Panama	Worldwide	Container leasing	100 ordinary shares of US\$100 each	100%	100%
# Florens Container Holdings Limited	British Virgin Islands	Hong Kong	Investment holding	22,014 ordinary shares of US\$1 each	100%	100%
Florens Container Inc.	United States of America	United States of America	Container leasing	1 ordinary share of US\$1	100%	100%



### 13 INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment	Place of operation	Principal activities	Issued share capital/ paid-up capital	Group equity interest	
					2002	2001
Florens Container, Inc. (1998)	United States of America	United States of America	Container leasing	100 ordinary shares of US\$1 each	100%	100%
Florens Container Inc. (1999)	United States of America	United States of America	Container leasing	100 ordinary shares of US\$1 each	100%	100%
Florens Container, Inc. (2000)	United States of America	United States of America	Container leasing	100 ordinary shares of US\$1 each	100%	100%
Florens Container, Inc. (2001)	United States of America	United States of America	Container leasing	1 ordinary share of US\$1	100%	100%
Florens Container Services Company Limited	Hong Kong	Worldwide	Provision of container management services	100 ordinary shares of HK\$1 each	100%	100%
* Florens Container Services (Deutschland) GmbH.	Germany	Germany	Provision of container management services	2 shares of EURO 12,782.30 each	100%	100%
* Florens Container Services (Italy) S.R.L.	Italy	Italy	Provision of container management services	20,000 quotas of EURO 0.52 each	100%	100%
* Florens Container Services (Japan) Co. Ltd.	Japan	Japan	Provision of container management services	200 ordinary shares of JPY 50,000 each	100%	100%
* Florens Container Services (UK) Limited	United Kingdom	United Kingdom	Provision of container management services	183,610 ordinary shares of GBP 1 each	100%	100%
* Florens Container Services (USA), Ltd.	United States of America	United States of America	Provision of container management services	1,000 ordinary shares of US\$0.001 each	100%	100%
# * Florens Industrial Holdings Limited	Bermuda	PRC	Investment holding	12,000 ordinary shares of US\$1 each	100%	100%
Florens Shipping Corporation Limited	Bermuda	Worldwide	Container leasing	12,000 ordinary shares of US\$1 each	100%	100%

### 13 INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment	Place of operation	Principal activities	Issued share capital/ paid-up capital	Group equity interest	
					2002	2001
* Florens U.S. Holdings, Inc.	United States of America	United States of America	Investment holding	1 ordinary share of US\$1	100%	100%
* Frosti International Limited	British Virgin Islands	Hong Kong	Investment holding	2 ordinary shares of US\$1 each	100%	100%
Greating Services Limited	Hong Kong	Hong Kong	Transportation of containers	250,000 ordinary shares of HK\$1 each	100%	100%
* Hero King Limited	British Virgin Islands	Hong Kong	Property holding	1 ordinary share of US\$1	100%	100%
* Plangreat Limited	British Virgin Islands	Hong Kong	Investment holding	100 ordinary shares of US\$1 each	100%	100%
# * Toplink Enterprises Limited (in liquidation)	British Virgin Islands	Hong Kong	Dormant	1 ordinary share of US\$1	100%	100%
# * Topview Investment Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US\$1	100%	100%
Win Hanverky Investments Limited	Hong Kong	Hong Kong	Investment holding	10,000 ordinary shares of HK\$10 each	100%	100%
@ * Zhangjiagang Win Hanverky Container Terminal Co., Ltd.	PRC	PRC	Operation of container terminal	US\$16,800,000	51%	51%

# Shares held directly by the Company

\* Subsidiaries not audited by PricewaterhouseCoopers

@ COSCO Pacific (China) Investments Co., Ltd and Zhangjiagang Win Hanverky Container Terminal Co., Ltd are the wholly foreign-owned enterprise and the sino-foreign joint venture established in the PRC respectively.

The aggregate net assets, turnover and loss (2001: profit) before taxation of subsidiaries not audited by PricewaterhouseCoopers amounted to approximately 3.8%, 3.2%, and 0.7% (2001: 3.5%, 2.5% and 0.8%) of the Group's net assets, turnover and profit before taxation respectively.

## 14 INVESTMENTS IN JOINT VENTURES

	Group	
	2002 US\$'000	2001 US\$'000
Unlisted investments, at cost	34,130	33,530
Negative goodwill on acquisition taken to reserves	1,472	1,472
Share of undistributed post-acquisition reserves (note c)	9,061	9,608
Share of net assets (note c)	44,663	44,610
Amounts due from jointly controlled entities (note a)	6,143	2,500
Amounts due to jointly controlled entities (note a)	(4,754)	(19)
	<b>46,052</b>	<b>47,091</b>

### Notes:

- (a) The amounts due from/(to) jointly controlled entities are unsecured and interest free. Trading balances have normal commercial terms of settlement while the other balances have no fixed terms of repayment.
- (b) The Company has no directly owned jointly controlled entities as at 31st December 2002 and 2001. The following is a list of the jointly controlled entities, which are sino-foreign joint ventures established in the PRC, held by its wholly owned subsidiaries as at 31st December 2002.

Name	Place of establishment/ operation	Principal activities	Paid-up capital	Percentage of interest in ownership/voting power/profit sharing	
				2002	2001
Qingdao Cosport International Container Terminals Co., Ltd.	PRC	Operation of container terminal	RMB337,868,700	50.00%/ 50.00%/ 50.00%	50.00%/ 50.00%/ 50.00%
Shanghai CIMC Reefer Containers Co., Ltd.	PRC	Container manufacturing	US\$31,000,000	20.00%/ 21.40%/ 20.00%	20.00%/ 21.40%/ 20.00%
Shanghai CIMC Far East Container Co., Ltd. (note c)	PRC	Container manufacturing	US\$9,480,000	20.00%/ 20.00%/ 20.00%	20.00%/ 20.00%/ 20.00%
Shanghai Kansai Paint & Chemical Co., Ltd.	PRC	Production of container and marine paints	US\$7,000,000	20.00%/ 18.75%/ 20.00%	20.00%/ 18.18%/ 20.00%
Tianjin Kansai Paint and Chemical Co., Ltd.	PRC	Production of container and marine paints	US\$5,000,000	20.00%/ 18.75%/ 20.00%	20.00%/ 16.66%/ 20.00%
Tianjin CIMC North Ocean Container Co., Ltd. (note c)	PRC	Container manufacturing	US\$16,682,000	22.50%/ 20.00%/ 22.50%	22.50%/ 20.00%/ 22.50%

#### 14 INVESTMENTS IN JOINT VENTURES (Continued)

- (c) Shanghai CIMC Far East Container Co., Ltd. and Tianjin CIMC North Ocean Container Co., Ltd. (“Tianjin CIMC”), both are the jointly controlled entities of the Group, entered into subcontracting agreements with China International Marine Containers (Group) Ltd. (“CIMC”), one of the venturers of these jointly controlled entities and an associated company of the Company’s ultimate holding company, during 2000 and Tianjin CIMC entered into an amendment to the subcontracting agreement with CIMC during 2001 (collectively “the Agreements”).

Pursuant to the Agreements, the operations of these two jointly controlled entities are sub-contracted to CIMC and CIMC, in return, provides guaranteed profits, the amounts of which are stipulated in the Agreements, to these jointly controlled entities for five years commencing from 1st January 2000.

The Group’s share of profits from these two jointly controlled entities for the two years ended 31st December 2002 is calculated based on the amounts of guaranteed profits as set out in the Agreements.

#### 15 INVESTMENTS IN ASSOCIATED COMPANIES

	Group	
	2002	2001
	US\$’000	US\$’000
Investments, at cost		
– unlisted shares	314,986	314,986
– shares listed in Hong Kong	219,189	219,189
Goodwill on acquisition taken to reserves	(341,597)	(341,597)
Share of undistributed post acquisition reserves	93,983	91,867
Share of net assets	286,561	284,445
Loans to associated companies (note a)	9,845	47,306
Amount due from an associated company (note a)	5	5
	<b>296,411</b>	<b>331,756</b>
Market value of listed shares	78,077	80,308

## 15 INVESTMENTS IN ASSOCIATED COMPANIES (Continued)

Notes:

- (a) Loans to and amount due from associated companies are unsecured, interest free and have no fixed terms of repayment.
- (b) The Company has no directly owned associated company as at 31st December 2002 and 2001. The following is a list of the associated companies held by its wholly owned subsidiaries as at 31st December 2002.

Name	Place of incorporation/ operation	Principal activities	Issued share capital	Group equity interest	
				2002	2001
COSCO-HIT Terminals (Hong Kong) Limited	Hong Kong	Operation, management and development of Container Terminal 8 (East)	2 "A" ordinary shares of HK\$10 each and 2 "B" ordinary shares of HK\$10 each	50%	50%
Dawning Company Limited	British Virgin Islands/ Hong Kong	Investment holding	200 "A" shares of US\$1 each and 800 "B" shares of US\$1 each	20%	20%
Liu Chong Hing Bank Limited	Hong Kong	Banking and related financial services	435,000,000 ordinary shares of HK\$0.5 each	20%	20%
Twinbridge Development Corp.	British Virgin Islands/ Hong Kong	Dormant	10,000 shares of US\$1 each	30%	30%

## 16 INVESTMENT SECURITIES

	Group	
	2002 US\$'000	2001 US\$'000
Equity securities (note a)		
– unlisted investments in Hong Kong, at cost	1	1
– unlisted investments in China mainland, at cost	24,581	–
Loans to investee companies (note b)	56,485	48,193
Provision (note 3)	(14,191)	(10,895)
	<b>66,876</b>	<b>37,299</b>

Notes:

- (a) Unlisted investments mainly represent equity interests in a river trade terminal in Hong Kong and container terminals in Yantian, Shekou and Dalian of China mainland.
- (b) Loans to investee companies are unsecured and have no fixed terms of repayment. These loans are interest free except for a balance of US\$2,625,000 as at 31st December 2002 (2001: US\$Nil) which bears interest at Hong Kong dollar prime rate.

## 17 FINANCE LEASE RECEIVABLES

### Group

	2002			2001		
	Gross receivables US\$'000	Unearned finance income US\$'000	Present value of minimum lease payment receivable US\$'000	Gross receivables US\$'000	Unearned finance income US\$'000	Present value of minimum lease payment receivable US\$'000
Amounts receivable under finance leases:						
– not later than one year	2,826	(130)	2,696	5,128	(533)	4,595
– later than one year and not later than five years	233	(36)	197	3,036	(167)	2,869
	<u>3,059</u>	<u>(166)</u>	<u>2,893</u>	<u>8,164</u>	<u>(700)</u>	<u>7,464</u>

As at 31st December 2002, the Group entered into 15 (2001: 15) finance lease contracts for leasing of certain containers. The average term of finance leases is 5 years (2001: 5 years).

The cost of assets acquired for the purpose of letting under finance leases as at 31st December 2002 amounted to US\$19,023,000 (2001: US\$22,475,000).

Unguaranteed residual values of assets leased under finance leases are estimated at approximately US\$9,000 (2001: US\$10,000).

## 18 INVENTORIES

As at 31st December 2002, inventories of the Group represent spare parts and consumables of US\$269,000 (2001: US\$274,000) and resaleable containers of US\$2,379,000 (2001: US\$3,004,000).

Spare parts and consumables are stated at cost. The carrying amount of resaleable containers that are carried at net realisable value amounted to US\$2,308,000 (2001: US\$1,954,000).

## 19 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2002 US\$'000	2001 US\$'000	2002 US\$'000	2001 US\$'000
Trade receivables	25,387	20,542	–	–
Other receivables, deposits and prepayments	7,445	1,904	312	345
Amounts due from (note b)				
– fellow subsidiaries	22,619	20,929	–	–
– related companies	701	600	–	–
	<b>56,152</b>	<b>43,975</b>	<b>312</b>	<b>345</b>

Notes:

- (a) The Group grants credit period of 30 to 90 days to its customers.

At 31st December 2002, the ageing analysis of the trade balances due from third parties (net of provision), fellow subsidiaries, related companies and jointly controlled entities was as follows:

	Group	
	2002 US\$'000	2001 US\$'000
Within 30 days	27,507	21,082
31–60 days	17,141	15,888
61–90 days	2,403	3,318
Over 90 days	982	1,183
	<b>48,033</b>	<b>41,471</b>
Included under trade and other receivables	48,033	41,263
Included under investments in joint ventures (note 14)	–	208
	<b>48,033</b>	<b>41,471</b>

- (b) The amounts due from fellow subsidiaries and related companies are unsecured and interest free. Trading balances have normal commercial terms of settlement while other balances have no fixed terms of repayment.

## 20 TRADE AND OTHER PAYABLES

	Group		Company	
	2002 US\$'000	2001 US\$'000	2002 US\$'000	2001 US\$'000
Trade payables (note a)	5,333	2,832	–	–
Other payables and accruals	25,576	14,279	143	273
Dividend payable	8	–	8	–
Amounts due to (note b)				
– ultimate holding company	–	49	–	–
– fellow subsidiaries	25	28	–	–
– related companies	2,738	136	–	–
– minority shareholders of subsidiaries	3,319	2,769	–	–
	<b>36,999</b>	<b>20,093</b>	<b>151</b>	<b>273</b>

### Notes:

- (a) At 31st December 2002, the ageing analysis of the trade balances due to third parties, ultimate holding company, fellow subsidiaries, related companies, minority shareholders of subsidiaries and jointly controlled entities was as follows:

	Group	
	2002 US\$'000	2001 US\$'000
Within 30 days	6,409	7,954
31–60 days	3,791	232
61–90 days	1,842	66
Over 90 days	1,519	123
	<b>13,561</b>	<b>8,375</b>
Included under trade and other payables	8,807	8,356
Included under investments in joint ventures (note 14)	4,754	19
	<b>13,561</b>	<b>8,375</b>

- (b) The amounts due to ultimate holding company, fellow subsidiaries, related companies and minority shareholders of subsidiaries are unsecured and interest free. Balances in relation to purchases of containers and provision of services have normal commercial terms of settlement while the other balances have no fixed terms of repayment.



## 21 SHARE CAPITAL

	2002 US\$'000	2001 US\$'000
Authorised:		
3,000,000,000 (2001: 3,000,000,000) ordinary shares of HK\$0.10 each	<u>38,462</u>	<u>38,462</u>
Issued and fully paid:		
2,147,012,298 (2001: 2,142,542,298) ordinary shares of HK\$0.10 each	<u>27,533</u>	<u>27,476</u>

(a) The movements of the issued share capital of the Company are summarised as follows:

	Number of ordinary shares	Nominal value US\$'000
At 1st January 2001	2,139,228,298	27,433
Issued on exercising of share options	<u>3,314,000</u>	<u>43</u>
At 31st December 2001	<u>2,142,542,298</u>	<u>27,476</u>
At 1st January 2002	2,142,542,298	27,476
Issued on exercising of share options (note b)	<u>4,470,000</u>	<u>57</u>
At 31st December 2002	<u>2,147,012,298</u>	<u>27,533</u>

### (b) Share options

Under the Share Option Scheme, the directors of the Company may, at their discretion, grant to any director, executive and/or employee who are in full time employment with any company in the Group, share options to subscribe for the Company's shares. The subscription price for the Company's shares under the Share Option Scheme is determined by the board of directors of the Company and will not be less than 80% of the average of the closing prices of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the five trading days immediately preceding the date of offer of the options or the nominal value of the Company's shares, whichever is higher. The maximum number of shares over which options may be outstanding may not exceed 10% of the ordinary share capital in issue from time to time. The Share Option Scheme will expire on 30th November 2004. The consideration on acceptance of an option is HK\$1.00.

## 21 SHARE CAPITAL (Continued)

### (b) Share options (Continued)

Movements of the share options, which have been granted under the Share Option Scheme, during the year are set out below:

Category	Note	Exercise price HK\$	Number of share options				Outstanding at 31st December 2002	Vested percentage as at 31st December 2002	Vested percentage as at 31st December 2001
			Outstanding at 1st January 2002	Granted during the year	Exercised during the year	Lapsed during the year			
Directors	(i)	5.53	3,000,000	–	–	–	3,000,000	0%	0%
	(ii)	8.80	5,000,000	–	–	–	5,000,000	100%	80%
	(iii)	3.584	2,600,000	–	(400,000)	(2,200,000)	–	–	100%
Continuous contract employees	(i)	5.53	80,000	–	–	–	80,000	0%	0%
	(ii)	8.80	7,550,000	–	–	(750,000)	6,800,000	100%	80%
	(iii)	3.584	7,636,000	–	(4,070,000)	(3,566,000)	–	–	100%

Notes:

- (i) The share options granted on 1st July 1996 are exercisable at any time within ten years from the date of grant, subject to the following conditions:

Percentage of the total number of options granted to each grantee which can be exercised (including the options which have already been exercised)	Price level per share at which the options can be exercised*
--	--

20% of the options	HK\$6.50 or above
40% of the options	HK\$7.00 or above
60% of the options	HK\$7.50 or above
80% of the options	HK\$8.00 or above
100% of the options	HK\$8.50 or above

- \* The price level refers to closing price of the share of the Company on the Stock Exchange at the date prior to the exercise of the options.

## 21 SHARE CAPITAL (Continued)

### (b) Share options (Continued)

(ii) The share options granted on 20th May 1997 (the “Offer Date”) are exercisable at any time within ten years from the date of the options granted subject to the following conditions:

1. For those grantees who have completed one year full-time service in the Group may exercise a maximum of 20% of share options granted in each of the first five anniversary years from the Offer Date.
2. For those grantees who have not completed one year full-time service in the Group as at the Offer Date, a maximum of 20% of options granted may be exercisable in each of the first five anniversary years of the Offer Date after completion of one year full-time service.

750,000 share options were lapsed during the year following the resignation of an employee.

(iii) The share options granted on 6th April 2000 were exercisable at any time from the first day of the thirteen month from the date of grant to the last day of the twenty-fourth month from the date of grant. 250,000 share options were lapsed following the resignation of a director. 5,516,000 share options, comprising of 1,950,000 share options of the directors and 3,566,000 share options of the employees, which were remained unexercised on the last day of the exercisable period, were lapsed on 6th April 2002.

4,470,000 options were exercised during the year, representing 400,000 share options of the directors and 4,070,000 share options of the employees, resulted in 4,470,000 shares (2001: 3,314,000 shares) being issued at HK\$3.584 (2001: HK\$3.584) per share, yielding the following proceeds, after transaction costs of US\$2,000 (2001: US\$Nil).

	2002 US\$'000	2001 US\$'000
Ordinary share capital – at par	57	43
Share premium (net of issue expenses)	<u>2,049</u>	<u>1,480</u>
Proceeds (net of issue expenses)	<u>2,106</u>	<u>1,523</u>

(iv) The weighted average closing price of the shares of the Company on which the share options were exercised during the year was HK\$4.959 (2001: HK\$5.246).

(v) For those share options granted on 1st July 1996 and 20th May 1997, all grantees may reserve their rights to exercise and accumulate their share options exercisable during their employment with the Group.

## 22 RESERVES

### Company

	Share premium US\$'000	Contributed surplus US\$'000	Retained profits US\$'000	Total US\$'000
At 1st January 2001	556,528	418,570	125,231	1,100,329
Premium on issue of shares under the Share Option Scheme	1,480	–	–	1,480
Release of contributed surplus arising from a group reorganisation (note)	–	(4,356)	–	(4,356)
Profit for the year	–	–	105,171	105,171
Dividends				
– 2000 final	–	–	(30,195)	(30,195)
– 2001 interim	–	–	(26,094)	(26,094)
	<u>558,008</u>	<u>414,214</u>	<u>174,113</u>	<u>1,146,335</u>
At 31st December 2001				
Representing:				
Reserves	558,008	414,214	135,657	1,107,879
2001 final dividend proposed	–	–	38,456	38,456
	<u>558,008</u>	<u>414,214</u>	<u>174,113</u>	<u>1,146,335</u>
At 31st December 2001				
At 1st January 2002	558,008	414,214	174,113	1,146,335
Premium on issue of shares under the Share Option Scheme	2,051	–	–	2,051
Share issue expenses	(2)	–	–	(2)
Profit for the year	–	–	72,334	72,334
Dividends				
– 2001 final	–	–	(38,536)	(38,536)
– 2002 interim	–	–	(30,278)	(30,278)
	<u>560,057</u>	<u>414,214</u>	<u>177,633</u>	<u>1,151,904</u>
At 31st December 2002				
Representing:				
Reserves	560,057	414,214	128,087	1,102,358
2002 final dividend proposed	–	–	49,546	49,546
	<u>560,057</u>	<u>414,214</u>	<u>177,633</u>	<u>1,151,904</u>

#### Note:

During the year ended 31st December 2001, the entire equity interest in Fairbreeze Shipping Company Limited (“Fairbreeze”), a directly owned subsidiary, was transferred by the Company to Florens Container Holdings Limited, a wholly owned subsidiary of the Company. The contributed surplus previously arising from the acquisition of Fairbreeze by the Company of US\$4,356,000 was released upon the transfer.

## 23 LONG TERM LIABILITIES

	Group	
	2002 US\$'000	2001 US\$'000
Loans (note c)		
Secured	156,578	162,532
Unsecured	263,614	330,650
	<u>420,192</u>	<u>493,182</u>
Amounts due within one year included under current liabilities	(209,707)	(92,125)
	<u>210,485</u>	<u>401,057</u>

(a) The analysis of the above is as follows:

	Group	
	2002 US\$'000	2001 US\$'000
Wholly repayable within five years		
Bank loans	223,599	220,328
Other loans (note d)	140,000	143,463
Loans from a minority shareholder of a subsidiary (note e)	1,445	1,927
	<u>365,044</u>	<u>365,718</u>
Not wholly repayable within five years		
Bank loans	40,179	110,372
Other loans	14,969	17,092
	<u>55,148</u>	<u>127,464</u>
	<u>420,192</u>	<u>493,182</u>

## 23 LONG TERM LIABILITIES (Continued)

(b) The maturity of the long term liabilities is as follows:

	Group	
	2002 US\$'000	2001 US\$'000
Bank loans		
Within one year	66,937	86,056
In the second year	64,464	68,560
In the third to fifth years inclusive	124,342	156,182
In more than five years	8,035	19,902
	263,778	330,700
Loans from a minority shareholder of a subsidiary		
Within one year	482	482
In the second year	482	482
In the third to fifth years inclusive	481	963
	1,445	1,927
Other loans		
Within one year	142,288	5,587
In the second year	2,464	142,288
In the third to fifth years inclusive	8,590	7,976
In more than five years	1,627	4,704
	154,969	160,555
	420,192	493,182

(c) Secured bank loans and other loans of US\$156,578,000 (2001: US\$162,532,000) were pledged by certain containers of the Group (note 12(f)). US\$141,609,000 (2001: US\$141,975,000) out of these loans were also secured by the assignment of the container lease agreements and the rental income thereon, other assets and shares of certain subsidiaries.

The bank loan of approximately US\$1,566,000 (2001: US\$2,024,000) was guaranteed by the minority shareholder of a subsidiary.

(d) A sum of US\$140,000,000 US commercial notes (the "Notes") were issued to investors pursuant to an agreement dated 24th December 2001. The Notes are backed by a letter of credit issued by a bank (the "LOC") and guaranteed by the Company.

Each Note bears interest at prevailing market rates with a stated maturity date not exceeding 270 days. The Notes will be redeemed and reissued upon their respective maturity dates until the expiry of the LOC. The stated termination date of the LOC is two years from 24th December 2001.

## 23 LONG TERM LIABILITIES (Continued)

- (e) As at 31st December 2002, loans to a non-wholly owned subsidiary by the Group and a minority shareholder of the subsidiary amounted to US\$1,610,000 (2001: US\$2,091,000) and US\$1,445,000 (2001: US\$1,927,000) respectively. These loans are unsecured and repayable in various annual instalments up to December 2004. Annual interest rate is calculated at prevailing market rate quoted by the State Development Bank of the PRC. The interest rate was at 6.21% per annum for the month of January 2002 and at 5.76% per annum for the period from February to December 2002 (2001: 6.21%).
- (f) Other loan of US\$14,969,000 (2001: US\$17,092,000) not wholly repayable within five years is repayable by quarterly instalment over a period of 32 quarters starting from 7th July 2000. Interest is charged on the outstanding balance at the rate of 1.125% per annum over the London Interbank Offered Rate ("LIBOR") (2001: 1.125% per annum over LIBOR).

## 24 CONTINGENT LIABILITIES

	Group		Company	
	2002 US\$'000	2001 US\$'000	2002 US\$'000	2001 US\$'000
Guarantees executed for securing banking facilities granted to:				
Subsidiaries	–	–	416,577	505,586
Jointly controlled entities	–	585	–	–
	<u>–</u>	<u>585</u>	<u>416,577</u>	<u>505,586</u>

## 25 CAPITAL COMMITMENTS

	Group	
	2002 US\$'000	2001 US\$'000
Authorised but not contracted for:		
Containers	<u>155,977</u>	<u>48,691</u>
Contracted but not provided for:		
Containers	468	3,100
Investments (note a)	<u>76,086</u>	<u>50,270</u>
	<u>76,554</u>	<u>53,370</u>

## 25 CAPITAL COMMITMENTS (Continued)

Notes :

- (a) As at 31st December 2002, the Group's committed investments included a 20% equity interest in Shanghai Putong International Container Terminal Limited ("Waigaoqiao") and Yantian International Container Terminals (Phase III) Limited of approximately US\$45,908,000 (2001: US\$45,770,000) and US\$30,178,000 (2001: US\$Nil) respectively.

As of the date of approval of the accounts, Waigaoqiao was established and the contribution paid by the Group was US\$45,908,000.

- (b) As at 31st December 2002 and 2001, there were no capital commitments relating to the Group's interest in the joint ventures included in the above.

As at 31st December 2002 and 2001, there were no capital commitments of the joint ventures themselves not included in the above.

## 26 LEASE COMMITMENTS

- (a) **Operating lease commitments – where the Group is the lessor**

At 31st December 2002, the Group had future minimum lease payments receivable under non-cancellable operating leases in total and for each of the following periods:

	2002 US\$'000	2001 US\$'000
Containers		
– not later than one year	176,300	169,029
– later than one year and not later than five years	472,250	479,926
– later than five years	139,816	147,277
	<u>788,366</u>	<u>796,232</u>
Land and buildings		
– not later than one year	41	40
– later than one year and not later than five years	11	6
	<u>52</u>	<u>46</u>
	<u>788,418</u>	<u>796,278</u>

The future lease payment receivable under master lease contracts has not been included above as the amount of future lease payments receivable depends on the timing of pick up and drop off of containers by lessees during the lease period of the contracts.



## 26 LEASE COMMITMENTS (Continued)

### (a) Operating lease commitments – where the Group is the lessor (Continued)

At 31st December 2001, the Group had future minimum sublease payments receivable under non-cancellable operating leases in total and for each of the following periods:

	2002 US\$'000	2001 US\$'000
Land and buildings		
– not later than one year	–	381
– later than one year and not later than five years	–	32
	<u>–</u>	<u>413</u>

### (b) Operating lease commitments – where the Group is the lessee

At 31st December 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2002 US\$'000	2001 US\$'000
Land and buildings		
– not later than one year	2,795	2,997
– later than one year and not later than five years	2,594	3,681
– later than five years	15	–
	<u>5,404</u>	<u>6,678</u>
Plant and machinery		
– not later than one year	293	384
– later than one year and not later than five years	90	383
	<u>383</u>	<u>767</u>
	<u>5,787</u>	<u>7,445</u>

(c) The Company did not have any lease commitments at 31st December 2002 (2001: US\$Nil).

## 27 DEFERRED TAXATION

The potential deferred tax liability/(asset) as at 31st December 2002 not provided for in the accounts amounted to:

	Group	
	2002 US\$'000	2001 US\$'000
Accelerated depreciation allowances	67,450	49,286
Tax losses	(49,059)	(39,243)
Other timing differences	124	63
	<u>18,515</u>	<u>10,106</u>

## 28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Reconciliation of profit before taxation to cash generated from operations

	2002 US\$'000	2001 US\$'000
Profit before taxation	167,774	164,917
Depreciation and amortisation	87,682	80,960
Interest expenses	15,464	24,001
Impairment losses of fixed assets	15,997	5,680
Provision for loan to an investee company	3,296	3,450
Other incidental borrowing costs	2,555	5,523
Loss on disposal/write-off of fixed assets	486	443
Provision for inventories	832	265
Revaluation deficit of investment properties	60	154
Share of profits less losses of associated companies	(67,461)	(56,812)
Share of profits less losses of jointly controlled entities	(8,751)	(9,421)
Dividend income from an unlisted investment	(5,003)	–
Interest income	(3,794)	(5,178)
Provision for bad and doubtful debts, net	1,142	514
Recovery of bad debts	(2,999)	(41)
Effect of foreign exchange rate changes	(3)	(5)
Profit on sale of listed investment	–	(14,137)
Reversal of provision for container repairs and maintenance expenses	–	(6,156)
<b>Operating profit before working capital changes</b>	<b>207,277</b>	<b>194,157</b>
Increase in amount due from an associated company	–	(5)
Decrease/(increase) in net balance with jointly controlled entities	436	(329)
Decrease in finance lease receivables	4,584	4,787
Decrease in inventories	8,879	8,350
Increase in trade and other receivables, deposits and prepayments	(2,626)	(626)
(Increase)/decrease in amounts due from fellow subsidiaries	(1,690)	1,531
(Increase)/decrease in amounts due from related companies	(101)	118
Increase/(decrease) in trade and other payables and accruals	397	(1,412)
(Decrease)/increase in amount due to ultimate holding company	(49)	49
Decrease in amounts due to fellow subsidiaries	(3)	(1,225)
Increase in amounts due to related companies	60	1,465
Increase in amount due to minority shareholders of subsidiaries	550	698
<b>Cash generated from operations</b>	<b>217,714</b>	<b>207,558</b>

## 28 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

### (b) Analysis of changes in financing during the year

	Share capital (including share premium) US\$'000	Loans US\$'000	Minority interests US\$'000	Dividend payable US\$'000
Balance at 1st January 2001	583,961	423,645	7,247	–
Issue of shares under the Share Option Scheme	1,523	–	–	–
Minority interest's share of profit for the year	–	–	1,011	–
Loans borrowed	–	231,197	–	–
Repayment of loans	–	(145,304)	–	–
Proposed dividends	–	–	–	56,289
Dividends paid	–	–	(749)	(56,289)
Balance at 31st December 2001	<u>585,484</u>	<u>509,538</u>	<u>7,509</u>	<u>–</u>
Balance at 1st January 2002	585,484	509,538	7,509	–
Issue of shares under the Share Option Scheme	2,108	–	–	–
Share issue expenses	(2)	–	–	–
Minority interest's share of profit for the year	–	–	1,699	–
Loans borrowed	–	95,604	–	–
Repayment of loans	–	(184,468)	–	–
Proposed dividends	–	–	–	68,814
Dividends paid	–	–	(896)	(68,814)
Balance at 31st December 2002	<u>587,590</u>	<u>420,674</u>	<u>8,312</u>	<u>–</u>

### (c) Analysis of the balances of cash and cash equivalents

	2002 US\$'000	2001 US\$'000
Total time deposits, bank balances and cash (note i)	236,121	254,109
Restricted bank deposits included in non-current assets (note ii)	(7,817)	(8,174)
	<u>228,304</u>	<u>245,935</u>
Representing:		
Time deposits	202,224	236,336
Bank balances and cash	26,080	9,599
	<u>228,304</u>	<u>245,935</u>

#### Notes:

- (i) Included amounts of US\$39,427,000 (2001: US\$34,365,000) are held by certain subsidiaries of the Group which operate in the PRC where exchange controls apply.
- (ii) Restricted bank deposits are deposits pledged as securities for repayment of bank loans of the Group and are restricted for the purpose of the related banking facilities.

## 29 RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions, in addition to those disclosed elsewhere in the accounts, which were carried out in the normal course of the Group's business:

	2002 US\$'000	2001 US\$'000
Container rental income from a fellow subsidiary (note a)		
– long term leases	135,636	135,959
– short term leases	474	–
Income for container terminal handling services rendered by an associated company of the Group to a fellow subsidiary (note b)	70,383	76,172
Handling and storage income from fellow subsidiaries (note c)	6,782	7,424
Net transportation income from fellow subsidiaries (note c)	1,637	1,777
Management fee income from an associated company (note d)	2,564	2,564
Container terminal handling fee received from a fellow subsidiary (note e)	1,257	936
Purchase of containers from (note f)		
– associated companies of ultimate holding company	(40,105)	(50,848)
– jointly controlled entities of the Group	(18,588)	(19,498)
Container freight charges to (note g)		
– associated companies of ultimate holding company	(2,241)	(1,763)
– jointly controlled entities of the Group	(357)	(392)
Approved continuous examination program fee to a fellow subsidiary (note h)	(2,200)	(2,600)
Property rental expense paid to a fellow subsidiary under operating lease (note i)	(714)	(714)
Acquisitions of equity interests in		
– Shekou Container Terminals Ltd. (note j)	(19,941)	–
– Dalian Port Container Co., Ltd. (note k)	(4,519)	–

Notes:

- (a) The Group has conducted long term container leasing business with COSCO Container Lines Company Limited (“COSCON”), a subsidiary of China Ocean Shipping (Group) Company (“COSCO”) which is the Company's ultimate holding company.

During the two years ended 31st December 2002, the Group entered into new long term container leasing arrangements and revised the terms of the existing container leasing contracts with COSCON. The Group's long term container leasing transactions with COSCON during the year have been conducted based on the average leasing rates quoted from four (2001: four) of the top ten independent container leasing companies and in the ordinary and normal course of the business of the Group.

On 22nd August 2001, the Group entered into short term container leasing arrangement with COSCON whereby COSCON has agreed to lease from the Group, on a short term basis, certain containers returned from COSCON after the expiry of the long term leases with effect from 1st January 2002. The short term container leasing arrangement with COSCON was conducted in accordance with the pricing policy of the Group.

## 29 RELATED PARTY TRANSACTIONS (Continued)

- (b) COSCO-HIT Terminals (Hong Kong) Limited, an associated company of the Group, provided handling and storage services to COSCON for cargoes shipped to Container Terminal 8 (East) in Hong Kong. The services rendered were charged at terms pursuant to agreements entered into by COSCO-HIT Terminals (Hong Kong) Limited with COSCON for the year ended 31st December 2002.
- (c) The handling and storage income and the transportation income received from fellow subsidiaries were conducted at terms no less favourable than terms available to independent third parties.
- (d) The Group provided advisory and management services to COSCO-HIT Terminals (Hong Kong) Limited during the year. Management fee was charged and agreed at HK\$20,000,000 (2001: HK\$20,000,000) per annum.
- (e) During the year, the Group provided handling and storage services to a fellow subsidiary for cargoes shipped to Zhangjiagang port. The tariff rates charged by the Group were determined by reference to the rates as set out by the Ministry of Communications of the PRC.
- (f) The purchases of containers from associated companies of COSCO and jointly controlled entities of the Group were conducted in the normal course of the business at terms as set out in the agreements entered into between the Group and the related companies.
- (g) During the year, the Group paid container freight charges of US\$2,241,000 (2001: US\$1,763,000) and US\$357,000 (2001: US\$392,000) to certain associated companies of COSCO and jointly controlled entities of the Group respectively for container repositioning services rendered to the Group.
- (h) Pursuant to an addendum of long term lease agreement dated 21st August 2002 entered into between Group and COSCON, the Group has agreed to pay an approved continuous examination program fee of US\$2,200,000 (2001: US\$2,600,000) to COSCON for the year.
- (i) On 7th March 2001, a subsidiary of the Group renewed the lease agreement with a fellow subsidiary, Wing Thye Holdings Limited (“Wing Thye”), a subsidiary of COSCO (Hong Kong) Group Limited (“COSCO Hong Kong”) which is the Company’s immediate holding company, for the lease of the office space for a period of 3 years commencing with retrospective effect from 4th December 2000 at a monthly rental of HK\$465,023 exclusive of rates and management fees, which was then determined by reference to an independent opinion given by DTZ Debenham Tie Leung Limited, a professional valuer. COSCO Hong Kong provided a guarantee in the sum of HK\$1,395,069 representing rentals for three months to Wing Thye as security for due payment of rental and other monies by the subsidiary.
- (j) Pursuant to an agreement dated 25th November 2002 entered into between COSCO and COSCO Ports (Shekou) Limited (“COSCO Ports Shekou”), an indirect wholly owned subsidiary of the Company, COSCO Ports Shekou agreed to acquire from COSCO its entire 17.5% equity interest in Shekou Container Terminals Ltd. (“Shekou CTL”), which is an equity joint venture established in China mainland and engages in the provision of container terminal related services, at a cash consideration of HK\$155,543,000 (equivalent of approximately US\$19,941,000). The consideration was determined by reference to a valuation of the acquired interest of Shekou CTL as at 30th September 2002 conducted by DTZ Debenham Tie Leung Limited, an independent professional valuer.
- (k) On 28th December 2001, the Group entered into a Promoters’ Agreement with China Dalian Ocean Shipping Agency, an indirect wholly owned subsidiary of COSCO, and three other independent third parties in relation to the establishment of Dalian Port Container Co., Ltd. (“Dalian Port”), a joint stock limited company which engages in container terminal operations and related business in Dalian, China mainland. Total investment amounted to approximately RMB469,000,000. The Group’s attributable share of the investment in Dalian Port was RMB37,516,200 (equivalent of approximately US\$4,519,000), representing 8% equity interest in Dalian Port, and the investment amount was paid in cash during the year.

### 30 SIGNIFICANT ASSOCIATED COMPANIES

A summary of the audited financial information of COSCO-HIT Terminals (Hong Kong) Limited and Liu Chong Hing Bank Limited, two significant associated companies of the Group, after making adjustments by directors of the Company to conform with the Group's principal accounting policies, for the two years ended 31st December 2002 and 2001 is set out as follows:

#### (a) COSCO-HIT Terminals (Hong Kong) Limited

	2002 US\$'000	2001 US\$'000
<b>Result for the year</b>		
Turnover	<u>139,558</u>	<u>127,168</u>
Profit before taxation (note)	<b>83,170</b>	70,000
Taxation	<u>(13,795)</u>	<u>(11,538)</u>
Profit after taxation	<u>69,375</u>	<u>58,462</u>
Group's share of profit before taxation (note)	<u>41,585</u>	<u>35,000</u>
<b>Net assets as at 31st December (note)</b>		
Fixed assets	<b>326,927</b>	338,083
Current assets	<b>61,185</b>	32,144
Current liabilities	<b>(25,274)</b>	(46,763)
Long term liabilities	<b>(256,410)</b>	(206,923)
Deferred taxation	<u>(2,535)</u>	<u>(2,535)</u>
	<u>103,893</u>	<u>114,006</u>

#### Note:

Adjustments have been made to the deferred borrowing costs included in the accounts of COSCO-HIT Terminals (Hong Kong) Limited for the year ended 31st December 2002 to conform with the Group's principal accounting policies. As a result, the Group's share of profit before taxation of associated companies for the year ended 31st December 2002 has been decreased by US\$84,000 (2001: increased by US\$196,000) and the Group's share of net assets of associated companies as at 31st December 2002 has been decreased by US\$656,000 (2001: US\$572,000).

### 30 SIGNIFICANT ASSOCIATED COMPANIES (Continued)

#### (b) Liu Chong Hing Bank Limited

	2002 US\$'000	2001 US\$'000
<b>Result for the year</b>		
Net interest income	<u>96,073</u>	<u>102,139</u>
Profit before taxation (note)	42,276	45,033
Taxation	<u>(8,038)</u>	<u>(6,213)</u>
Profit after taxation	<u>34,238</u>	<u>38,820</u>
Group's share of profit before taxation (note)	<u>8,455</u>	<u>9,007</u>
<b>Assets</b>		
Cash and short-term funds	1,588,267	1,829,467
Advances and other accounts	2,511,436	2,427,065
Tangible fixed assets and other assets (note)	<u>971,329</u>	<u>851,032</u>
	<u>5,071,032</u>	<u>5,107,564</u>
<b>Liabilities</b>		
Deposits with customers	4,165,673	4,190,477
Certificates of deposit, deposits with other banks and financial institutions	53,954	69,770
Other liabilities	<u>51,010</u>	<u>56,067</u>
	<u>4,270,637</u>	<u>4,316,314</u>
Net assets as at 31st December	<u>800,395</u>	<u>791,250</u>
<b>Contingent liabilities</b>		
Direct credit substitutes and trade-related contingencies	<u>161,830</u>	<u>75,127</u>

Note:

Adjustments have been made to the tangible fixed assets and investments in securities included in the accounts of Liu Chong Hing Bank Limited for the year ended 31st December 2002 to conform with the Group's principal accounting policies. As a consequence, the Group's share of profit before taxation for the year ended 31st December 2002 has been decreased by US\$1,088,000 (2001: US\$1,105,000) and the Group's share of net assets has been increased by US\$9,360,000 (2001: US\$9,635,000) respectively.

### 31 FINANCIAL INSTRUMENTS

The Group has employed interest rate swaps to manage its interest rate exposure. These instruments are used solely to reduce or eliminate the interest rate risk associated with the Group's borrowings and not for trading or speculation purposes.

The notional principal amounts of the outstanding interest rate swap contracts as at 31st December 2002 were US\$100,000,000 (2001: US\$19,825,000).

As at 31st December 2002, the fixed interest rates under the outstanding interest rate swap contracts varied from 3.88% to 4.99% (2001: 5.7% to 5.8%) per annum.

### 32 COMPARATIVE FIGURES

The comparatives of the consolidated cash flow statement have been reclassified into operating, investing and financing activities as a result of the adoption of the SSAP 15 (revised), "Cash flow statements", issued by the HKSA, which became effective for accounting period commencing on or after 1st January 2002.

### 33 ULTIMATE HOLDING COMPANY

The directors regard China Ocean Shipping (Group) Company, a state-owned enterprise established in the People's Republic of China, as being the ultimate holding company.

### 34 APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 26th March 2003.