

## Management Discussion and Analysis

### Consolidated Profit and Loss Account

	2002 HK\$ million	2001 HK\$ million
Turnover		
Port	384.0	–
Container manufacturing and related business	872.8	674.5
Toll road	23.3	29.2
Oil tanker	384.3	474.7
Others	24.7	27.7
<b>1</b> Total turnover	<b>1,689.1</b>	<b>1,206.1</b>
Cost of sales	(1,138.7)	(748.8)
<b>2</b> Gross profit	<b>550.4</b>	<b>457.3</b>
<b>3</b> Other income	<b>81.1</b>	<b>102.3</b>
<b>4</b> Distribution costs	<b>(141.1)</b>	<b>(117.9)</b>
<b>5</b> Administrative expenses	<b>(147.5)</b>	<b>(127.5)</b>
<b>6</b> Profits from disposal of investments in infrastructure joint ventures/interests in associates	<b>22.1</b>	<b>5.2</b>
<b>7</b> Provisions	<b>(200.0)</b>	<b>(139.6)</b>
Write-back of dry-docking provision	–	27.2
<b>8</b> Operating profit	<b>165.0</b>	<b>207.0</b>
<b>9</b> Finance costs	<b>(39.7)</b>	<b>(66.6)</b>
<b>10</b> Share of profit of associates/ jointly controlled entities	<b>959.1</b>	<b>834.7</b>
Profit before taxation	1,804.4	975.1
Taxation	(137.2)	(115.0)
Minority interests	(64.7)	(59.9)
<b>11</b> Profit attributable to shareholders	<b>882.5</b>	<b>800.2</b>

**1** The Group recorded an increased turnover of HK\$480 million over the previous year, which is largely attributable to: (1) acquisition of two port services subsidiaries during the year generated a turnover of HK\$380 million; (2) paint sales recorded an increase of HK\$200 million over the previous year; and (3) a decrease of HK\$90 million in the turnover of oil tanker business over the previous year, owing to the falling charter rate in the oil tanker charter market.

**2** There was an increase of HK\$93 million in gross profit over the previous year which was largely attributable to a gross profit of HK\$101 million contributed by two newly-acquired port services subsidiaries, whilst an increase of HK\$70 million in the paint business was set-off by a decline of HK\$70 million in the oil tanker business.

**3** There was a decrease of HK\$21,000,000 in other income from previous year, largely attributable to a decrease of interest income.

**4** The distribution costs recorded an increase of HK\$23,000,000 over the previous year, which is mainly attributable to the increased transportation expenses and patent licence fee as a result of the growth in paint sales during the year.

**5** The administrative expenses increased by HK\$20,000,000 over the previous year, which is mainly attributable to the consolidation of the HK\$42,000,000 administrative expenses of the two newly-acquired port services projects during the year. Without taking into account such administrative expenses, the administrative expenses recorded a decrease of HK\$22,000,000 compared with the previous year.

**6** During the year, Zhangzhou 324 National Highway and Zhangxia Expressway were sold and such disposals generated a disposal income of HK\$22,000,000.

**7** A provision of HK\$200,000,000 was made for the Company's property, China Merchants Tower, during the year, while a provision of HK\$140,000,000 was made for the Company's highway projects during the previous year.

**8** Without taking into account the above provisions, the operating profit for the year achieved a 5.3% increase over the previous year. The profit decrease in oil tanker business was partially off-set by the profit growth in ports business.

**9** The finance costs decreased by HK\$27,000,000 as a result of the repayment of bank borrowings in a total of HK\$410,000,000.

**10** During the year, the share of profit of the associates and jointly controlled entities represented an increase of HK\$124,000,000 over the previous year, largely attributable to the substantial increase in the Group's profit from its port projects, container manufacturing and related businesses such as paint manufacturing. And disposal gain was made from sales of Yixian Road through a jointly controlled entity.

**11** For detailed analysis, see the paragraph headed "Profit Analysis by Industries" below.

## Consolidated Balance Sheet

	2002 HK\$ million	2001 HK\$ million
Non-current assets	10,921.5	10,188.5
12 Fixed asset	2,923.1	2,705.7
13 Toll road operating right	319.7	326.3
14 Goodwill/(Negative goodwill)	149.0	(158.8)
15 Interests in associates and jointly controlled entities	6,800.6	6,488.7
16 Other non-current assets	729.1	826.6
Net current assets	1,228.4	1,590.8
17 Bank balance and cash	822.8	1,491.9
18 Other net current assets	405.6	98.9
Total assets less current liabilities	12,149.9	11,779.3
Non-current liabilities	367.8	605.0
19 Bank borrowings – due after 1 year	53.5	293.1
Convertible bonds	314.3	311.9
Minority interests	340.5	301.4
Shareholders' equity	11,441.6	10,872.9
Share capital	205.7	205.3
Share premium	8,058.4	8,043.0
Other reserves	(43.2)	(77.5)
20 Retained earnings	3,220.7	2,702.1
including: proposed dividend	308.5	184.8
Non-current liabilities and shareholders' equity	12,149.9	11,779.3

12 There was an increase of HK\$217,000,000 in fixed assets as compared to the previous year, largely attributable to the increase in fixed assets of HK\$530,000,000 from the two newly-acquired port subsidiaries and the decrease in provision of HK\$200,000,000 fixed assets for China Merchants Tower, during the year, as well as the depreciation and other additions made during the Current Year.

13 The toll road operating right was held by Ningzhenluo Highway Company, a subsidiary of the Group. Other highway projects were jointly controlled entities or infrastructure joint venture of the Group.

14 Negative goodwill amounted to HK\$159,000,000 in 2001, largely attributable to the privatisation of Ming Wah Universal (Bermuda) Co. Ltd., a Singapore-listed subsidiary of the Company. The two port services projects newly-acquired by the Company during the year generated a goodwill of HK\$308,000,000.

15 The interests in associates and jointly controlled entities increased by HK\$310,000,000, largely attributable to a HK\$860,000,000 share of the profits after tax of associates and jointly controlled entities and a HK\$230,000,000 increase in the investments made in such associates and jointly controlled entities. During the year, dividend of HK\$470,000,000 from associates and jointly controlled entities and a shareholders' loan repayment of HK\$310,000,000 from jointly controlled entities were received.

16 Two return-guaranteed highway projects, namely Zhangzhou 324 National Highway and Zhangxia Expressway were sold during the year and resulted in a HK\$368,000,000 decrease in interests, whilst the advances for the construction works of SCT (Phase II), SCT (Phase III) and Mawan project resulted in a HK\$220,000,000 increase in interests.

17 The decrease of cash was mainly due to increased investments in ports (including HK\$830,000,000 net cash paid for the acquisition of two port projects), bank loan repayment of HK\$410,000,000 and dividend payment of HK\$330,000,000. For details, see the cash flow analysis.

18 There was a significant increase in other net current assets, mainly due to: (1) a net increase of HK\$100,000,000 in accounts receivable and accounts payable as a result of an increase of paint sales during the year; (2) a loan of HK\$94,000,000 in favour of Nanyou; and (3) repayment of HK\$170,000,000 bank borrowings which were repayable within a year during the year.

19 Repayment of HK\$240,000,000 long term bank loan was made during the year.

20 Retained earnings increased by HK\$518,000,000, which is attributable to (1) earnings for the year is HK\$882,000,000; and (2) dividend payment to the Company's shareholders and transfer of distributable reserve totalling HK\$364,000,000.

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## Consolidated Cash Flow Statement

	2002 HK\$ million	2001 HK\$ million
Net cash inflow from operating activities	291.6	435.9
<b>21</b> Net cash flow from operations	314.4	451.2
Taxation	(22.8)	(15.3)
Net cash flow from investing activities	(170.6)	320.0
Dividend from associates and jointly controlled entities and returns on other investment	508.3	474.4
<b>22</b> Loan repayment by jointly controlled entities	311.6	148.1
Proceeds from disposal of subsidiaries (sold in 2000)	–	349.6
<b>23</b> Disposal of infrastructure joint ventures/associates	390.0	9.0
<b>24</b> Investments in associates and jointly controlled entities	(388.5)	(462.8)
<b>25</b> Purchase for subsidiaries	(831.2)	(221.5)
<b>26</b> Loans to related companies	(145.3)	(82.6)
<b>27</b> Purchase of fixed assets	(40.9)	(6.0)
Net cash inflow from other investing activities	25.4	111.8
Net cash inflow from financing activities	(790.6)	(768.6)
Proceeds from exercise of share option	15.7	21.0
<b>28</b> Bank loan repayment	(414.5)	(385.3)
Interest payment	(37.3)	(64.2)
Dividend payment	(346.0)	(330.0)
Cash inflow from other financing activities	(8.5)	(10.0)
Decrease of cash, net	(669.6)	(12.7)
Cash balance, beginning of the year	1,491.9	1,506.6
Effect of changes in exchange rate	0.5	(2.0)
Cash balance, end of the year	822.8	1,491.9

**21** There was a decrease of HK\$137,000,000 in cash flow from operations, mainly attributable to: (1) income from oil tanker business decreased by HK\$90,000,000 over the previous year; (2) increased sales of the paint business resulting in an increase of account receivables which, after setting off the increase of the account payable, resulted in an increase of HK\$100,000,000 over the previous year.

**22** An increase of HK\$160,000,000 in shareholders' loan repayment by the jointly controlled entity over the previous year was largely attributable to the receipt of proceeds of HK\$180,000,000 from the sale of Shanghai Yixian Road project during the year, which set off the project's shareholders' loan due to the Group.

**23** It represented the sales of the projects of Zhangzhou 324 National Highway and Zhangxia Expressway.

**24** It mainly consisted of the investment of HK\$190,000,000 in Zhangzhou Terminal and the construction cost of HK\$160,000,000 for SCT Phase II and Phase III.

**25** A net payment of HK\$830,000,000 made for the purchase of subsidiaries, including (1) HK\$760,000,000 for the acquisition of China Merchants Port Services; (2) HK\$100,000,000 for the acquisition of China Merchants Container Services; (3) less: the existing funds of the companies which were acquired.

**26** Loans to related companies mainly include: (1) HK\$45,000,000 to Hong Kong Western Harbour Crossing; (2) HK\$94,000,000 to Nanyou Group, the Group's cooperative partner.

**27** The cash paid for the purchase of fixed assets was mainly from the port construction cost of China Merchants Port Services, the Group's subsidiary.

**28** The bank loans repaid during the year included: (1) HK\$190,000,000 repaid by China Merchants International; (2) HK\$6,000,000 repaid from the paint business; (3) HK\$220,000,000 repaid from the oil tanker business.

### Profit Analysis by Industries

	2002 HK\$ million	2001 HK\$ million
Ports Business	521.7	396.4
Container-related services	223.1	191.9
Toll road business	239.2	13.8
Oil tanker business	125.2	197.7

### PROFIT ANALYSIS BY INDUSTRIES

The profit of ports business increased by 31.6% to HK\$125,000,000, largely attributable to an increase in ports business turnover following a rapid increase of import and export foreign trade of the PRC (representing an increase of 21.8% for Current Year). The container throughput handled by various ports of the Group in western Shenzhen increased by 46% for Current Year.

The profit of the container-related business increased by 16.3% to HK\$31,000,000. This was largely attributable to the profit increase of the paint manufacturing business. During the Current Year, the increased domestic production of containers and vehicles had caused an increase in the sales of paint.

During the previous year, the Group wrote-off a sum of HK\$140,000,000 for investments in three highway projects. Before the write-off, the highways recorded a profit of HK\$153,000,000 in the previous year. The profit of highways business increased by HK\$86,000,000 or 55.9% as compared to the previous year for two reasons: 1) although the Current Year's number of highway projects was reduced by three as compared to that of last year, Guihuang Expressway, Yuyao Expressway and Guiliu Expressway recorded a higher profit growth over last year; and 2) Zhangzhou Highway project and Shanghai Yixian Road project was disposed of during the year and a disposal gain of HK\$88,000,000 was realised.

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Of the profit from the oil tanker business in the previous year, HK\$27,000,000 arose from adjustment of accounting policy. Otherwise, the profit for the previous year would be HK\$170,000,000. This year, a 26% fall in profit was recorded for the reason that a price volatility of the oil tanker market as shown in the over 30% fall of the "Aframax" price index, thus leading to a decrease of the Group's income from its oil tanker business. However, the average daily freight of the Group's oil tankers was still higher than the average market price.

In addition, the average operating rate of the time and current charter of the Group's seven oil tankers was almost 100%. The performance of oil tanker business was normal.

### LIQUIDITY AND TREASURY POLICIES

As at 31 December 2002, the Company held more than HK\$800,000,000 in cash, 6% of which was denominated in Hong Kong dollars, 26% in U.S. dollars and 68% in Renminbi.

The funds of the Group mainly come from the returns on the operation of its associates and co-operative companies. Besides, the disposal of three highways during the Current Year generated a cash inflow of HK\$580,000,000. As the Group invested more than HK\$1,200,000,000 in new projects, repaid HK\$410,000,000 of bank loans and paid a dividend of HK\$330,000,000, the cash in hand at the end of the Current Year was less than that in the previous year.

Given the stable source of income and the very low gearing ratio, the Group maintained a sound financial position to meet its daily operating needs and for timely repayment of bank loans.

### SHARE CAPITAL AND FINANCIAL RESOURCES

As at 31 December 2002, the Company had a total of 2,056,585,388 issued shares. During the Current Year, an aggregate of 3,113,000 shares were issued upon the exercise of options and HK\$16,000,000 was received in return.

As at 31 December 2002, the Group had total outstanding loans of HK\$145,000,000, of which HK\$91,000,000 were short-term loan facilities and bank loans repayable within one year. The bank loans decreased by HK\$410,000,000 as compared to the end of 2001 since some of the loans were repaid during the year in order to reduce the interest expense. The remaining bank loans were unsecured.

The balance of convertible bonds was HK\$317,000,000, remaining at the same level as in the previous year. The convertible bonds will expire in 2004 and their interest rate was fixed at 7%. There was no conversion of convertible bonds in the Current Year.

The interest rate of convertible bonds was fixed, whilst those of the bank loans were floating.

As at 31 December 2002, the Group's gearing ratio (dividing interest-bearing liabilities by net assets) was 4%, representing a further decrease from 8% of the previous year.

All bank loans and convertible bonds were denominated either in U.S. dollars or HK dollars. As such, the Company did not have any financial instruments to hedge against these loans and bonds.

The Group held its assets mainly in HK dollars, U.S. dollars and Renminbi. The Board was of the view that, given the pegged exchange rate between HK and US dollars and the limited possibility for Renminbi to depreciate in the future, it was not necessary to arrange for hedging of the foreign currency investments.

#### **CHARGE ON ASSETS**

As at 31 December 2002, the Group did not have any charge on its assets.

#### **CONTINGENT LIABILITIES**

As at 31 December 2002, the amount of bank guarantees given by the Company in respect of its subsidiaries, associates, joint venture companies, companies in which the Company had made investments, as well as those granted in respect of convertible bonds, totalled HK\$520,000,000.

#### **EMPLOYEES AND REMUNERATION**

As at 31 December 2002, the Group employed 1,850 full-time staff, of whom 230 worked in Hong Kong and the remaining 1,620 worked in the PRC. The remuneration expenses for the Current Year amounted to HK\$167,000,000, representing 12% of the total operating expenses of the Group. The Group reviews its remuneration policy every year and makes adjustments to staff's remuneration according to the conditions of the human resources market and the economy.

The Group also provides internal training to its staff to enable them to achieve self-improvement and enhance their job-related skills. Moreover, the Group gives year-end bonus as an award to the staff for their effort and contribution. The Group also operates a share option scheme under which qualified staff may exercise their options at an agreed price.