

Notes to the Financial Statements

1. BASIS OF PREPARATION

The financial statements 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 ("HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, investment property and other investments are stated at fair value.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1 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 revised SSAPs has no significant effect to the financial statements of the Group except for the presentational changes of the presentation of consolidated statement of changes in equity and consolidated cash flow statement.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

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.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any accumulated foreign currency translation reserve or unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

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

In the Company's balance sheet the 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 received and receivable.

2. PRINCIPAL ACCOUNTING POLICIES – Continued

(b) Jointly controlled entities

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.

Joint venture arrangements which involve the establishment of a separate entity in which each venture partner has an interest are referred to as jointly controlled entities.

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/negative goodwill (net of accumulated amortisation and accumulated impairment losses) on acquisition.

Where the estimated recoverable amount of any of the investments in jointly controlled entities falls below its carrying value, an impairment loss is recognised in the profit and loss account to reduce the carrying value of the individual investment to its recoverable amount.

In the Company's balance sheet, the investments in jointly controlled entities are stated at cost less provision for impairment losses. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

The gain or loss on the disposal of a jointly controlled entity represents the difference between the proceeds of the sale and the Group's share of its net assets together with any accumulated foreign currency translation reserve or unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

(c) Infrastructure joint ventures

The Group's investments in infrastructure projects under cooperative joint venture arrangements are referred to as infrastructure joint ventures where the other joint venture partners have unilateral control over the economic activities of the projects. The Group's return to be derived therefrom is pre-determined and the Group is not entitled to share the assets of these cooperative joint ventures at the end of the relevant joint venture period. Such investments are initially recorded at cost. Payments receivable from such investments are apportioned between income and reduction of the carrying value of the investments so as to give a constant periodic rate of return on the net investments. Where the estimated recoverable amount of any of these investments falls below its carrying value, an impairment loss is recognised in the profit and loss account to reduce the carrying value of the individual investment to its recoverable amount.

Notes to the Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES – Continued

(d) Associates

An associate is a company, not being a subsidiary, in which an equity interest is held for the 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 the associates for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associates and also goodwill/negative goodwill (net of accumulated amortisation and accumulated impairment losses) on acquisition.

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

Equity accounting is discontinued when the carrying amount of the investment in an associate reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associate.

The gain or loss on the disposal of an associate represents the difference between the proceeds of the sale and the Group's share of its net assets together with any accumulated foreign currency translation reserve and unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

(e) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange 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, jointly controlled entities and associates expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences arising therefrom are dealt with as a movement in reserves.

2. PRINCIPAL ACCOUNTING POLICIES – Continued

(f) 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 are stated at their open market value based on independent professional valuations at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance in the investment properties revaluation reserve is charged to the profit and loss account. Where a decrease has previously been charged to the profit and loss account and a revaluation increase subsequently arises, this increase is credited to the profit and loss account to the extent of the decrease previously charged.

Investment properties are not depreciated except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the carrying value over the remaining term of the lease.

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.

(ii) Vessels and ships

Vessels and ships are stated at cost less accumulated depreciation and impairment losses.

Depreciation of vessels is calculated to write-off their cost less the Directors' estimate of their residual values on a straight-line basis over their expected remaining working lives. Such working lives are taken as twenty-five years from the date when the vessels were built.

Depreciation of ships is calculated to write-off their cost less accumulated impairment losses over their estimated useful lives of 2.5 to 20 years on a straight-line basis.

Vessel repairs and annual survey costs are charged to the profit and loss account when incurred.

*Notes to the Financial Statements***2. PRINCIPAL ACCOUNTING POLICIES – Continued****(f) Fixed assets – Continued***(iii) Other fixed assets*

Other fixed assets are stated at cost less accumulated depreciation and impairment losses.

Leasehold land is depreciated over the period of the lease while other fixed assets are depreciated at rates sufficient to write-off their cost less accumulated impairment losses over their estimated useful lives, on a straight-line basis. The principal annual rates are as follows:

Land and buildings	Over the shorter of the lease term or 50 years
Harbour works and building	10 to 50 years
Dockyard	15 years
Plant and machinery	10 to 20 years
Furniture and equipment	2 to 10 years
Motor vehicles	2.5 to 10 years
Leasehold improvements	5 to 20 years

Improvements are capitalised and depreciated over their expected useful lives to the Group.

(iv) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets other than investment properties 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.

The gain or loss on disposal of a fixed asset other than investment property 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.

(g) Leases

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

2. PRINCIPAL ACCOUNTING POLICIES – Continued

(h) Intangible assets

(i) Goodwill/negative goodwill

Goodwill/negative goodwill represents the excess/deficit of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/jointly controlled entity/associate at the date of acquisition.

Goodwill on acquisitions occurred on or after 1 January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life of up to 20 years.

Negative goodwill on acquisitions occurred on or after 1 January 2001 is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of the future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately.

Goodwill/negative goodwill on acquisitions that occurred prior to 1 January 2001 was written-off against/taken to reserves. Any impairment arising on such goodwill is accounted for in the profit and loss account.

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

(ii) Toll highway operating rights

Toll highway operating rights are stated at cost, being its acquisition price, less accumulated amortisation and impairment losses. Amortisation is provided to write-off the cost less accumulated impairment losses of the toll highway operating rights on a units-of-usage basis, calculated based on the proportion of actual traffic volume for a particular period to the projected total traffic volume over the periods for which the Group is granted the rights to operate the toll highway.

(iii) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of intangible asset, including goodwill/negative goodwill previously written-off against/taken to reserves, is assessed and written-down immediately to its recoverable amount.

*Notes to the Financial Statements***2. PRINCIPAL ACCOUNTING POLICIES – Continued****(i) Investments in securities**

Investments in securities are classified as investment securities and other investments.

(i) Investment securities

Investment securities are stated at cost less any 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 securities will be 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 the profit and loss account when the circumstances and events that led to the write-downs or 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.

(j) Inventories

Inventories comprise stocks and work in progress and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(k) Accounts receivable

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

(l) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, cash with banks and bank overdrafts, if any.

(m) 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.

2. PRINCIPAL ACCOUNTING POLICIES – Continued

(n) Employee benefits

(i) 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 leave are not recognised until the time of leave.

(ii) Bonus plans

Provisions for bonus plans due wholly within twelve months after balance sheet date are recognised 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.

(iii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the profit and loss account represents contributions payable by the Group to the funds.

The Group's contributions to the defined contribution retirement schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

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

(o) Deferred taxation

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

(p) Contingent liabilities

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 financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

Notes to the Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES – Continued**(q) Convertible bonds**

Convertible bonds are separately disclosed and regarded as liabilities unless conversion actually occurs. The finance cost recognised in the profit and loss account in respect of convertible bonds is calculated so as to produce a constant periodic rate of charge on the remaining balance of the convertible bonds for each accounting period.

The costs incurred in connection with the issue of convertible bonds are capitalised and amortised on a straight-line basis over the period of the convertible bonds from the date of issue of the bonds to their final redemption date. If any of the bonds is purchased and cancelled, redeemed or converted prior to the final redemption date, an appropriate portion of the remaining unamortised costs will be charged immediately to the profit and loss account.

(r) Revenue recognition

Revenue from port-related transportation and service income, container service income and container yard management income, net of business tax payable in the PRC, are recognised when the relevant services are rendered.

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

Toll revenue, net of business tax in the PRC, is recognised on a receipt basis.

Revenue from voyage and time charters are recognised proportionately over the charter periods. The excess of the amounts received over the amounts recognised as revenue for the year is included in the balance sheet as charterhire received in advance under creditors and accruals.

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

Income from infrastructure joint ventures, where the Group is entitled to a pre-determined annual return over the contract period, is recognised in such a manner so as to produce a constant periodic rate of return on the Group's net investments to the extent that the economic benefits associated with the transaction will flow to the Group.

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

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

Profit or loss on share dealing is recognised on a trade date basis when a sale and purchase contract is entered into.

2. PRINCIPAL ACCOUNTING POLICIES – Continued

(s) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, toll highway operating rights, inventories, amounts due from associates, receivables and other investments, and mainly exclude goodwill, negative goodwill, interests in associates and jointly controlled entities, investments in infrastructure joint ventures, investments securities and other non-current assets. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

3. TURNOVER, REVENUES AND SEGMENT INFORMATION

The principal activities of the Group comprise ports operation, container manufacturing and related operations, tollroads operation and oil tankers operation. Revenues recognised during the year are as follows:

	2002 HK\$'000	2001 HK\$'000
Turnover		
Port-related transportation and service income, container service and container yard management income	384,035	–
Sale of paints and related goods	872,761	674,460
Toll highway operating income	23,333	29,222
Voyage and time charter income	384,255	474,759
Gross rental income from land and buildings	24,752	27,664
	1,689,136	1,206,105
Other revenues		
Income from infrastructure joint ventures	43,583	7,945
Interest income	21,167	49,475
Dividend income from listed other investments	556	961
Profit on sale of listed other investments, net	–	28,594
Others	15,832	15,331
	81,138	102,306
Total revenues	1,770,274	1,308,411

*Notes to the Financial Statements***3. TURNOVER, REVENUES AND SEGMENT INFORMATION – Continued****Primary reporting format – business segments**

The Group is organised into four main business segments:

- | | |
|--|---|
| Ports operation | – Container terminal operation, bulk and general cargo terminal operation, port transportation and airport cargo handling operation by the Group and the Group's associates |
| Container manufacturing and related operations | – Container paint manufacturing by the Group and container manufacturing by the Group's associate |
| Toll road operation | – Toll road operation by the Group and the Group's jointly controlled entities |
| Oil tanker operation | – Shipping operation by the Group |

Other operations of the Group mainly comprise the holding of properties for lease to China Merchants Holdings (Hong Kong) Company Limited ("CMHK") and its wholly-owned subsidiaries and dealing in shares, neither of which are of a sufficient size to be reported separately.

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

Secondary reporting format – geographical segments

The Group's four business operations are managed in its headquarter in Hong Kong and other offices in Mainland China. As the Group's oil tanker business covers the world's shipping routes, the Directors consider that it would not be meaningful to allocate turnover and operating profit of the oil tankers business to specific geographical segments. The Group's other businesses are mainly in Hong Kong and Mainland China as follows:

- | | |
|----------------|--|
| Hong Kong | – ports operation, container paint manufacturing and holding of properties |
| Mainland China | – ports operation, container manufacturing, paint manufacturing and related operations and toll road operation |
| Others | – container manufacturing and related operations |

There are no material sales between the geographical segments.

3. TURNOVER, REVENUES AND SEGMENT INFORMATION – Continued

Primary reporting format – business segments

	Ports operation		Container manufacturing and related operations		Toll road operation		Oil tanker operation		Other operations		Group	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Profit and loss account												
Turnover	384,035	–	872,761	674,460	23,333	29,222	384,255	474,759	24,752	27,664	1,689,136	1,206,105
Segment results	50,550	–	136,747	66,036	58,248	28,269	131,068	233,469	(3,418)	23,795	373,195	351,569
Unallocated costs											(41,472)	(41,884)
Unallocated interest income											11,189	31,650
Gain on disposal of investments in infrastructures joint ventures/ interests in associates	–	5,165	–	–	22,147	–	–	–	–	–	22,147	5,165
Provision for impairment on Land and buildings	–	–	–	–	–	–	–	–	(200,000)	–	(200,000)	–
Interests in jointly controlled entities	–	–	–	–	–	(100,000)	–	–	–	–	–	(100,000)
Investments in infrastructure joint ventures	–	–	–	–	–	(39,559)	–	–	–	–	–	(39,559)
Operating profit											165,059	206,941
Finance costs											(39,707)	(66,561)
Share of profits less losses of												
Associates	581,633	513,483	162,309	189,774	–	–	–	–	50,961	–	794,903	703,257
Jointly controlled entities	(440)	(3,568)	–	–	167,829	136,003	–	–	(3,164)	(973)	164,225	131,462
Profit before taxation											1,084,480	975,099
Taxation											(137,201)	(115,037)
Profit after taxation											947,279	860,062
Minority interests											(64,792)	(59,852)
Profit for the year											882,487	800,210

Notes to the Financial Statements

3. TURNOVER, REVENUES AND SEGMENT INFORMATION – Continued

Primary reporting format – business segments – Continued

	Ports operation		Container manufacturing and related operations		Toll road operation		Oil tanker operation		Other operations		Group	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance sheet												
Segment assets	873,841	–	732,263	619,654	337,844	342,672	1,304,001	1,469,416	896,662	1,177,224	4,144,611	3,608,966
Goodwill/ (negative goodwill)	295,302	–	–	–	–	–	(146,278)	(158,817)	–	–	149,024	(158,817)
Interests in associates	2,155,082	2,419,677	857,440	746,684	–	–	–	–	426,271	–	3,438,793	3,166,361
Interests in jointly controlled entities	354,947	158,074	–	–	2,953,389	3,125,754	–	–	53,466	38,506	3,361,802	3,322,334
Investments in infrastructure joint ventures	18,721	21,061	–	–	65,663	433,514	–	–	–	–	84,384	454,575
Investments securities	704	–	–	–	421,097	371,989	–	–	–	–	421,801	371,989
Other non-current assets	222,954	–	–	–	–	–	–	–	–	–	222,954	–
Unallocated assets											859,720	1,523,867
Total assets											12,683,089	12,289,275
Segment liabilities	263,439	137,993	297,065	219,058	46,273	50,493	33,278	275,563	74	1,713	640,129	684,820
Unallocated liabilities											421,235	599,145
Total liabilities											1,061,364	1,283,965
Other information												
Capital expenditure	22,933	–	17,681	5,704	–	–	–	–	–	–	40,614	5,704
Unallocated capital expenditure											272	223
											40,886	5,927
Depreciation	32,995	–	12,483	13,385	62	230	88,900	102,929	24,027	25,573	158,467	142,117
Unallocated depreciation											7,210	6,129
											165,677	148,246
Amortisation charge (net)	12,294	7,673	–	–	6,544	6,079	(12,538)	(6,268)	–	–	6,300	7,484
Impairment charges	–	–	–	–	–	139,559	–	–	200,000	–	200,000	139,559

3. TURNOVER, REVENUES AND SEGMENT INFORMATION – Continued

Secondary reporting format – geographical segments

	Turnover		Segment results		Total assets		Capital expenditure	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Operations other than oil tanker business:								
Hong Kong	273,022	86,895	34,169	32,766	1,006,659	1,177,230	4,696	223
Mainland China	960,860	573,079	197,687	77,292	1,833,951	962,320	36,190	5,704
Others	70,999	71,372	10,271	8,042	-	-	-	-
Oil tanker business, global scale	384,255	474,759	131,068	233,469	1,304,001	1,469,416	-	-
	1,689,136	1,206,105	373,195	351,569	4,144,611	3,608,966	40,886	5,927
Unallocated costs			(41,472)	(41,884)				
Unallocated interest income			11,189	31,650				
Gain on disposal of investments in infrastructure joint ventures/interest in associates			22,147	5,165				
Provision for impairment on Land and buildings			(200,000)	-				
Interests in jointly controlled entities			-	(100,000)				
Investments on infrastructure joint ventures			-	(39,559)				
Operating profit			165,059	206,941				
Goodwill/ (negative goodwill)					149,024	(158,817)		
Interests in associates					3,438,793	3,166,361		
Interests in jointly controlled entities					3,361,802	3,322,334		
Investments in infrastructure joint ventures					84,384	454,575		
Investment securities					421,801	371,989		
Other non-current assets					222,954	-		
Unallocated assets					859,720	1,523,867		
Total assets					12,683,089	12,289,275		

Notes to the Financial Statements

4. OPERATING PROFIT

	2002 HK\$'000	2001 HK\$'000
Operating profit is arrived at after crediting and charging the following:		
Crediting		
Operating lease rental income from land and buildings, net of outgoings of HK\$795,000 (2001: HK\$776,000)	23,957	26,888
Amortisation on negative goodwill (included in administrative expenses)	12,538	6,268
Write-back of provision for amount due from an associate	10,575	–
Profit on sale of listed other investments, net	–	28,594
Net exchange gains	–	2,202
Net unrealised gain on listed other investments	–	680
Charging		
Staff costs including Directors' emoluments (note 6)	167,037	78,838
Cost of inventories sold	552,660	427,551
Auditors' remuneration	3,397	2,651
Depreciation and amortisation on:		
Fixed assets	165,677	148,246
Goodwill (included in administrative expenses)	12,294	–
Toll highway operating rights (included in cost of sales)	6,544	6,079
Loss on disposal of fixed assets	1,780	121
Operating lease rentals in respect of		
Land and buildings	59,740	8,721
Plant and machinery	16,295	–
Provision for bad and doubtful debts	16,962	15,629
Provision for amount due from an associate	–	10,575
Provision for diminution in value of leasehold land and buildings	–	7,500
Deficit on revaluation of investment property	590	–
Net unrealised loss on listed other investments	1,298	–
Net exchange losses	4,184	–

5. FINANCE COSTS

	2002	2001
	HK\$'000	HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	6,658	29,508
Bank borrowings not wholly repayable within five years	5,904	12,351
Convertible bonds, wholly repayable within five years	22,363	22,301
Loan due to a fellow subsidiary	2,381	–
Amortisation of convertible bond issue expenses (note 26)	2,401	2,401
	39,707	66,561

6. STAFF COSTS INCLUDING DIRECTORS' REMUNERATION

	2002	2001
	HK\$'000	HK\$'000
Wages and salaries	160,460	74,544
Retirement benefits schemes contributions, net of forfeited contributions of HK\$24,000 (2001: HK\$59,000)	6,577	4,294
	167,037	78,838

The Group contributes to defined contribution provident funds, including the scheme set up under the Hong Kong Mandatory Provident Fund Ordinance ("MPF Scheme"), which are available to all employees of the Group. In accordance with the terms of the provident funds, contributions to the schemes by the Group and the employees are calculated as a percentage of the employees' basic salaries. For the MPF Scheme, both the employees and the employer are required to contribute 5% of the employees' monthly salaries up to a maximum of HK\$1,000 ("mandatory contribution") and employees can choose to make additional contributions. The employees are entitled to 100% of the employer's mandatory contributions upon their retirement age of 65 years, death or total incapacity. For non-MPF schemes, the unvested benefits of employees forfeited upon termination of employment can be utilised by the Group to reduce future levels of contributions.

The Group also participates in the employee pension schemes of the respective municipal government in various places in Mainland China where the Group operates. The Group is required to make monthly contributions calculated as a percentage of the monthly payroll costs and the respective municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group.

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

Notes to the Financial Statements

7. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

	2002 HK\$'000	2001 HK\$'000
Fees		
Executive Directors	–	–
Independent Non-Executive Directors	300	300
	300	300
Other emoluments (Executive Directors)		
Salaries, share options, other allowances and benefits in kind	3,908	6,523
Discretionary bonuses	281	262
Retirement benefits scheme contributions	139	130
	4,328	6,915
	4,628	7,215

The emoluments of the Directors disclosed above do not include the benefits derived or to be derived from the share options granted under the Company's share option scheme adopted on 26 June 1992 and the share option scheme approved by the shareholders of the Company at an Extraordinary General Meeting of the Company held on 20 December 2001.

During the year, a total of 6,900,000 (2001: 3,584,000) share options were granted to certain Directors of the Company at an exercise price of HK\$4.985 per share under a share option scheme (note 28). The market price per share immediately before the date of grant was HK\$4.825.

The Directors' emoluments are within the following bands:

	Number of Directors	
	2002	2001
Nil – HK\$1,000,000	10	13
HK\$1,000,001 – HK\$1,500,000	–	1
HK\$1,500,001 – HK\$2,000,000	2	1
HK\$2,000,001 – HK\$2,500,000	–	1
	12	16

No Director waived emoluments in respect of the years ended 31 December 2002 and 2001.

7. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS – Continued**(b) Five highest paid individuals**

Of the five individuals with the highest emoluments in the Group, two (2001: three) were Directors of the Company whose emoluments are included in the disclosure in note 7(a) above. The emoluments of the remaining three (2001: two) individuals were as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Salaries, share options, other allowances and benefits in kind	4,158	3,452
Performance related incentive payments	479	327
Retirement benefits scheme contributions	169	76
	4,806	3,855

The emoluments are within the following bands:

	Number of individuals	
	2002	2001
HK\$1,000,001 – HK\$1,500,000	2	1
HK\$2,500,001 – HK\$3,000,000	1	1
	3	2

8. TAXATION

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

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Hong Kong profits tax:		
Current year	3,470	5,847
Over provision in prior years	(1,018)	(137)
PRC Enterprise Income Tax	26,011	5,535
	28,463	11,245
Share of taxation attributable to associates:		
Hong Kong profits tax	65,806	64,898
PRC Enterprise Income Tax	40,158	37,036
Share of taxation attributable to jointly controlled entities:		
PRC Enterprise Income Tax	2,774	1,858
	137,201	115,037

*Notes to the Financial Statements***8. TAXATION – Continued**

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profit for the year.

The Group's operations in Mainland China are subject to the Enterprise Income Tax of the People's Republic of China ("PRC"), the standard income tax rate is 33% on assessable profits. The Group's major operating subsidiaries and jointly controlled entities are exempted from PRC Enterprise Income Tax in the first two profit making years and followed by a 50% reduction for the consecutive three years thereafter. Certain associates of the Group are exempted from the PRC Enterprise Income Tax in the first five profit making years and followed by a 50% reduction for the consecutive five years thereafter.

No provision for taxation has been made in respect of the oil tankers business as the shipping companies of the Group have no assessable income under any relevant jurisdiction for the year (2001: Nil).

There was no material unprovided deferred taxation for the year (2001: Nil).

9. PROFIT FOR THE YEAR

Profit for the year is dealt with in the financial statements of the Company to the extent of HK\$628,614,000 (2001: HK\$169,853,000).

10. DIVIDENDS

	2002	2001
	HK\$'000	HK\$'000
Interim, paid, of 2002 of HK7.0 cents (2001: HK7.0 cents) per share	143,933	144,075
Final, proposed, of 2002 of HK10.0 cents (2001: HK9.0 cents) per share	205,659	184,813
Special, proposed, of 2002 of HK5.0 cents (2001: Nil) per share	102,829	–
	452,421	328,888

At a meeting held on 10 April 2003, the Directors declared a final dividend of HK 10.0 cents per ordinary share and a special dividend of HK 5.0 cents per ordinary share. These proposed dividends are not reflected as dividends payable in these financial statements but will be reflected as an appropriation of retained earnings for the year ending 31 December 2003.

Notes to the Financial Statements

11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2002	2001
	HK\$'000	HK\$'000
Earnings for the purposes of basic earnings per share	882,487	800,210
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds	22,363	22,301
Earnings for the purposes of fully diluted earnings per share	904,850	822,511

	Number of shares	
	2002	2001
Weighted average number of ordinary shares for the purposes of basic earnings per share	2,055,470,000	2,053,031,000
Effect of dilutive potential ordinary shares:		
Options	4,685,000	489,000
Convertible bonds	61,997,000	61,997,000
Weighted average number of ordinary shares for the purposes of fully diluted earnings per share	2,122,152,000	2,115,517,000

Notes to the Financial Statements

12. FIXED ASSETS

	Group								
	Investment property	Land and buildings	Harbour works and building, dockyard	Plant, machinery, furniture and equipment	Vessels and ships	Motor vehicles	Leasehold improve- ments	Assets under contruc- tion	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation									
At 1 January 2002	13,971	1,523,198	–	94,677	1,847,203	22,984	10,738	1,670	3,514,441
Exchange adjustments	(8)	(9)	(296)	(122)	350	(10)	(1)	(14)	(110)
Additions	–	11,115	–	7,922	560	482	7	20,800	40,886
Acquisition of subsidiaries (note 30(c))	–	–	348,764	198,416	26,616	12,177	2,749	16,418	605,140
Disposals	–	–	(906)	(13,171)	–	(3,643)	(677)	–	(18,397)
Disposal of a subsidiary (note 30(d))	–	–	(1,093)	(382)	–	(299)	–	–	(1,774)
Revaluation	(590)	–	–	–	–	–	–	–	(590)
Transfers	–	1,188	3,833	20,173	–	1,311	–	(26,505)	–
At 31 December 2002	13,373	1,535,492	350,302	307,513	1,874,729	33,002	12,816	12,369	4,139,596
Accumulated depreciation and impairment charge									
At 1 January 2002	–	155,127	–	64,733	564,057	20,737	4,127	–	808,781
Exchange adjustments	–	(3)	(5)	(6)	142	(2)	–	–	126
Acquisition of subsidiaries (note 30(c))	–	–	5,725	35,789	14,832	1,350	1,386	–	59,082
Charge for the year	–	32,863	10,276	27,549	89,909	3,114	1,966	–	165,677
Disposals	–	–	(828)	(12,465)	–	(3,221)	–	–	(16,514)
Disposal of a subsidiary (note 30(d))	–	–	(199)	(291)	–	(155)	–	–	(645)
Impairment charge (note 12(d))	–	200,000	–	–	–	–	–	–	200,000
At 31 December 2002	–	387,987	14,969	115,309	668,940	21,823	7,479	–	1,216,507
Net book value									
At 31 December 2002	13,373	1,147,505	335,333	192,204	1,205,789	11,179	5,337	12,369	2,923,089
At 31 December 2001	13,971	1,368,071	–	29,944	1,283,146	2,247	6,611	1,670	2,705,660

12. FIXED ASSETS – Continued

- (a) The analysis of the cost or valuation of the above assets of the Group at 31 December 2002 and 2001 is as follows:

	Investment property	Land and buildings	Plant, Harbour works and building, dockyard	machinery, furniture and equipment	Vessels and ships	Motor vehicles	Leasehold improvements	Assets under construction	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At cost	–	1,535,492	350,302	307,513	1,874,729	33,002	12,816	12,369	4,126,223
At 2002 valuation	13,373	–	–	–	–	–	–	–	13,373
At 31 December 2002	13,373	1,535,492	350,302	307,513	1,874,729	33,002	12,816	12,369	4,139,596
At cost	–	1,523,198	–	94,677	1,847,203	22,984	10,738	1,670	3,500,470
At 2001 valuation	13,971	–	–	–	–	–	–	–	13,971
At 31 December 2001	13,971	1,523,198	–	94,677	1,847,203	22,984	10,738	1,670	3,514,441

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

	Investment property		Group Land and buildings	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Leasehold land and buildings in Hong Kong, held on:				
Leases of between 10 to 50 years	–	–	1,088,541	1,317,497
Land use rights and buildings in Mainland China, held on:				
Land use rights with periods between 10 to 50 years	13,373	13,971	53,397	44,404
Land use rights with periods of less than 10 years	–	–	5,567	6,170
	13,373	13,971	1,147,505	1,368,071

Notes to the Financial Statements

12. FIXED ASSETS – Continued

- (c) The investment property was revalued at 31 December 2002 by Shenzhen Gongpinghen Appraisal Co., Ltd., a registered asset valuer in the PRC, on an open market value basis.
- (d) Certain properties included in leasehold land and buildings are leased to CMHK and its wholly-owned subsidiaries. The cost and accumulated depreciation and impairment loss of these properties as at 31 December 2002 were HK\$1,201,316,000 (2001: HK\$1,201,316,000) and HK\$320,204,000 (2001: HK\$96,178,000), respectively. As at 31 December 2002, a provision of HK\$200,000,000 was made by the Directors against the carrying value of the properties to reflect the fair value of the properties to the Group.
- (e) At 31 December 2002, no fixed assets were pledged as security for the Group's banking facilities (2001: a vessel with net book value of HK\$300,354,600 was pledged as security for the Group's banking facilities).

	Company			Total HK\$'000
	Plant, machinery, furniture and equipment HK\$'000	Motor vehicles HK\$'000	Leasehold improvements HK\$'000	
Cost				
At 1 January 2002	2,188	2,956	20	5,164
Additions	266	–	7	273
Disposals	(54)	–	–	(54)
At 31 December 2002	2,400	2,956	27	5,383
Accumulated depreciation				
At 1 January 2002	1,891	2,776	7	4,674
Charge for the year	263	180	8	451
Disposals	(54)	–	–	(54)
At 31 December 2002	2,100	2,956	15	5,071
Net book value				
At 31 December 2002	300	–	12	312
At 31 December 2001	297	180	13	490

Notes to the Financial Statements

13. TOLL HIGHWAY OPERATING RIGHTS

	Group	
	2002 HK\$'000	2001 HK\$'000
Net book value as at 1 January	326,353	332,364
Exchange adjustment	(87)	68
Amortisation for the year	(6,544)	(6,079)
Net book value as at 31 December	319,722	326,353
Cost	349,858	349,963
Accumulated amortisation	(30,136)	(23,610)
Net book value as at 31 December	319,722	326,353

14. GOODWILL/(NEGATIVE GOODWILL)

	Group		
	Goodwill HK\$'000	Negative goodwill HK\$'000	Total HK\$'000
Net book value as at 1 January 2002	–	(158,817)	(158,817)
Acquisition of subsidiaries (note 30(c))	307,597	–	307,597
Amortisation for the year	(12,294)	12,538	244
Net book value as at 31 December 2002	295,303	(146,279)	149,024
At 31 December 2002			
Cost	307,597	(165,085)	142,512
Accumulated amortisation	(12,294)	18,806	6,512
Net book value	295,303	(146,279)	149,024
At 31 December 2001			
Cost	–	(165,085)	(165,085)
Accumulated amortisation	–	6,268	6,268
Net book value	–	(158,817)	(158,817)

*Notes to the Financial Statements***15. INTERESTS IN SUBSIDIARIES**

	Company	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Unlisted shares, at cost	1,908,564	1,789,674
Amounts due from subsidiaries	12,418,249	10,608,837
	14,326,813	12,398,511
Amounts due to subsidiaries	3,490,845	2,829,197

The amounts due from and to subsidiaries are unsecured, interest free and have no fixed terms of repayment except for an amount due from a subsidiary of HK\$62,721,000 (2001: Nil) which bears interest at the Hong Kong Interbank Offer Rate per annum. In the opinion of the Directors, the amounts will not be repaid in the next twelve months from the balance sheet date and accordingly the amounts are shown as non-current.

Other than CMHI Caymans Inc., the subsidiaries of the Company have no loan capital. CMHI Caymans Inc. has issued convertible bonds with a principal amount of US\$40,960,000 (equivalent to HK\$317,435,000) outstanding at 31 December 2002 (note 26). The Group has no interest in these convertible bonds.

On 4 January 2002 and 1 April 2002, the Group acquired 100% interests in China Merchants Container Services Limited ("CMCS") and China Merchants Port Services (Shenzhen) Company Limited ("CMPS") for HK\$103,540,000 and HK\$766,146,000, respectively, satisfied in cash. As a result of the acquisitions, the Group's profit for the year and the net assets as at the year end have been increased by HK\$45,770,000.

Particulars of the Company's principal subsidiaries at 31 December 2002 are set out in note 34.

16. INTERESTS IN ASSOCIATES

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Listed shares, at cost				
Shares listed in the PRC	–	–	153,174	153,174
Share of net assets of:				
Listed associates	1,239,853	1,133,794	–	–
Unlisted associates	1,983,074	1,827,113	–	–
	3,222,927	2,960,907	153,174	153,174
(Negative goodwill)/goodwill on acquisition of associates less amortisation and impairment:				
Listed associates	(9,247)	(9,750)	–	–
Unlisted associates	108,869	115,020	–	–
	99,622	105,270	–	–
Amounts due from associates	116,244	110,759	–	–
Provision	–	(10,575)	–	–
	116,244	100,184	–	–
	3,438,793	3,166,361	153,174	153,174
Market value of listed shares	478,833	656,489	252,783	347,423

The amounts due from associates are unsecured, interest free and have no fixed terms of repayment. In the opinion of the Directors, the amounts will not be repaid in the next twelve months from the balance sheet date and accordingly the amounts are shown as non-current.

At 31 December 2002, the Group held a total of 228,116,353 (2001: 181,656,883) shares in PRC listed associates, of which 154,615,660 (2001: 120,511,190) shares are founder shares and have no market value. The share of net assets attributable to these founder shares amounted to HK\$782,437,000 (2001: HK\$711,910,000).

Particulars of the Group's principal associates at 31 December 2002 are set out in note 35.

Notes to the Financial Statements

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Unlisted investment, at cost	–	–	2,949	–
Share of net assets of jointly controlled entities	2,380,303	2,030,010	–	–
Loans to jointly controlled entities	1,081,499	1,392,324	–	–
Less: Provision for impairment	(100,000)	(100,000)	–	–
	3,361,802	3,322,334	2,949	–

The loans to jointly controlled entities are unsecured, interest free and have no fixed terms of repayments. In the opinion of the Directors, the loans form part of the investments in the jointly controlled entities and accordingly the amounts are shown as non-current.

Particulars of the Company's and the Group's jointly controlled entities at 31 December 2002 are set out in note 36.

18. INVESTMENTS IN INFRASTRUCTURE JOINT VENTURES

	Group	
	2002 HK\$'000	2001 HK\$'000
Unlisted investments, at cost	66,707	291,320
Loans to infrastructure joint ventures	51,482	252,709
	118,189	544,029
Less:		
Accumulated capital receipts from infrastructure joint ventures	(18,580)	(49,895)
Provision for impairment	(15,225)	(39,559)
	84,384	454,575

The loans to infrastructure joint ventures are unsecured, interest free and have no fixed terms of repayments. In the opinion of the Directors, the loans form part of the investments in infrastructure jointly controlled entities and accordingly the amounts are shown as non-current.

18. INVESTMENTS IN INFRASTRUCTURE JOINT VENTURES – Continued

Particulars of the Group's investments in infrastructure joint ventures at 31 December 2002 are as follows:

Name of joint venture	Country of establishment	Registered capital	Proportion of registered capital held indirectly by the Company	Principal activity
Luo-mei Highways Company Limited (羅梅公路有限公司, "Luo-mei Highways JV") (note a)	PRC	RMB83,000,000	33.4%	Operation of toll road
Ningbo China Merchants International Container Company Limited (寧波招商國際集裝箱有限公司, "Ningbo JV") (note b)	PRC	US\$12,000,000	25%	Port and port-related operation

Notes:

- (a) The Luo-mei Highways JV is a Sino-foreign co-operative joint venture established in the PRC for the period from June 1996 to June 2021. According to the terms of the relevant joint venture agreements, the Group is entitled to receive from Luo-mei Highways JV a pre-determined annual return during the first 20 years (the "Guaranteed Period").

The Group's entitlement to the annual return is secured by the PRC joint venture partners' pledge of their interests in the registered capital of Luo-mei Highways JV. The obligation of the PRC joint venture partners is in turn guaranteed by corporate guarantees provided by 羅定市屏風山水泥廠 and 羅定市銀河紡織總廠. Should the Group's entitled guaranteed return cannot be repaid in full in the first 15 years, the Guaranteed Period will be extended to 30 years.

Profit of the Luo-mei Highways JV will not be shared by the Group. At the expiry of the abovementioned joint venture period, the remaining assets of Luo-mei Highways JV will be attributable to the PRC joint venture partners upon termination of the joint venture.

- (b) The Ningbo JV is a Sino-foreign co-operative joint venture established in the PRC for the period from December 2000 to December 2015.

According to the terms of the relevant joint venture agreement, the Group is entitled to receive from Ningbo JV a fixed annual return of US\$300,000 plus an annual return of 8.5% on the outstanding investment in the first 10 years.

Profit of the Ningbo JV will not be shared by the Group. At the expiry of the abovementioned joint venture period, the remaining assets of Ningbo JV will be attributable to the PRC joint venture partners upon termination of the joint venture.

During the year, the Group disposed of its investments in two infrastructure joint ventures, Zhangzhou Tongda Road Development Company Limited and Zhangzhou Haiwei Construct Development Company Limited, for approximately HK\$390,000,000. The gain on disposal amounted to approximately HK\$22,147,000.

Notes to the Financial Statements

19. INVESTMENTS IN SECURITIES

	Group	
	2002 HK\$'000	2001 HK\$'000
Investment securities		
Unlisted shares, at cost	32,031	31,327
Loans to an investee	389,770	340,662
	421,801	371,989
Other investments, at market value:		
Listed shares in Hong Kong	9,145	10,443

The loans to an investee are unsecured, bearing interest at a rate of 1% (2001: 1%) per annum and have no fixed terms of repayment. In the opinion of the Directors, the loans will not be repayable in the next twelve months from the balance sheet date and accordingly the amounts are shown as non-current.

20. OTHER NON-CURRENT ASSETS

Other non-current assets represent mainly the construction works incurred on investment projects. Included in the balance were preliminary studies and advanced construction works of approximately HK\$196,186,000 incurred in respect of the development of Phase II container terminals at Shekou Container Terminal at Shekou Industrial Zone, Shenzhen, the PRC. Details of the transaction are set out in note 33 (d) below.

21. INVENTORIES

	Group	
	2002 HK\$'000	2001 HK\$'000
Raw materials	65,505	51,935
Work in progress	1,518	1,032
Finished goods	60,856	52,040
	127,879	105,007

22. AMOUNTS DUE FROM AND TO INTERMEDIATE HOLDING COMPANIES, FELLOW SUBSIDIARIES AND ASSOCIATES

The amounts are trading balances and are unsecured, interest free and repayable in accordance with the relevant trade terms.

Notes to the Financial Statements

23. DEBTORS, DEPOSITS AND PREPAYMENTS

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Trade debtors (note (a))	389,137	196,166	–	–
Other debtors, deposits and prepayments	124,979	203,336	8,416	6,302
Loan receivable (note (b))	94,233	–	–	–
	608,349	399,502	8,416	6,302

- (a) The Group has a credit policy of allowing an average credit period of 60 days to its trade customers. The ageing analysis of trade debtors is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
0 – 30 days	178,010	97,817
31 – 60 days	54,949	29,480
61 – 120 days	84,896	35,765
Over 120 days	71,282	33,104
	389,137	196,166

- (b) The loan receivable represented a loan made to Shenzhen Nanyou (Group) Company Limited (“Nanyou”), a joint venture partner for the development of a port project at Mawan Port, Shenzhen, the PRC. The loan is unsecured, bears interest at a rate of 5.841% per annum and is repayable within one year. The loan repayment is guaranteed by the holding company of Nanyou. Further details of the transaction are set out in note 33 (e).

24. CREDITORS AND ACCRUALS

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Trade creditors	169,098	89,074	–	–
Charterhire received in advance	–	5,046	–	–
Other payable and accruals	237,543	147,783	5,711	3,655
	406,641	241,903	5,711	3,655

Notes to the Financial Statements

24. CREDITORS AND ACCRUALS – Continued

The ageing analysis of the trade creditors is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
0 – 30 days	145,710	58,018
31 – 60 days	11,395	22,236
61 – 120 days	11,034	8,678
Over 120 days	959	142
	169,098	89,074

25. BANK BORROWINGS

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Short-term bank loans				
– unsecured	55,400	62,000	–	–
Long-term bank loans				
– secured	–	216,225	–	–
– unsecured	89,211	280,847	–	155,950
	89,211	497,072	–	155,950
	144,611	559,072	–	155,950
The long-term bank loans are repayable as follows:				
On demand or within one year	35,684	203,978	–	155,950
In the second year	35,684	48,902	–	–
In the third to fifth year	17,843	99,221	–	–
After the fifth year	–	144,971	–	–
	89,211	497,072	–	155,950
Less: Amounts due within one year shown under current liabilities	(35,684)	(203,978)	–	(155,950)
	53,527	293,094	–	–

26. CONVERTIBLE BONDS

	Group	
	2002 HK\$'000	2001 HK\$'000
Principal amount		
At 1 January and 31 December	317,435	317,435
Issue expenses		
At 1 January	5,525	7,926
Amortisation for the year	(2,401)	(2,401)
	3,124	5,525
Carrying value at 31 December	314,311	311,910

The US\$40,960,000 (2001: US\$40,960,000) 7% guaranteed convertible bonds bear interest at 7% per annum. Interest is payable semi-annually in arrear on 20 May and 20 November each year commencing 20 November 1999 with the final payment of interest due on 20 April 2004. The convertible bonds are convertible into shares with a par value of HK\$0.1 each in the Company, on or after 31 May 1999 and up to 13 April 2004, at an initial conversion price of HK\$5.120 per share of the Company, determined on the basis of a fixed rate of exchange of HK\$7.7497 = US\$1.00. Unless previously converted, redeemed or purchased and cancelled, the convertible bonds will be redeemed, in whole or in part, at the option of the Group at any time on or after 20 April 2002 and prior to 20 April 2004 at the principal amount plus interest accrued.

27. LOANS FROM MINORITY SHAREHOLDERS

The loans are unsecured, interest free and have no fixed terms of repayment. The minority shareholders have confirmed that they do not intend to demand repayment within the next twelve months from the balance sheet date. Accordingly, the loans are shown as non-current.

28. SHARE CAPITAL

	Number of shares		Share capital	
	2002	2001	2002 HK\$'000	2001 HK\$'000
Ordinary shares of HK\$0.1 each				
Authorised:	3,000,000,000	3,000,000,000	300,000	300,000
Issued and fully paid:				
At 1 January	2,053,472,388	2,050,022,388	205,347	205,002
Issue of shares upon the exercise of share options	3,113,000	4,150,000	311	415
Shares repurchased	-	(700,000)	-	(70)
At 31 December	2,056,585,388	2,053,472,388	205,658	205,347

Notes to the Financial Statements

28. SHARE CAPITAL – Continued

During the year, 3,113,000 (2001: 4,150,000) new ordinary shares of the Company of HK\$0.1 each were issued at exercise prices ranging from HK\$4.985 to HK\$5.63 per share on the exercise of share options by Directors and employees, deriving the following proceeds, net of transaction costs of HK\$35,000 (2001: HK\$21,000):

	2002 HK\$'000	2001 HK\$'000
Ordinary share capital – at par	311	415
Share premium (note 29)	15,388	20,572
Net proceeds	15,699	20,987

Details of share options granted by the Company pursuant to the share option schemes of the Company and the share options outstanding at 31 December 2002 are as follows:

Date of grant	Note	Subscription price per share HK\$	At 1 January 2002	Share options granted during the year	Share options exercised during the year	At 31 December 2002
Directors						
1 March 2000	(i)	5.054	4,140,000	–	820,000	3,320,000
19 September 2000	(i)	5.615	350,000	–	–	350,000
11 October 2002	(ii)	4.985	–	6,900,000	–	6,900,000
			4,490,000	6,900,000	820,000	10,570,000
Employees						
1 March 2000	(i)	5.054	4,269,000	–	1,955,000	2,314,000
19 September 2000	(i)	5.615	1,002,000	–	–	1,002,000
24 May 2001	(i)	5.63	738,000	–	38,000	700,000
6 July 2001	(i)	5.61	700,000	–	–	700,000
11 October 2002	(ii)	4.985	–	23,300,000	300,000	23,000,000
			6,709,000	23,300,000	2,293,000	27,716,000
			11,199,000	30,200,000	3,113,000	38,286,000

Notes:

- (i) The outstanding share options can be exercised at any time during a period of 6 years commencing on the date of grant of the options.
- (ii) The outstanding share options can be exercised at any time during a period of 10 years commencing on the date of grant of the options.

29. RESERVES

	Group						
	Share premium	Capital reserve (goodwill)	Capital redemption reserve	Translation reserve	Statutory reserves	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2002	8,043,033	(197,635)	70	(3,925)	123,941	2,702,105	10,667,589
Issue of shares on exercise of share options, net of share issue expenses	15,388	-	-	-	-	-	15,388
Exchange differences	-	-	-	(552)	-	-	(552)
Profit for the year	-	-	-	-	-	882,487	882,487
2001 final dividend paid	-	-	-	-	-	(185,019)	(185,019)
2002 interim dividend paid (note 10)	-	-	-	-	-	(143,933)	(143,933)
Transfer to reserves	-	-	-	-	34,898	(34,898)	-
At 31 December 2002	8,058,421	(197,635)	70	(4,477)	158,839	3,220,742	11,235,960
Represented by:							
Reserves	8,058,421	(197,635)	70	(4,477)	158,839	2,912,254	10,927,472
Proposed final dividend (note 10)	-	-	-	-	-	205,659	205,659
Proposed special dividend (note 10)	-	-	-	-	-	102,829	102,829
	8,058,421	(197,635)	70	(4,477)	158,839	3,220,742	11,235,960
Analysed by:							
Company and subsidiaries	8,058,421	(171,796)	70	(7,269)	77,007	1,854,813	9,811,246
Associates	-	(25,839)	-	2,303	72,787	1,007,163	1,056,414
Jointly controlled entities	-	-	-	489	9,045	358,766	368,300
At 31 December 2002	8,058,421	(197,635)	70	(4,477)	158,839	3,220,742	11,235,960

Notes to the Financial Statements

29. RESERVES – Continued

	Group						Total HK\$'000
	Share premium	Capital reserve (goodwill)	Capital redemption reserve	Translation reserve	Statutory reserves	Retained earnings	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2001	8,022,461	(197,635)	–	(2,294)	93,366	2,243,740	10,159,638
Issue of shares on exercise of share options, net of share issue expenses	20,572	–	–	–	–	–	20,572
Shares repurchased	–	–	70	–	–	(70)	–
Premium on shares repurchased	–	–	–	–	–	(3,123)	(3,123)
Exchange differences	–	–	–	(1,631)	–	–	(1,631)
Profit for the year	–	–	–	–	–	800,210	800,210
2000 final dividend paid	–	–	–	–	–	(164,002)	(164,002)
2001 interim dividend paid (note 10)	–	–	–	–	–	(144,075)	(144,075)
Transfer to reserves	–	–	–	–	30,575	(30,575)	–
At 31 December 2001	8,043,033	(197,635)	70	(3,925)	123,941	2,702,105	10,667,589
Represented by:							
Reserves	8,043,033	(197,635)	70	(3,925)	123,941	2,517,292	10,482,776
Proposed final dividend (note 10)	–	–	–	–	–	184,813	184,813
	8,043,033	(197,635)	70	(3,925)	123,941	2,702,105	10,667,589
Analysed by:							
Company and subsidiaries	8,043,033	(171,796)	70	(7,444)	66,802	1,697,130	9,627,795
Associates	–	(25,839)	–	3,019	51,148	778,410	806,738
Jointly controlled entities	–	–	–	500	5,991	226,565	233,056
At 31 December 2001	8,043,033	(197,635)	70	(3,925)	123,941	2,702,105	10,667,589

Notes to the Financial Statements

29. RESERVES – Continued

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Company Capital redemption reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2002	8,043,033	2,339,985	70	281,812	10,664,900
Issue of shares on exercise of share options, net of shares issue expenses	15,388	–	–	–	15,388
Profit for the year (note 9)	–	–	–	628,614	628,614
2001 final dividend paid	–	–	–	(185,019)	(185,019)
2002 interim dividend paid (note 10)	–	–	–	(143,933)	(143,933)
At 31 December 2002	8,058,421	2,339,985	70	581,474	10,979,950
Represented by:					
Reserves	8,058,421	2,339,985	70	272,986	10,671,462
Proposed final dividend (note 10)	–	–	–	205,659	205,659
Proposed special dividend (note 10)	–	–	–	102,829	102,829
	8,058,421	2,339,985	70	581,474	10,979,950
At 1 January 2001	8,022,461	2,339,985	–	423,229	10,785,675
Issue of shares on exercise of share options, net of shares issue expenses	20,572	–	–	–	20,572
Profit for the year (note 9)	–	–	–	169,853	169,853
Cost of shares repurchased	–	–	70	(70)	–
Premium on shares repurchased	–	–	–	(3,123)	(3,123)
2000 final dividend paid	–	–	–	(164,002)	(164,002)
2001 interim dividend paid (note 10)	–	–	–	(144,075)	(144,075)
At 31 December 2001	8,043,033	2,339,985	70	281,812	10,664,900
Represented by:					
Reserves	8,043,033	2,339,985	70	96,999	10,480,087
Proposed dividend	–	–	–	184,813	184,813
	8,043,033	2,339,985	70	281,812	10,664,900

Notes to the Financial Statements

29. RESERVES – Continued

- (a) The Company's capital reserve which arose in 1998 upon reduction of share premium as confirmed by the Order of the High Court of the Hong Kong Special Administrative Region is not realised profits and is a non-distributable reserve.
- (b) The statutory reserves are reserves required under PRC laws and regulations.
- (c) The Company's reserves available for distribution to shareholders at 31 December 2002 amounted to approximately HK\$581,474,000 (2001: HK\$281,812,000) being its retained profits at that date.

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

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

	2002 HK\$'000	2001 HK\$'000
Operating profit	165,059	206,941
Depreciation and amortisation	171,977	155,730
Gain on disposal of investments in infrastructure joint ventures/interests in associates	(22,147)	(5,165)
Write-back of dry-docking provision	–	(27,166)
Write-back of provision for amount due from an associate	(10,575)	–
Provision for impairment on		
Land and buildings	200,000	–
Interests in jointly controlled entities	–	100,000
Investments in infrastructure joint ventures	–	39,559
Provision for amount due from an associate	–	10,575
Provision for diminution in value of leasehold land and buildings	–	7,500
Loss on disposal of fixed assets	1,780	121
Net unrealised loss/(gain) on listed other investments	1,298	(680)
Deficit on revaluation of investment property	590	–
Gain on disposal of listed other investments	–	(28,594)
Income received from infrastructure joint ventures	(43,583)	(7,945)
Interest income	(21,167)	(49,475)
Dividend income from listed other investments	(556)	(961)
Operating profit before working capital changes	442,676	400,440
(Increase)/decrease in inventories	(15,066)	40,106
Increase in debtors, deposits and prepayments	(61,623)	(23,520)
Increase in listed other investments	–	(4,173)
Net increase in amounts due from and to intermediate holding companies and fellow subsidiaries	(42,129)	(4,600)
(Increase)/decrease in amounts due from associates	(87,011)	74,797
Increase/(decrease) in creditors and accruals	77,577	(31,796)
Net cash inflow from operations	314,424	451,254

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS – Continued

(b) Analysis of changes in financing during the year

	Share capital and share premium <i>HK\$'000</i>	Short term bank loans and borrowings <i>HK\$'000</i>	Convertible bonds <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>	Loans from minority shareholders <i>HK\$'000</i>
At 1 January 2002	8,248,380	559,072	311,910	132,374	168,959
<i>Cash items:</i>					
Issue of shares on exercise of share options, net of issue expenses	15,699	–	–	–	–
Repayment of loans	–	(414,537)	–	–	–
Loans repaid to minority shareholders	–	–	–	–	(8,524)
Dividend paid to minority shareholders	–	–	–	(17,030)	–
<i>Non-cash items:</i>					
Exchange differences	–	76	–	(37)	5
Amortisation of convertible bond issue expenses	–	–	2,401	–	–
Minority share of profit for the year	–	–	–	64,792	–
Purchase of a subsidiary	–	–	–	2,475	–
Disposal of a subsidiary	–	–	–	(2,467)	–
At 31 December 2002	8,264,079	144,611	314,311	180,107	160,440
At 1 January 2001	8,227,463	944,435	309,509	481,057	175,896
<i>Cash items:</i>					
Issue of shares on exercise of share options, net of issue expenses	20,987	–	–	–	–
Repayment of loans	–	(385,281)	–	–	–
Loans repaid to minority shareholders	–	–	–	–	(6,942)
Dividend paid to minority shareholders	–	–	–	(21,930)	–
<i>Non-cash items:</i>					
Cost of shares repurchased	(70)	–	–	–	–
Exchange differences	–	(82)	–	28	5
Amortisation of convertible bond issue expenses	–	–	2,401	–	–
Minority share of profit for the year	–	–	–	59,852	–
Buyout of minority interests in Ming Wah Universal Bermuda Co., Ltd.	–	–	–	(386,633)	–
At 31 December 2001	8,248,380	559,072	311,910	132,374	168,959

Notes to the Financial Statements

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS – Continued

(c) Acquisition of subsidiaries

	2002 HK\$'000	2001 HK\$'000
Net assets acquired		
Fixed assets	546,058	–
Investments in associates	5,523	–
Investment securities	704	–
Inventories	7,806	–
Debtors, deposits and prepayments	123,257	–
Bank balances and cash	38,452	–
Creditors and accruals	(105,062)	–
Amounts due to fellow subsidiaries	(50,332)	–
Taxation payable	(1,842)	–
Minority interest	(2,475)	–
	562,089	–
Goodwill	307,597	–
	869,686	–
Satisfied by		
Cash	869,686	–

Analysis of the net outflow in respect of the acquisition of subsidiaries:

	2002 HK\$'000	2001 HK\$'000
Cash consideration	869,686	–
Bank balances and cash acquired	(38,452)	–
Net cash outflow in respect of the acquisition of subsidiaries	831,234	–

The subsidiaries acquired during the year contributed HK\$64,158,000 (2001: Nil) to the Group's net operating cash flows, and utilised HK\$24,373,000 (2001: Nil) for investing activities.

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS – Continued**(d) Disposal of a subsidiary**

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Net assets disposed of		
Fixed assets	1,129	–
Debtors, deposits and prepayments	2,110	–
Amounts due from fellow subsidiaries	5,138	–
Bank balances and cash	1,351	–
Creditors and accruals	(4,693)	–
Taxation payable	(10)	–
Minority interests	(2,467)	–
	2,558	–
Satisfied by		
Cash consideration	2,558	–
Other receivable	120	–
	2,678	–

Analysis of the net cash inflow in respect of the disposal of a subsidiary:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Cash consideration	2,558	–
Bank balances and cash disposed of	(1,351)	–
	1,207	–

31. COMMITMENTS**(a) Capital commitments for fixed assets**

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Contracted but not provided for	19,306	753

Notes to the Financial Statements

31. COMMITMENTS – Continued

(b) Capital commitments for investments

	2002 HK\$'000	2001 HK\$'000
Contracted but not provided for		
Jointly controlled entities	90,675	191,251
Port projects	940,770	–
	1,031,445	191,251

(c) Commitments under operating leases

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

	2002 HK\$'000	2001 HK\$'000
Within one year	33,958	4,951
In the second to fifth year inclusive	74,591	750
	108,549	5,701

The Company did not have any commitments at 31 December 2002 (2001: Nil).

(d) Future operating lease receivables

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

	2002 HK\$'000	2001 HK\$'000
Vessels		
Within one year	46,582	133,403
In the second to fifth year inclusive	694	–
	47,276	133,403
Land and buildings		
Within one year	58,859	5,098
In the second to fifth year inclusive	8,919	7,232
After the fifth year	16,680	18,487
	84,458	30,817
	131,734	164,220

32. CONTINGENT LIABILITIES

At 31 December 2002, there were contingent liabilities in respect of the following:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Guarantees for bank loans and overdrafts of subsidiaries	–	–	124,669	39,680
Guarantees for bank loans of associates	53,433	59,938	53,433	59,938
Guarantees for bank loans of an investee	6,630	3,900	6,630	3,900
Guarantees for cash distribution of jointly controlled entities	16,331	–	16,331	–
Guarantees for convertible bonds issued by a subsidiary	–	–	317,435	317,435
	76,394	63,838	518,498	420,953

33. RELATED PARTY TRANSACTIONS

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

Name of party	Nature of transaction	Note	Income/(expenses)	
			2002 HK\$'000	2001 HK\$'000
<i>Holding company:</i>				
China Merchants Holdings (Hong Kong) Company Limited	Rental of office premises charged by the Group	(i)	16,058	16,058
<i>Fellow subsidiaries:</i>				
Associated Maritime Company (Hong Kong) Limited	Management fee charged to the Group	(ii)	(11,355)	(12,492)
China Merchants Godown Wharf and Transportation Company Limited	Rental of use of nine vessels charged to the Group	(iii)	(3,024)	–
China Merchants Shekou Holdings Company Ltd	Rental of properties and fixed assets charged to the Group	(iii)	(10,001)	–
China Merchants Shekou Industrial Zone Company Limited	Interest charged to the Group	(iv)	(2,381)	–

Notes to the Financial Statements

33. RELATED PARTY TRANSACTIONS – Continued

(a)

Name of party	Nature of transaction	Note	Income/(expenses)	
			2002 HK\$'000	2001 HK\$'000
Euroasia Dockyard Enterprise and Development Limited	Rental of properties at Tsing Yi Terminal charged to the Group	(iii)	(20,285)	–
Hoi Tung Marine Machinery Suppliers Limited	Rental of office premises charged by the Group	(i)	2,934	3,826
	Rental of warehouse charged to the Group	(iii)	(4,526)	(4,526)
	Transportation service fee charged to the Group	(v)	(1,336)	(1,313)
Hong Kong Ming Wah Shipping Co. Ltd.	Rental of office premises charged by the Group	(i)	5,761	7,751
	Fees for cargo handling, loading, unloading and warehousing services charged by the Group	(v)	8,130	–
Salemay Company Limited	Sales of road marking, construction and other industrial products by the Group	(v)	–	3,447
Yiu Lian Dockyards Limited	Rental of properties at Tsing Yi Terminal charged to the Group	(iii)	(5,589)	–
	Rental of warehouse charged to the Group	(iii)	(3,420)	–
<i>Jointly controlled entity of the Company:</i>				
Zhangzhou China Merchants Port Co. Ltd.	Management fee charged by the Group	(vi)	936	546
<i>Associates of the Company:</i>				
China International Marine Containers (Group) Co., Ltd.	Sales of container paints by the Group	(v)	252,989	169,831

33. RELATED PARTY TRANSACTIONS – Continued

(a)

Name of party	Nature of transaction	Note	Income/(expenses)	
			2002 HK\$'000	2001 HK\$'000
Valspar Hai Hong Coatings (Shenzhen) Company Limited	Rental of premises charged by the Group	(iii)	428	428
<i>Associates of the holding company:</i>				
China Merchants Bank ("CMB")	Interest earned by the Group	(vii)	1,353	1,122

Notes:

- (i) Rentals charged by the Group were in accordance with the tenancy agreements entered into on 19 January 2000 and 4 April 2002.
- (ii) Management fee was charged at cost plus a percentage profit mark-up and by reference to turnover.
- (iii) Rentals charged to the Group were based on mutual agreements.
- (iv) Interest was charged to the Group at a rate of 6.417% per annum.
- (v) Transportation service fee, sales of goods and fees for cargo handling, loading, unloading and warehouse services were charged at negotiated prices by reference to market rates.
- (vi) Management fee charged by the Group is based on the contracted amount contained in a management agreement entered between Group and the PRC joint venture partner, a fellow subsidiary of the Company, in July 2000.
- (vii) Interest was charged by reference to market rates.

(b) Balances with related parties

Name of party	Nature of transaction	2002 HK\$'000	2001 HK\$'000
China Merchants Bank	Deposits placed with CMB	147,678	47,591

(c) On 4 January 2002, 1 April 2002 and 16 July 2002, the Group completed the acquisitions of the 100% interests in CMCS, CMPS and Silverflow Company Limited from the indirectly wholly-owned subsidiaries of China Merchants Group Limited, the ultimate holding company, with considerations of HK\$103,540,000, HK\$766,146,000 and HK\$3,735,000, respectively. The acquired companies are engaged mainly in ports operations.

Notes to the Financial Statements

33. RELATED PARTY TRANSACTIONS – Continued

- (d) On 16 July 2002, the Group entered into a shareholders agreement with Achieve Ridge Holdings Limited (“ARH”) in relation to the establishment of a foreign investment enterprise in the PRC (“SCT2”), which will be held as to 51% by the Group and as to 49% by ARH, for the purpose of the development and operations of the Phase II container terminals at Shekou Industrial Zone, Shenzhen, the PRC (the “SCT2 Project”). ARH is 39% indirectly held by Modern Terminals Limited, an associate of the Company. In addition, pursuant to a supplemental agreement among the Group, the shareholders of ARH and other parties relating to the SCT2 Project, SCT2, upon its set up in 2003, will acquire from the Group the preliminary studies and advanced construction works incurred on the SCT2 Project. To the extent that such works are not acquired by SCT2, the shareholders of ARH have agreed to indemnify the Group against, inter alia, 49% of the amount of the works incurred. As at 31 December 2002, the preliminary studies and advanced construction works incurred by the Group amounted to HK\$196,186,000 (note 20).
- (e) On 30 September 2002 and the subsequent period, the Group entered into a shareholder agreement and a cooperation agreement with Shenzhen Chiwan Wharf Holdings Limited (“SCWH”), an indirect associate of the Group, and Nanyou, in respect of the set up of an investment company and certain sino-foreign joint venture companies in the PRC (“JV Companies”) for the development of Berths number 0,5,6,7 and 8 located at Mawan Port, Shenzhen, the PRC. In connection with the above transactions, loans of up to RMB480 million (equivalent to approximately HK\$453 million) in aggregate, attributable to the Group and SCWH in equal portions, will be made to Nanyou. As at 31 December 2002, loans amounting to RMB 200 million (equivalent to approximately HK\$188 million), attributable to the Group of HK\$94,233,000 (note 23 (b)), was made to Nanyou.

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The table below only lists those subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES – Continued

Particulars of the Company's principal subsidiaries at 31 December 2002 are as follows:

Name of subsidiary	Place of incorporation or registration/ operation	Nominal value of issued share capital or registered capital	Proportion of nominal value of issued capital or registered capital held by the Company		Principal activities
			Directly	Indirectly	
CMHI Caymans Inc.	Cayman Islands	US\$2	100%	–	Provision of financial services to group companies
China Merchants Container Services Limited*, acquired on 4 January 2002	Hong Kong	HK\$500,000	–	100%	Provision of container terminal services and port transportation
China Merchants Port Services (Shenzhen) Company Limited***, acquired on 1 April 2002	PRC	RMB100,000,000	–	100%	Provision of terminal services and port transportation
Cotter International Limited	BVI	US\$1	–	100%	Investment in an infrastructure joint venture, Luo-mei Highways JV
Fair Oaks Development Limited	Hong Kong	HK\$2	100%	–	Investment holding and securities trading
Finstead Shipping Limited	Liberia	US\$500	–	100%	Ship owning and operation
Fully Profit Property Limited	Hong Kong	HK\$2	100%	–	Property investment
Hai Hong Industry (Shenzhen) Co., Ltd.**	PRC	HK\$30,700,000	–	100%	Manufacture and sales of paint products
Hempel-Hai Hong Coatings Company Limited*	Hong Kong	HK\$106,000,000	–	64%	Sales of paint products
Hempel-Hai Hong Coatings (Kunshan) Company Limited**	PRC	HK\$40,000,000	–	64%	Manufacture and sales of paint products
Hempel-Hai Hong Coatings (Shenzhen) Company Limited**	PRC	HK\$40,000,000	–	64%	Manufacture and sales of paint products

Notes to the Financial Statements

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES – Continued

Name of subsidiary	Place of incorporation or registration/ operation	Nominal value of issued share capital or registered capital	Proportion of nominal value of issued capital or registered capital held by the Company		Principal activities
			Directly	Indirectly	
Hempel-Hai Hong Coatings (Yan Tai) Company Limited*#	PRC	HK\$20,000,000	–	64%	Manufacture and sales of paint products
Hempel-Segull Coatings (Shenshen) Company Limited*#	PRC	HK\$20,000,000	–	64%	Manufacture and sales of paint products
Island Tanker No. 1 Shipping Inc.	Liberia	US\$10,000	–	100%	Ship-owning and operation
Island Tanker No. 2 Shipping Inc.	Liberia	US\$10,000	–	100%	Ship-owning and operation
Island Tanker No. 3 Shipping Inc.	Liberia	US\$10,000	–	100%	Ship-owning and operation
Island Tanker No. 4 Shipping Inc.	Liberia	US\$10,000	–	100%	Ship-owning and operation
New Alliance Shipping Inc.	Liberia	US\$5,000	–	100%	Ship-owning and operation
New Amity Shipping Inc.	Liberia	US\$5,000	–	100%	Ship-owning and operation
Ningbo Changzhen Highway Co. Ltd* ^	PRC	US\$7,730,640	–	60%	Operation of a toll road
Ningbo Zhenluo Highway Co. Ltd* ^	PRC	US\$6,329,440	–	60%	Operation of a toll road
Universal Sheen Investment Limited	Hong Kong	HK\$100	100%	–	Property holding
Wharton Overseas	BVI	US\$1	–	100%	Investment in an infrastructure joint venture, Luo-mei Highways JV

* The financial statements of these subsidiaries were not audited by PricewaterhouseCoopers.

Foreign investment enterprises with limited liability in the PRC.

^ Sino-foreign joint ventures with limited liability in the PRC.

35. PARTICULARS OF PRINCIPAL ASSOCIATES

The table below only lists those associates of the Group which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the Directors, result in particulars of excessive length.

Name of associate	Place of incorporation or registration/ operation	Proportion of nominal value of issued capital or registered capital held by the Company		Principal activities
		Directly	Indirectly	
Asia Airfreight Terminal Company Limited ("AAT")	Hong Kong	–	20%	Airfreight
China International Marine Containers (Group) Co., Ltd. ("CIMC") (B shares listed in the Mainland China)	PRC	7.26%	20.05%	Design, manufacture and sales of dry freight containers and refrigerated containers
China Merchants Holdings (Pacific) Limited ("China Merchants Pacific")*	Singapore	–	24%	Investment holding
China Merchants Shekou Holdings Co. Ltd. ("CMSH") (B shares listed in the Mainland China)	PRC	–	18.62% *	Property development, sales of petrochemical products and merchandise, provision of electricity and water supply
China Nanshan Development (Group) Incorporation ("CND")	PRC	–	37%	Port transportation, petroleum services, property development, food and oil processing, building materials and other engineering services
Chiwan Container Terminal Co. Ltd. ("CCT")	PRC	–	25.52%	Port and container terminal business
Jinan Metallic Pigment Company Limited	PRC	–	35%	Manufacture and sales of metallic pigments for industrial use
Modern Terminals Limited ("MTL")	Hong Kong	–	22.1%	Provides container terminal services and warehouse services
PPG Coatings (Tianjin) Company Limited	PRC	–	30%	Manufacture and sales of automotive coatings

Notes to the Financial Statements

35. PARTICULARS OF PRINCIPAL ASSOCIATES – Continued

Name of associate	Place of incorporation or registration/ operation	Proportion of nominal value of issued capital or registered capital held by the Company		Principal activities
		Directly	Indirectly	
Shekou Container Terminals Limited ("SCT")	PRC	–	32.5%	Container jetty business
Valspar Hai Hong Coatings (Shenzhen) Company Limited	PRC	–	40%	Manufacture and sales of packaging coating

* In the opinion of the Directors, the Group is in a position to exercise significant influence over CSMH. Accordingly, CSMH is regarded as an associate of the Group.

The results and assets and liabilities of CIMC, a significant associate of the Group, are set out as follows:

	CIMC	
	2002 HK\$'000	2001 HK\$'000
Turnover	8,507,857	6,285,544
Profit for the year	398,994	537,957
Non-current assets	2,975,377	3,131,439
Current assets	4,635,043	2,628,186
Current liabilities	(4,265,032)	(1,792,334)
Non-current liabilities	(76,350)	(979,208)
Net assets	3,269,038	2,988,083

The aggregate results and assets and liabilities of the Group's significant associates engaging in ports business, are set out as follows:

	CIMC	
	2002 HK\$'000	2001 HK\$'000
Turnover	5,190,309	4,642,774
Profit for the year	2,095,532	1,815,647
Non-current assets	9,537,066	9,039,319
Current assets	2,349,439	2,350,226
Current liabilities	(1,784,408)	(1,842,932)
Non-current liabilities	(2,767,918)	(2,699,388)
Net assets	7,334,179	6,847,226

35. PARTICULARS OF PRINCIPAL ASSOCIATES – Continued

The above financial information include the financial information of AAT, China Merchants Pacific, CND, CCT, MTL and SCT. MTL is regarded as a significant associate of the Group. In accordance with SSAP 10 paragraph 37, the Company should disclose detailed information including income, profit or loss, non-current assets, current assets, current liabilities, non-current liabilities and contingent liabilities of MTL. However, because of two undertakings provide by the Company to MTL, the information pertaining to MTL cannot be disclosed separately in the financial statements. In the opinion of the Directors, this non-disclosure would not prevent the financial statements from giving a true and fair view of the Group's results and state of affairs as a whole.

36. PARTICULARS OF JOINTLY CONTROLLED ENTITIES

Particulars of the Group's jointly controlled entities at 31 December 2002 are as follows:

Name of jointly controlled entity	Nominal value of issued capital or registered capital	Proportion of nominal value of issued capital or registered capital held indirectly by the Company		Principal activities
		Directly	Indirectly	
(i) <i>Joint ventures which hold the operating rights of the Guilin Expressway in Guangxi, PRC (the "Guilin JVs"):</i>				
Guangxi Fushan Infrastructure Facilities Co., Ltd.	HK\$55,317,800	–	40%	Operation of toll road
Guangxi Guida Infrastructure Co., Ltd.	HK\$90,737,370	–	40%	Operation of toll road
Guangxi Liugui Highway Co., Ltd.	HK\$92,563,400	–	40%	Operation of toll road
Guangxi Liujing Highway Co., Ltd.	HK\$84,661,600	–	40%	Operation of toll road
Guangxi Luqing Highway Construction Co., Ltd	HK\$84,692,600	–	40%	Operation of toll road
Guangxi Machinery & Operation Co., Ltd	HK\$84,126,200	–	40%	Operation of toll road
Guangxi Rongzhu Highway Construction Co., Ltd.	HK\$83,443,000	–	40%	Operation of toll road

Notes to the Financial Statements

36. PARTICULARS OF JOINTLY CONTROLLED ENTITIES – Continued

Name of jointly controlled entity	Nominal value of issued capital or registered capital	Proportion of nominal value of issued capital or registered capital held indirectly by the Company		Principal activities
		Directly	Indirectly	
<i>(i) – Continued</i>				
Guangxi Surface Operation Co., Ltd.	HK\$67,552,000	–	40%	Operation of toll road
Guangxi Wanli Highway Engineering Co., Ltd.	HK\$92,453,900	–	40%	Operation of toll road
Guangxi Wushi Highway Co., Ltd.	HK\$66,732,800	–	40%	Operation of toll road
Guangxi Xinya Engineering Co., Ltd.	HK\$73,232,200	–	40%	Operation of toll road
Guangxi Zhenxing Infrastructure Co., Ltd.	HK\$49,317,000	–	40%	Operation of toll road
<i>(ii) Joint ventures which hold the operating rights of the Guihuang Highway in Guizhou, PRC (the “Guihuang JVs”):</i>				
Guizhou Jinguan Highway Co., Ltd.	US\$11,761,300	–	60%	Operation of toll road
Guizhou Jinhua Highway Co., Ltd.	US\$11,372,100	–	60%	Operation of toll road
Guizhou Pantao Highway Co., Ltd.	US\$10,204,320	–	60%	Operation of toll road
Guizhou Yunguan Highway Co., Ltd.	US\$10,201,600	–	60%	Operation of toll road

36. PARTICULARS OF JOINTLY CONTROLLED ENTITIES – Continued

Name of jointly controlled entity	Nominal value of issued capital or registered capital	Proportion of nominal value of issued capital or registered capital held indirectly by the Company		Principal activities
		Directly	Indirectly	
(iii) <i>Joint ventures which hold the operating rights of the Yuyao Highway in Ningbo, PRC (the "Yuyao JVs"):</i>				
Ningbo Baoshun Infrastructure Development Co. Ltd.	RMB54,304,000	–	60%	Operation of toll road
Ningbo Deshun Transportation Management Co. Ltd.	RMB79,696,000	–	60%	Operation of toll road
Ningbo Gangshun Communications Development Co. Ltd.	RMB65,624,000	–	60%	Operation of toll road
Ningbo Longshun Roads Development Co. Ltd.	RMB64,376,000	–	60%	Operation of toll road
Ningbo Yashun Roads & Bridges Co. Ltd.	RMB26,345,000	–	60%	Operation of toll road
Ningbo Yishun Roads Engineering Co. Ltd.	RMB98,924,000	–	60%	Operation of toll road

Notes to the Financial Statements

36. PARTICULARS OF JOINTLY CONTROLLED ENTITIES – Continued

Name of jointly controlled entity	Place of incorporation or registration/ operation	Nominal value of issued capital or registered capital	Proportion of nominal value of issued capital or registered capital held indirectly by the Company		Principal activities
			Directly	Indirectly	
(iv) Others:					
CMF Technology Fund I Limited	Cayman Islands	US\$40,000,000	–	46.5%	Investment holding
Twinbridge Development Corporation	BVI	US\$10,000	–	30%	Investment in toll bridge
Zhangzhou China Merchants Port Company Limited	PRC	RMB660,000,000	–	49%	Operation of berth No. 3 in the Zhengzhen Economic Development Zone, Fujian Province, PRC
Shenzhen Cyber-Harbour Netwrok Co. Limited	PRC	RMB5,000,000	62.5%	–	Provision of computer network services

The Group's profit sharing entitlements in Guiliu JVs, Guihuang JVs and Yuyao JVs differ from the proportion of the registered capital held by the Group in these joint ventures for certain periods as follows:

- (a) For Guiliu JVs, the Group is entitled to share 90% of the profit/cash during the first 10 years;
- (b) For Guihuang JVs, the Group is entitled to share 100% of the profit/cash during the first 15 years; and
- (c) For Yuyao JVs, the Group is entitled to share 90%, 85%, 70%, 65%, 60%, 50% during the first, second, third, fourth, fifth to eighth and ninth to fifteenth years, respectively.

Thereafter, the profit/cash sharing ratios of the Group will be the same as the proportion of the registered capital held by the Group. In the opinion of the Directors, the Guiliu JVs, Guihuang JVs and Yuyao JVs are effectively jointly controlled and managed by the Group and the respective PRC joint venture partners. Accordingly, these companies are accounted for as jointly controlled entities of the Group.

36. PARTICULARS OF JOINTLY CONTROLLED ENTITIES – Continued

The aggregate results and assets and liabilities of the Guiliu JVs, the material jointly controlled entities, are as follows:

	2002	2001
	HK\$'000	HK\$'000
Turnover	131,833	125,368
Profit for the year	30,804	45,142
Non-current assets	2,506,985	2,552,652
Current assets	92,826	95,416
Current liabilities	(18,962)	(4,013)
Non-current liabilities	(1,103,077)	(1,196,680)
Net assets	1,477,772	1,447,375

37. ULTIMATE HOLDING COMPANY

The Directors regard China Merchants Group Limited (formerly known as China Merchants Holdings Company Limited), a company registered in the PRC, as being the ultimate holding company.

38. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 10 April 2003.