



to the Financial Statements

31 December 2002

1. CORPORATE INFORMATION

The principal place of business of Shenzhen International Holdings Limited (the "Company") is located at Room 2206-2208, 22nd Floor, Greenfield Tower, Concordia Plaza, No. 1 Science Museum Road, Tsimshatsui East, Kowloon, Hong Kong.

The Company is an investment holding company. During the year, the Company and its subsidiaries (the "Group") were involved in the following principal activities:

- total logistics and transportation ancillary services
- property investment
- investment holding

In 2001, the Group shifted its development strategy to focus on developing logistics and related business. The Group disposed of its entire 60% equity interest in Shenzhen Shentou Transportation Group Co. Ltd and its subsidiaries to Shenzhen Investment Holding Corporation ("SIHC"), and discontinued its passenger transportation business, property development and sale.

At 31 December 2002, SIHC and certain wholly-owned subsidiaries of SIHC hold a total of approximately 44.25% equity interest of the Company. SIHC is considered to be the ultimate holding company and controlling shareholder of the Company.

2. ACCOUNTING STANDARDS

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The following recently-issued and revised SSAPs are effective for the first time for the current year's financial statements.

- 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"

These SSAPs prescribe new accounting measurement and disclosures practices. These SSAPs mainly result in the change in the Group's accounting policies and disclosure and do not have any significant impact on the financial statements for the years ended 31 December 2001 and 2002.



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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties, leasehold land and buildings and other investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company where the Company controls, directly or indirectly, its financial and operating policies so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is a company, not being a subsidiary, a joint venture or a jointly-controlled entity, in which the Group has a long-term interest and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in reserves, is included as part of the Group's interests in associates.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are stated at cost less any impairment losses.



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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Group has unilateral control over the joint venture company;
- (b) an associate, if the Group does not have unilateral or joint control, but is in a position to exercise significant influence over the joint venture company;
- (c) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control over the joint venture company; or
- (d) a long term investment, if the Group has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively.

The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The results of jointly-controlled entities are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in jointly-controlled entities are treated as long term assets and are stated at cost less any impairment losses.



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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated economic useful life of not exceeding 20 years. In the case of associates and jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

Prior to 1 January 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits goodwill on acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves. Goodwill on subsequent acquisitions is treated as intangible asset and amortised over its estimated useful life on a straight-line basis.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of positive goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event on an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which were not included in the identified liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account.



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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Negative goodwill (continued)

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated profit and loss account over the remaining weighted average useful life of not exceeding 20 years. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income in the consolidated profit and loss account immediately.

In the case of associates and jointly-controlled entities, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves, as appropriate. Any attributable negative goodwill previously credited to the consolidated capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.



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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets (continued)

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation or amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than construction in progress and investment properties, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets, other than investment properties, are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of revaluation reserve realised in respect of previous valuations is transferred to retained earnings as a movement in reserves.

Depreciation is provided on the straight-line basis to write off the cost or valuation of each asset over the following estimated useful lives:

Leasehold land	Over the terms of the unexpired leases
Buildings	15–50 years or over the terms of the unexpired leases, whichever is shorter
Leasehold improvements	4 years or over the terms of the unexpired leases, whichever is shorter
Furniture, fixtures, equipment and motor vehicles	3–8 years



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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

Construction in progress represents the direct costs of construction incurred plus interest capitalised up to the date of completion in connection with the construction of fixed assets less any impairment losses. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put into use. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account, is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long-term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

Investment securities

Investment securities in listed and unlisted equity securities, intended to be held for a continuing strategic or long-term purpose, are stated at cost less impairment losses, on an individual basis.

When such impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. When the circumstances and events which led to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged is credited to the profit and loss account, to the extent of the amounts previously charged.



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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment securities (continued)

Investments other than investment securities are classified as other investments and are stated at their fair values on an individual investment basis. The gains or losses arising from changes in their respective fair values are credited or charged to the profit and loss account for the period in which they arise.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost includes the cost of land, development expenditure, interest capitalised up to the date of completion and other direct expenses capitalised. Net realisable value is determined by the directors based on prevailing market conditions.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and for financial reporting purposes, to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from the provision of services, when such services are rendered;
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rates applicable;
- (d) rental income under operating leases, on the straight-line basis over the terms of the rental agreements; and



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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

- (e) dividend and investment income, when the shareholders' right to receive payment is established.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset which takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. The capitalisation rate is based on the weighted average cost of the related borrowings.

All other borrowing costs are recognised as expenses in the period in which they are incurred.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of subsidiaries outside Hong Kong and the Group's share of the net assets of associates and jointly-controlled entities outside Hong Kong are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. The resulting translation differences are included in the exchange fluctuation reserve.



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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

In prior years, the profit and loss of foreign enterprises was translated at closing rate ruling at the balance sheet date. According to SSAP 11 (revised) — Foreign Currency Translation, the profit and loss of foreign enterprises should be translated at the weighted average rate for the year. This is a change in accounting policy, however, the translation of the profit and loss account of foreign enterprise in prior years has not been restated as the effect of this change is not material to the current and prior years.

Employee benefits

(a) *Employee leave entitlements*

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

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

(b) *Profit sharing and bonus plans*

The expected costs of profit sharing and bonus payments are recognised as liabilities when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(c) *Pension benefits scheme*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme.

The Company's subsidiaries in the People's Republic of China except Hong Kong and Macau (the "PRC") are members of the state-managed retirement benefits scheme operated by the PRC government. The retirement scheme contributions, which are based on a certain percentage of the salaries of the PRC subsidiaries' employees, are charged to the profit and loss account in the period to which they relate and represent the amount of contributions payable by these subsidiaries to the scheme.



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4 TURNOVER

Turnover represents income generated from total logistics and transportation ancillary services, rental income from investment properties and dividend income, net of business tax and other surcharges. Turnover in 2001 included discontinued passenger transportation service income and property development and sale income.

5. SEGMENT INFORMATION

Segment information is presented by way of two segment formats:

- (a) on a primary segment reporting basis, by business segment; and
- (b) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are organised and managed separately, according to the nature of their operations and the products and services they provide. Each segment of the Group's business represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

Continuing operations:

- (a) Total logistics and transportation segment provides value-added and modernised competitive logistic services;
- (b) Property investment segment invests in prime office and commercial spaces for their rental income;
- (c) Investment holding segment invests in logistics and other infrastructure projects with high-growth potential; and
- (d) Information and hi-tech related manufacturing segment.

Discontinued operations in 2001:

- (a) Passenger transportation segment provides public transportation services within Shenzhen and its neighbouring areas in the PRC; and
- (b) Property development and sale segment invests in construction projects as a developer.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.



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5. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments.

	Continuing operations								Discontinued operations								Total	
	Logistics and related business		Property investment		Investment holding		Information and Hi-tech related manufacturing		Sub-total		Passenger transportation*		Property development and sale*		Sub-total			
	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	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment revenue																		
Sales to external customers	93,145	30,800	21,767	21,211	—	—	—	114,912	52,011	—	417,131	—	22,730	—	439,861	114,912	491,872	
Share of revenue of associates and jointly controlled entities [#]	185,205	170,389	—	—	—	—	321,028	299,660	506,233	470,049	—	—	—	—	—	506,233	470,049	
Total[#]	278,350	201,189	21,767	21,211	—	—	321,028	299,660	621,145	522,060	—	417,131	—	22,730	—	439,861	621,145	961,921
Segment results	49,601	66,207	10,825	10,248	23,640	133,920	—	84,066	210,375	—	14,581	—	(3,158)	—	11,423	84,066	221,798	
Operating profit																	84,066	221,798
Finance costs																	(36,425)	(40,666)
Share of profits less losses of Associates	110,420	59,181	—	—	—	—	4,346	38,526	114,766	97,707	—	2,988	—	—	2,988	114,766	100,695	
Jointly-controlled entities	12,584	2,612	—	—	—	—	1,095	201	13,679	2,813	—	3,993	—	—	3,993	13,679	6,806	
Profit before tax																	176,086	288,633
Taxation																	(17,997)	(11,020)
Profit before minority interests																	158,089	277,613
Minority interests																	(2,851)	(26,201)
Net profit from ordinary activities attributable to shareholders																	155,238	251,412

* During the year ended 31 December 2001, the Group discontinued its passengers transportation business and property development and sale, the principal market of which were located in the PRC.

[#] For reference only

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5. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

	Continuing operations								Discontinued operations									
	Logistics and related business		Property investment		Investment holding		Information and Hi-tech related manufacturing		Sub-total		Passenger transportation*		Property development and sale*		Sub-total		Total	
	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	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment assets	448,548	616,534	240,000	247,266	499,728	103,933	—	—	1,188,276	967,733	—	—	—	—	—	—	1,188,276	967,733
Interests in associates	1,580,455	1,605,485	—	—	—	—	478,387	498,140	2,058,842	2,103,625	—	—	—	—	—	—	2,058,842	2,103,625
Interests in jointly-controlled entities	147,301	30,944	—	—	—	—	11,157	10,736	158,458	41,680	—	—	—	—	—	—	158,458	41,680
Total assets									3,405,576	3,113,038							3,405,576	3,113,038
Segment liabilities	967,234	853,160	—	2,846	450,639	98,654	—	—	1,417,873	954,660	—	—	—	—	—	—	1,417,873	954,660
Other segment information																		
Depreciation	5,098	2,025	—	—	2,969	3,729	—	—	8,067	5,754	—	96,028	—	—	—	96,028	8,067	101,782
Amortisation	—	—	—	—	—	—	—	—	—	—	—	6,839	—	—	—	6,839	—	6,839
Negative goodwill recognised as income	(35,247)	(5,620)	—	—	—	—	—	—	(35,247)	(5,620)	—	—	—	—	—	—	(35,247)	(5,620)
Impairment losses recognised in the profit and loss account	—	—	—	4,210	1,549	4,534	—	—	1,549	8,744	—	14,534	—	—	—	14,534	1,549	23,278
Impairment losses reversed in the profit and loss account	—	—	—	—	(7,367)	—	—	—	(7,367)	—	—	—	—	—	—	—	(7,367)	—
Capital expenditure	5,444	214,502	—	—	1,515	13,230	—	—	6,959	227,732	—	140,091	—	—	—	140,091	6,959	367,823

* During the year ended 31 December 2001, the Group discontinued its passengers transportation business and property development and sale, the principal markets of which were located in the PRC.



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5. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue, profit and certain asset and expenditure information for the Group's geographical segments.

	Hong Kong		Elsewhere in the PRC		Total	
	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue						
Sales to external customers	—	—	114,912	491,872	114,912	491,872
Segment results	24,607	83,588	59,459	138,210	84,066	221,798
Other segment information						
Total segment assets	42,445	50,335	3,363,131	3,062,703	3,405,576	3,113,038
Capital expenditure	833	460	6,126	367,363	6,959	367,823

6. OTHER REVENUES AND GAINS

The Group's other revenues and gains include the following:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Interest income on cash and bank balances	6,713	18,334
Interest income on other investments	6,311	8,154
Write back of impairment for investment securities	7,367	—
Unrealised gain on other investments	39,560	2,352
Negative goodwill recognised	35,247	5,620
Gain on disposal of interests in associates	—	47,528
Gain on dilution of interests in associates	—	108,795

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7. OPERATING PROFIT

The Group's operating profit is arrived at after charging:

	Group	
	2002 HK\$'000	2001 HK\$'000
Cost of inventories sold	—	22,242
Cost of services provided	74,844	342,024
Depreciation	8,067	101,782
Loss on disposal of fixed assets	486	3,013
Amortisation of intangible assets (other than negative goodwill)	—	6,839
Lease payments under operating lease in respect of leasehold land and buildings	1,863	1,137
Auditors' remuneration	1,050	880
Revaluation deficit of the Group's leasehold land and buildings*	1,549	4,534
Revaluation deficit of the leasehold land and buildings for subsidiaries disposed of*	—	14,534
Impairment of properties held for sale	—	4,210
Staff costs (including directors' remuneration — note 9)	27,258	105,571

* The revaluation deficits of the leasehold land and buildings of the Group and those subsidiaries disposed of are included in the "other operating expenses" on the face of the consolidated profit and loss account.

The Group's operating profit is arrived at after crediting:

	Group	
	2002 HK\$'000	2001 HK\$'000
Gross rental income	(21,768)	(22,402)
Less: outgoings	6,217	4,252
Net rental income	(15,551)	(18,150)
Net exchange gains	(6)	—

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8. FINANCE COSTS

	Group	
	2002 HK\$'000	2001 HK\$'000
Interest on bank loans wholly repayable after five years	463	—
Interest on bank loans wholly repayable within five years	25,076	19,328
Interest on other loans wholly repayable within five years	10,886	3,165
Interest on finance leases	—	1,167
Interest on amount due to controlling shareholder	—	291
Interest on convertible bond	—	18,245
Total interest	36,425	42,196
Less: interest capitalised	—	(1,530)
	36,425	40,666

9. STAFF COSTS

Staff costs (including directors' remuneration) incurred during the year are as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Wages, salaries and other allowances	25,983	92,360
Pension costs — defined contribution plan	1,275	13,211
	27,258	105,571

The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme. Prior to the MPF Scheme being effective, the Group operated a defined contribution retirement benefits scheme for those employees who were eligible to participate in this scheme. This scheme operated in a similar way to the MPF Scheme, except that when an employee left the scheme prior to his/her interest in the Group's employee contributions vesting fully, the ongoing contributions payable by the Group were reduced by the relevant amount of forfeited contributions.

The Company's subsidiaries in the People's Republic of China except Hong Kong and Macau (the "PRC") are members of the state managed retirement benefits scheme operated by the PRC government. The retirement scheme contributions are based on a certain percentage of the salaries of the PRC subsidiaries' employees.



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10. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Fees:		
Executive directors	—	—
Non-executive directors	—	—
Independent non-executive directors	750	562
Other emoluments:		
Basic salaries and other allowances for executive directors	4,888	4,790
Pension scheme contributions	152	137
	5,790	5,489

The number of directors whose remunerations fell within the following bands is as follows:

	Number of directors	
	2002	2001
Nil – HK\$1,000,000	7	7
HK\$1,000,001 – HK\$1,500,000	2	1
HK\$1,500,001 – HK\$2,000,000	1	2
	10	10

There was no arrangement under which a director waived or agreed to waive any emoluments during the year.

Except for the grant of 15,000,000 share options to Mr. Huang Chuan Qi with the exercise price at HK\$0.336 and the exercise period from 18 August 2002 to 15 April 2004, no other share options were granted to other directors during the year.

During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.



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11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2001: three) directors, details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining two (2001: two) non-director, highest paid employees are set out below:

	2002 HK\$'000	2001 HK\$'000
Salaries and other emoluments	2,445	1,908

The number of the non-director, highest paid employees whose remuneration fell within the following band is as follows:

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

There were no share options granted to the five highest paid employees during the year (2001: Nil).

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12. TAXATION

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2001: Nil). Taxes on overseas profits have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2002 HK\$'000	2001 HK\$'000
Group:		
Current year provision:		
Outside Hong Kong	883	5,465
Overprovisions in prior years:		
Hong Kong	(146)	—
Outside Hong Kong	(1,567)	—
	(830)	5,465
Associates:		
Outside Hong Kong	17,703	4,911
Jointly-controlled entities:		
Outside Hong Kong	1,124	644
Tax charge for the year	17,997	11,020

The principal components of the Group's deferred tax assets/(liabilities) not recognised in the consolidated financial statements are as follows:

	2002 HK\$'000	2001 HK\$'000
Tax losses	15,958	8,496
Accelerated depreciation allowances	110	(1,096)
	16,068	7,400



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12. TAXATION (continued)

At balance sheet date, deferred tax has not been provided for the Group and the Company as there were no significant timing difference giving rise to deferred tax liabilities and deferred tax assets arising from the significant timing difference will be crystallised in the foreseeable future (2001: Nil).

The revaluations of the Group's fixed assets and investment properties do not constitute timing differences and, consequently, the amounts of potential deferred tax thereon have not been quantified.

13. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company is HK\$98,774,000 (2001: HK\$83,895,000).

14. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$155,238,000 (2001: HK\$251,412,000) and the weighted average of 11,215,294,959 (2001: 11,149,618,520) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the year of HK\$155,238,000 (2001: HK\$251,412,000). The weighted average number of ordinary shares used in the calculation is the 11,215,294,959 (2001: 11,149,618,520) ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 14,707,167 (2001: 47,116,571) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the year.



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15. FIXED ASSETS

Group

	Leasehold land and buildings HK\$'000	Construction in progress HK\$'000	Leasehold improve- ments HK\$'000	Motor vehicles HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
Cost or valuation:						
At beginning of year	101,010	129,623	4,556	9,207	11,510	255,906
Additions	—	7,022	—	4,003	2,956	13,981
Disposals	(35,662)	(311)	(133)	(1,947)	(181)	(38,234)
Transfer	42,185	(42,185)	—	—	—	—
Revaluation	(1,739)	—	—	—	—	(1,739)
At 31 December 2002	105,794	94,149	4,423	11,263	14,285	229,914
At 31 December 2002:						
At cost	39,710	94,149	4,423	11,263	14,285	163,830
At directors' valuation in 2002	44,084	—	—	—	—	44,084
At professional valuation in 2001	22,000	—	—	—	—	22,000
	105,794	94,149	4,423	11,263	14,285	229,914
At 31 December 2001:						
At cost	36,842	129,623	4,556	9,207	11,510	191,738
At directors' valuation in 2001	35,678	—	—	—	—	35,678
At professional valuation in 2001	22,000	—	—	—	—	22,000
At professional valuation in 1999	6,490	—	—	—	—	6,490
	101,010	129,623	4,556	9,207	11,510	255,906
Accumulated depreciation and impairment:						
At beginning of year	879	—	1,862	3,885	4,688	11,314
Charged for the year	3,179	—	795	1,789	2,304	8,067
Disposals	(68)	—	(61)	(1,895)	(151)	(2,175)
Revaluation	(190)	—	—	—	—	(190)
At 31 December 2002	3,800	—	2,596	3,779	6,841	17,016
Net book value:						
At 31 December 2002	101,994	94,149	1,827	7,484	7,444	212,898
At 31 December 2001	100,131	129,623	2,694	5,322	6,822	244,592



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15. FIXED ASSETS (continued)

Group (continued)

The leasehold land and buildings of the Group included above are held under the following lease terms:

	Group	
	2002 HK\$'000	2001 HK\$'000
Situated in Hong Kong:		
Medium-term leases	21,517	23,567
Long-term leases	2,500	3,874
	24,017	27,441
Situated outside Hong Kong:		
Medium-term leases	26,017	27,179
Long-term leases	9,478	9,143
Unspecified	42,482	36,368
	77,977	72,690
	101,994	100,131

Certain leasehold land and buildings in Hong Kong were revalued on an open market, existing use basis by RHL Appraisal Ltd., an independent firm of professional valuers, on 31 December 2001 at HK\$22,000,000. In the opinion of directors, there has been no material change in value of these leasehold land and buildings during the year.

At the balance sheet date, no interest was capitalised in construction in progress by the Group (2001: HK\$5,304,000).

Had the Group's revalued leasehold land and buildings been carried at cost less accumulated depreciation, they would have been included in the financial statements at approximately HK\$142,937,000 (2001: HK\$139,023,000).

Certain leasehold land and buildings with net book value of HK\$21,516,000 (2001: HK\$22,000,000) were pledged to a bank to secure bank borrowings (note 26).



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16. INVESTMENT PROPERTIES

	Group	
	2002 HK\$'000	2001 HK\$'000
At valuation:		
At beginning of year	243,000	271,626
Transfer from properties held for sale	—	11,000
Disposal of subsidiaries	—	(39,626)
Revaluation (note 30)	(3,000)	—
At 31 December	240,000	243,000

The Group's investment properties included above are held under the following lease terms:

	Group	
	2002 HK\$'000	2001 HK\$'000
Situated outside Hong Kong:		
At valuation:		
Long-term leases	11,000	—
Medium-term leases	229,000	232,000
Unspecified	—	11,000
	240,000	243,000

At the balance sheet date, the investment properties were revalued on an open market value, income capitalisation basis by RHL Appraisal Ltd. at HK\$240,000,000 (2001: HK\$243,000,000). The investment properties are leased to third parties under operating leases, further details of which are included in note 32 to the financial statements.

Investment properties with a valuation of HK\$68,000,000 (2001: HK\$68,000,000) are pledged to banks to secure bank borrowings (note 26).

Further particulars of the Group's investment properties are included on page 99.



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17. GOODWILL AND NEGATIVE GOODWILL

The amount of negative goodwill capitalised as an asset in the consolidated balance sheet, arising from the acquisition and acquisition of additional equity interest in a subsidiary, is as follows:

	Group	
	Negative goodwill	
	2002 HK\$'000	2001 HK\$'000
Cost:		
At 1 January	159,245	—
Additions	92,611	159,245
At 31 December	251,856	159,245
Accumulated recognition as income:		
At 1 January	(5,620)	—
Recognised as income during the year	(35,247)	(5,620)
At 31 December	(40,867)	(5,620)
Net book value:		
At 31 December	210,989	153,625

As detailed in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill in respect of acquisitions which occurred prior to 1 January 2001, to remain eliminated against consolidated reserves. The goodwill remaining eliminated against consolidated reserves, arising from the acquisition of subsidiaries and associates prior to 1 January 2001, amounted to HK\$236,435,000 (2001: HK\$236,435,000).



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18. INTERESTS IN SUBSIDIARIES

	Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted investments, at cost	98,515	98,515
Amounts due from subsidiaries	2,734,652	2,390,048
Amount due to a subsidiary	(551)	(372)
	2,832,616	2,488,191
Provision for impairment	(804,316)	(904,316)
	2,028,300	1,583,875

The amount due from a subsidiary included in the Company's current assets is unsecured, interest-free and has no fixed terms of repayment. The balances with subsidiaries included in the Company's non-current assets are unsecured and repayable after one year, and except for the amounts of HK\$92,248,000 which bear interest at prevailing interest rates in Hong Kong, the remaining balances are interest-free.

Particulars of the principal subsidiaries are included on page 100.

Except for the further acquisition of the remaining 23.2% equity interests in Xin Tong Chan Development (Shenzhen) Co., Ltd. (formerly known as Shenzhen Freeway Development Co., Ltd., "XTC Development") which became a wholly-owned subsidiary, no other acquisition was made by the Group during the year.



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19. INTERESTS IN ASSOCIATES

	Group	
	2002 HK\$'000	2001 HK\$'000
Share of net assets other than goodwill	2,104,457	2,152,341
Goodwill less accumulated amortisation	3,101	—
Provision for impairment	(48,716)	(48,716)
	2,058,842	2,103,625

The share of net assets and market values of the Group's listed equities were as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Share of net assets		
Listed equities in Hong Kong	95,391	106,748
Listed equities outside Hong Kong	2,802	2,677
Provision for impairment	(48,716)	(48,716)
	49,477	60,709

	Group	
	2002 HK\$'000	2001 HK\$'000
Market values		
Listed equities in Hong Kong	102,352	224,709
Listed equities outside Hong Kong	3,520	5,060
	105,872	229,769

Particulars of the principal associates are included on page 101.



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19. INTERESTS IN ASSOCIATES (continued)

Extracts of the operating results and financial position of Shenzhen Expressway Company Limited ("Shenzhen Expressway")[#], which are based on the published audited accounts prepared in accordance with generally accepted accounting principles in Hong Kong, are as follows:

	2002 HK\$'000	2001 HK\$'000
Operating results for the year ended 31 December		
Turnover	494,428	461,913
Operating profit before tax and after minority interests	384,828	397,469
Tax	(45,399)	(132)
Profit after tax	339,429	397,337
Financial position as at 31 December		
Non-current assets	5,411,727	5,125,297
Current assets	929,773	1,271,992
Total assets	6,341,500	6,397,289
Non-current liabilities	384,702	886,680
Current liabilities	716,755	406,182
Total liabilities	1,101,457	1,292,862
Minority interests	48,367	46,532
	1,149,824	1,339,394
Net assets	5,191,676	5,057,895
Contingent liabilities	—	—

[#] The Group's holding in Shenzhen Expressway comprises 654,780,000 unlisted shares. The unlisted shares rank pari passu with all existing issued listed shares in all respects including, in particular, as to dividends, voting rights and capital.



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19. INTERESTS IN ASSOCIATES (continued)

Extracts of the operating results and financial position of CSG Technology Holding Co., Ltd., ("CSG")[#], which are based on the published audited accounts prepared in accordance with International Financial Reporting Standards, are as follows:

	2002 HK\$'000	2001 HK\$'000
Operating results for the year ended 31 December		
Turnover	988,147	963,244
Operating profit before tax and after minority interests	170,288	148,503
Tax	(16,760)	(4,022)
Profit after tax	153,528	144,481
Financial position as at 31 December		
Non-current assets	2,110,932	1,794,650
Current assets	697,563	727,604
Total assets	2,808,495	2,522,254
Non-current liabilities	47,152	—
Current liabilities	793,075	676,233
Total liabilities	840,227	676,233
Minority interests	71,704	32,336
	911,931	708,569
Net assets	1,896,564	1,813,685
Contingent liabilities	—	—

[#] The Group's holding in CSG comprises 163,379,998 unlisted founder shares and 1,000,000 listed "B" shares. The listed "B" shares are listed on the Shenzhen Stock Exchange. Both listed and unlisted shares rank pari passu in all respects including, in particular, as to dividends, voting rights and capital.

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19. INTERESTS IN ASSOCIATES (continued)

Extracts of the operating results and financial position of Shenzhen High-Tech Holdings Limited, which are based on the published audited accounts prepared in accordance with generally accepted accounting principles in Hong Kong, are as follows:

	2002 HK\$'000	2001 HK\$'000
Operating results for the year ended 31 December		
Turnover	263,599	157,577
Operating (loss)/profit before tax and after minority interests	(179,177)	20,746
Tax	(2,250)	(4,097)
(Loss)/profit after tax	(181,427)	16,649
Financial position as at 31 December		
Non-current assets	329,960	296,179
Current assets	437,264	520,705
Total assets	767,224	816,884
Non-current liabilities	—	100,467
Current liabilities	300,941	127,617
Total liabilities	300,941	228,084
Minority interests	732	—
	301,673	228,084
Net assets	465,551	588,800
Contingent liabilities	23,679	29,646



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20. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2002 HK\$'000	2001 HK\$'000
Share of net assets other than goodwill	129,146	41,680
Due from a jointly-controlled entity	29,312	—
Deposit paid for acquisition of a proposed jointly-controlled entity	—	4,696
Loan to a proposed jointly-controlled entity	—	28,100
Provision for impairment	—	(32,796)
	158,458	41,680

Particulars of the principal jointly-controlled entities are included on page 101.

At 31 December 2002, the aggregate amounts of assets, liabilities, income and profits of these jointly-controlled entities were as follows:

	2002 HK\$'000	2001 HK\$'000
Assets	425,695	192,900
Liabilities	135,496	80,390
Income	150,899	145,694
Profit after tax	22,962	13,257

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21. INVESTMENT SECURITIES

	Group	
	2002 HK\$'000	2001 HK\$'000
Unlisted equities outside Hong Kong, at cost	374,635	326,762
Provision for impairment	(197,820)	(172,391)
	176,815	154,371
Listed equities in Hong Kong, at cost	866	1,799
Provision for impairment	(530)	(530)
	336	1,269
	177,151	155,640
Market value of listed equities in Hong Kong	488	1,340

The unlisted equities included equity interests in two joint venture companies established in the PRC in which the Group has 25% equity interests. The Group does not participate in the financial and operating policy decisions of the above companies and is, therefore, not in a position to exercise significant influence. Accordingly, these investments are accounted for as unlisted equity investment securities.



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22. TRADE RECEIVABLES

Trade receivables, which generally have credit terms of 30 to 90 days, are recognised and carried at original invoice amount, an estimate for doubtful debts is made and deducted when collection of the full amount is no longer probable. Bad debts are written off as incurred. At balance sheet date, no provision was made against trade receivables (2001: Nil).

An aged analysis of the Group's trade receivables as at the balance sheet date, based on the invoice date, is as follows:

	Group		Group	
	2002 Balance HK\$'000	Percentage	2001 Balance HK\$'000	Percentage
0 – 90 days	17,675	88	5,764	83
91 – 180 days	1,421	7	256	4
181 – 365 days	301	1	138	2
Over 365 days	822	4	753	11
	20,219	100	6,911	100

Included in the trade receivables is an amount due from an associate of HK\$3,653,000 (2001: Nil).

23. OTHER INVESTMENTS

	Group	
	2002 HK\$'000	2001 HK\$'000
Outside Hong Kong		
Listed debt securities, at market value	—	139,142
Listed equity securities, at market value	383,945	187
Unlisted equity securities, at cost	36,720	—
	420,665	139,329



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23. OTHER INVESTMENTS (continued)

The listed equity securities mainly represent 50,000,000 A shares of China Merchants Bank Co., Ltd. ("CMB"). On 2 April 2002, the Group subscribed for 50,000,000 A shares of CMB at an issue price of RMB7.3 (approximately HK\$6.88) per A share with a total consideration of RMB365,000,000 (approximately HK\$344,000,000). The 50,000,000 CMB shares represents approximately 0.88% of the issued capital of CMB as enlarged by the allotment and new issue of the A shares by CMB on the Shanghai Stock Exchange. The 50,000,000 CMB A shares were subject to a lock-up period of 12 months upon listing of the A shares on the Shanghai Stock Exchange, during which the Group was not allowed to sell or otherwise dispose of all or any part of these A shares. On 9 April 2003, the Group disposed all of the 50,000,000 CMB A shares at a net price of RMB9.2 (approximately HK\$8.68) per share, with a total consideration of RMB460,000,000 (approximately HK\$433,799,000) (note 36 (b)).

24. CASH AND BANK BALANCES AND PLEDGED BANK DEPOSITS

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Bank balances and cash	106,563	138,459	1,543	902
Bank deposits	179,647	166,234	6,903	6,379
	286,210	304,693	8,446	7,281
Less: pledged bank deposits for bank loans	(67,722)	(60,000)	—	—
	218,488	244,693	8,446	7,281



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25. TRADE PAYABLES

An aged analysis of the Group's trade payables as at the balance sheet date, based on the invoice date, is as follows:

	Group		2001	
	2002 Balance HK\$'000	Percentage	Balance HK\$'000	Percentage
0 – 90 days	9,003	79	1,273	16
91 – 180 days	85	1	4,566	58
181 – 365 days	176	2	454	6
Over 365 days	2,081	18	1,624	20
	11,345	100	7,917	100

26. INTEREST-BEARING BORROWINGS

	Group	
	2002 HK\$'000	2001 HK\$'000
Bank loans		
Secured	99,019	223,039
Unsecured	524,533	142,896
	623,552	365,935
Other unsecured loans and payables	231,747	258,977
	855,299	624,912
Portion classified as current liabilities	(533,805)	(387,712)
Non-current portion	321,494	237,200



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26. INTEREST-BEARING BORROWINGS (continued)

At 31 December 2002, the Group's interest-bearing borrowings were repayable as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Bank loans payable		
Within one year	302,058	128,735
In the second year	260,583	217,360
In the third to fifth years, inclusive	52,196	19,840
After the fifth year	8,715	—
	623,552	365,935
Other unsecured loans and payables		
Within one year	231,747	258,977
	855,299	624,912

At the balance sheet date, the Group's interest-bearing borrowings were secured by the following:

- (a) pledge of certain land and buildings and investment properties of the Group (notes 15 and 16); and
- (b) pledge of bank deposits of the Group totalling HK\$67,722,000 (2001: HK\$60,000,000) (note 24).

At 31 December 2002, other loans represented loan advances from Shenzhen Finance Bureau, which are unsecured, bear interest at rates range between 3.6% and 7.2% per annum and repayable on demand.

27. DUE TO CONTROLLING SHAREHOLDER

The amount due to SIHC was repaid during the year.

28. ADVANCES AND OTHER PAYABLES

At 31 December 2002, the amount represents advance granted by PRC local government authorities amounted to approximately HK\$174,462,000, which are unsecured, interest-free and are designated for the use in certain projects managed by the Group on behalf of the relevant local government authorities. In the opinion of the directors, these advances are of government grant nature and used in the development of relevant logistics projects, in the form of funds for capital investments and purchase of fixed assets.

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29. SHARE CAPITAL

	2002 HK\$'000	2001 HK\$'000
Authorised:		
20,000,000,000 ordinary shares of HK\$0.10 each (2001: 20,000,000,000 ordinary shares of HK\$0.10 each)	2,000,000	2,000,000
Issued and fully paid:		
11,217,211,626 ordinary shares of HK\$0.10 each (2001: 11,215,211,626 ordinary shares of HK\$0.10 each)	1,121,721	1,121,521

Details of the movements in the issued share capital of the Company during the year were as follows:

	Notes	Share capital HK\$'000	Number of ordinary shares in issue
At 1 January 2002		1,121,521	11,215,211,626
Share options exercised	(a)	200	2,000,000
At 31 December 2002		1,121,721	11,217,211,626

- (a) During the year, 2,000,000 ordinary shares of HK\$0.10 each were issued for cash at an average subscription price of HK\$0.165 per share pursuant to the exercise of the subscription rights attaching to 2,000,000 share options, for a total consideration of approximately HK\$330,000. The excess of the proceeds over the par value of the ordinary shares issued was credited to the share premium account.



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29. SHARE CAPITAL (continued)

(b) Share options

The Company operates a share option scheme (the "Scheme"), further details of which are set out under the section "Share option scheme" in the Report of the Directors on pages 38 to 40.

The movements in the number of share options to subscribe for ordinary shares in the Company during the year were as follows:

	Number of share options to subscribe for ordinary shares at an exercise price per share of					Total '000
	HK\$0.165 '000	HK\$0.272 '000	HK\$0.308 '000	HK\$0.31 '000	HK\$0.336 '000	
At 1 January 2002	2,000	205,600	2,000	—	—	209,600
Granted during the year	—	—	—	4,300	19,500	23,800
Exercised during the year	(2,000)	—	—	—	—	(2,000)
Lapsed during the year	—	(400)	—	—	—	(400)
At 31 December 2002	—	205,200	2,000	4,300	19,500	231,000

At the balance sheet date, the Company had 231,000,000 share options outstanding under the Scheme, with exercise periods up to 15 April 2004. The details of the outstanding share options as at 31 December 2002 are as follows:

No of share options	Exercise period	Exercise price
205,200,000	22 January 2001 to 15 April 2004	HK\$0.272
2,000,000	19 June 2001 to 15 April 2004	HK\$0.308
4,300,000	6 March 2002 to 15 April 2004	HK\$0.310
19,500,000	18 August 2002 to 15 April 2004	HK\$0.336
<u>231,000,000</u>		

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30. RESERVES

Group

	Exchange		Capital reserve	Contributed surplus	Investment		Enterprise expansion fund	Statutory reserve fund	Staff welfare reserve	Goodwill reserve	Accumulated losses	Total
	Share premium	fluctuation reserve			Asset revaluation reserve	property revaluation reserve						
	HK\$'000 (note 36(c))	HK\$'000			HK\$'000	HK\$'000						
At 1 January 2002	1,052,652	2,745	5,817	13,005	1,565	5,172	21,812	4,082	4,584	(236,435)	(205,079)	669,920
Transfer to statutory reserve fund	—	—	—	—	—	—	—	24,996	—	—	(24,996)	—
Transfer to staff welfare reserve	—	—	—	—	—	—	—	—	4,156	—	(4,156)	—
Arising on the exercise of share options	130	—	—	—	—	—	—	—	—	—	—	130
Deficit on revaluation of investment properties	—	—	—	—	—	(3,000)	—	—	—	—	—	(3,000)
Release of reserve upon the disposal of fixed assets	—	—	—	—	(1,565)	—	—	—	—	—	1,565	—
Exchange differences arising on consolidation of subsidiaries, associates and jointly-controlled entities outside Hong Kong	—	(240)	—	—	—	—	—	—	—	—	—	(240)
Net profit from ordinary activities attributable to shareholders	—	—	—	—	—	—	—	—	—	—	155,238	155,238
At 31 December 2002	1,052,782	2,505	5,817	13,005	—	2,172	21,812	29,078	8,740	(236,435)	(77,428)	822,048
Reserves retained by:												
Company and subsidiaries	1,052,782	(2,298)	2,919	13,005	—	2,172	21,783	25,318	4,156	(236,435)	(103,960)	779,442
Associates	—	4,685	2,898	—	—	—	29	3,760	4,584	—	5,329	21,285
Jointly-controlled entities	—	118	—	—	—	—	—	—	—	—	21,203	21,321
At 31 December 2002	1,052,782	2,505	5,817	13,005	—	2,172	21,812	29,078	8,740	(236,435)	(77,428)	822,048



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30. RESERVES (continued)

Group (continued)

	Exchange		Capital reserve	Contributed surplus	Investment		Enterprise expansion fund	Statutory reserve fund	Staff welfare reserve	Goodwill reserve	Accumulated losses	Total
	Share premium	fluctuation reserve			Asset revaluation reserve	property revaluation reserve						
	HK\$'000 (note 36(c))	HK\$'000			HK\$'000	HK\$'000						
At 1 January 2001	1,050,081	5,159	6,535	13,005	1,565	5,172	29	8,984	7,413	(270,966)	(443,677)	383,300
Transfer to statutory reserve fund	—	—	—	—	—	—	12,814	—	—	—	(12,814)	—
Arising on:												
exercise of share options	622	—	—	—	—	—	—	—	—	—	—	622
exercise of warrants	1,949	—	—	—	—	—	—	—	—	—	—	1,949
Disposal of interests in subsidiaries	—	(2,205)	—	—	—	—	—	(4,770)	(2,669)	34,531	—	24,887
Dilution of interests in an associate	—	—	(718)	—	—	—	—	—	—	—	—	(718)
Disposal of interests in an associate	—	(142)	—	—	—	—	—	(132)	(160)	—	—	(434)
Share of reserve movements of an associate	—	—	—	—	—	—	8,969	—	—	—	—	8,969
Exchange differences arising on consolidation of subsidiaries, associates and jointly-controlled entities outside Hong Kong	—	(67)	—	—	—	—	—	—	—	—	—	(67)
Net profit from ordinary activities attributable to shareholders	—	—	—	—	—	—	—	—	—	—	251,412	251,412
At 31 December 2001	1,052,652	2,745	5,817	13,005	1,565	5,172	21,812	4,082	4,584	(236,435)	(205,079)	669,920
Reserves retained by:												
Company and subsidiaries	1,052,652	(2,058)	2,919	13,005	1,565	5,172	21,783	322	—	(236,435)	(209,198)	649,727
Associates	—	4,685	2,898	—	—	—	29	3,760	4,584	—	(4,529)	11,427
Jointly-controlled entities	—	118	—	—	—	—	—	—	—	—	8,648	8,766
At 31 December 2001	1,052,652	2,745	5,817	13,005	1,565	5,172	21,812	4,082	4,584	(236,435)	(205,079)	669,920



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30. RESERVES (continued)

Company

	Share premium HK\$'000 (note 36(c))	Contributed surplus HK\$'000 (note i)	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2001	1,050,081	58,515	(697,288)	411,308
Arising on:				
exercise of share options	622	—	—	622
exercise of warrants	1,949	—	—	1,949
Net profit from ordinary activities attributable to shareholders	—	—	83,895	83,895
At 31 December 2001 and 1 January 2002	1,052,652	58,515	(613,393)	497,774
Arising on the exercise of share options	130	—	—	130
Net profit from ordinary activities attributable to shareholders	—	—	98,774	98,774
At 31 December 2002	1,052,782	58,515	(514,619)	596,678

Notes:

- (i) The contributed surplus of the Group represents the difference between the nominal value of the shares of the former group holding company acquired pursuant to the group reorganisation on 9 January 1990, over the nominal value of the Company's shares issued in exchange therefor.

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the same group reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

- (ii) In accordance with the PRC regulations, certain companies in the PRC are required to transfer part of their profits after tax to the enterprise expansion fund and the statutory reserve fund, which are non-distributable, before profit distributions are made. The amounts of the transfers are subject to the approval of the boards of directors of these companies, in accordance with their joint venture agreements and/or articles of association.
- (iii) In accordance with the PRC regulations, certain companies in the PRC are required to transfer part of their profits after tax to the staff welfare reserve, which is non-distributable, before profit distributions are made. The amounts of the transfers are subject to the approval of the boards of directors of these companies in accordance with their articles of association. The staff welfare reserve can only be used for the collective benefits of these companies' employees.



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31. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of the Group's operating profit to net cash inflow generated from operations

	Group	
	2002 HK\$'000	2001 HK\$'000
Operating profit	84,066	221,798
Interest income	(13,024)	(26,574)
Depreciation	8,067	101,782
Loss on disposal of fixed assets	486	3,013
Amortisation of intangible assets (other than negative goodwill)	—	6,839
Revaluation deficit on leasehold land and buildings	1,549	19,068
Impairment of properties held for sale	—	4,210
Impairment of unlisted equity investment securities	6,822	—
Dividend income from listed equity investment securities	—	(59)
Gain on disposal of interests in associates	—	(47,528)
Gain on dilution of interests in associates	—	(108,795)
Gain on disposal of subsidiaries	—	(53,745)
Loss/(gain) on disposal of other investments	1,780	(614)
Net unrealised loss/(gain) on other investments	48	(2,352)
Negative goodwill recognised as income	(35,247)	(5,620)
Net cash inflow before changes in working capital	54,547	111,423
Increase in amounts due from associates	—	(124)
Increase in amounts due to associates	—	8,710
Decrease in amounts due from a jointly-controlled entity	—	100
Decrease in properties under development for sale	—	14,764
Decrease in properties held for sale	733	5,083
Increase in trade receivables, deposits, prepayments and other receivables	(3,448)	(17,069)
Increase in trade payables, accrued liabilities, payables and customers' deposits	7,156	34,116
Increase in refundable deposits received	—	22,634
Decrease in receipts in advances for sale of properties	—	(1,971)
Decrease in deferred income	—	(1,810)
Decrease in other advances, other payables and other deposits received	—	(13,729)
Net cash inflow generated from operations	58,988	162,127



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31. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

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

	Issued capital and share premium HK\$'000	Bank loans and other loans HK\$'000	Convertible bond/note HK\$'000	Minority interests HK\$'000	Finance lease payables HK\$'000	Amounts due to controlling shareholder HK\$'000
Balance as at 1 January 2001	2,160,165	380,947	513,661	430,366	22,050	199
Cash inflow/(outflow) from financing, net	14,008	120,009	(513,661)	—	(2,486)	(64)
Acquisition of subsidiaries	—	376,977	—	312,927	—	18,861
Minority interests' share of profit for the year	—	—	—	26,201	—	—
Disposal of subsidiaries	—	(253,021)	—	(402,557)	(19,564)	—
Balance as at 31 December 2001 and 1 January 2002	2,174,173	624,912	—	366,937	—	18,996
Cash inflow/(outflow) from financing, net	330	219,501	—	—	—	(18,996)
Interest accrued for other loans	—	10,886	—	—	—	—
Issuance of convertible note	—	—	330,000	—	—	—
Capital contribution by minority interests	—	—	—	14,144	—	—
Further acquisition of equity interest in a subsidiary	—	—	—	(339,998)	—	—
Minority interests' share of profit for the year	—	—	—	2,851	—	—
Balance as at 31 December 2002	2,174,503	855,299	330,000	43,934	—	—

(c) Major non-cash transaction

On 1 August 2002, the Group issued convertible note to satisfy the consideration of RMB349,920,000 (HK\$330,000,000) for acquisition of the remaining 23.2% equity interest in XTC Development.



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32. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 16) under operating lease arrangements, with original leases negotiated for terms of not exceeding 15 years. Rentals are adjusted annually according to the terms of the leases.

As 31 December 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Within one year	23,533	21,655
In the second to fifth years, inclusive	143,280	107,149
After five years	105,084	168,464
	271,897	297,268

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. At 31 December 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Within one year	2,363	424
In the second to fifth years, inclusive	2,494	—
After five years	132	—
	4,989	424

The Company has no operating lease arrangements as lessor or lessee as at 31 December 2002 (2001: nil).



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33. COMMITMENTS

In addition to the operating lease commitments detailed in note 32 (b) to the financial statements above, the Group had the following commitments contracted, but not provided for, at the balance sheet date:

	Group	
	2002 HK\$'000	2001 HK\$'000
Acquisition of subsidiary and investments in unlisted investment securities and associates in the PRC	75,637	1,053
Acquisition of additional equity interest in a subsidiary	—	330,000
	75,637	331,053

At the balance sheet date, the Company had no significant commitments (2001: Nil).

34. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Corporate guarantees for banking facilities utilised by associates	23,000	18,000
Guarantees for mortgage loans granted by banks to certain purchasers of the Group's properties held for sale	—	3,151
	23,000	21,151

	Company	
	2002 HK\$'000	2001 HK\$'000
Corporate guarantees for banking facilities utilised by subsidiaries	85,000	25,000



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35. RELATED PARTY AND CONNECTED TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

(a) Acquisition of remaining 23.2% equity interest in XTC Development

On 20 December 2001, the Group entered into an acquisition agreement with SIHC, pursuant to which the Group acquired the remaining 23.2% equity interest in XTC Development at a consideration of RMB349,920,000 (equivalent to approximately HK\$330,000,000). Upon completion of the above acquisition transaction on 31 January 2002, XTC Development became a wholly-owned subsidiary of the Group.

The consideration for the above acquisition was determined with reference to the net assets value of XTC Development as at 30 June 2001 and adjusted for the effect of 165,000,000 A shares issued by its associate, Shenzhen Expressway, as announced by the Company on 19 December 2001. The consideration would be satisfied by the issue of a 5 years redeemable non-interest bearing note with a face value of HK\$330,000,000 and carry right to convert into ordinary shares of the Company at HK\$0.365 each.

The above convertible note was issued on 1 August 2002 and will be matured on 31 July 2007, 5 years after the date of issue.

Further details of the above acquisition are set out in a circular to shareholders of the Company dated 11 January 2002 and the transaction was approved by the independent shareholders of the Company on 31 January 2002.

(b) Acquisition of 39% equity interest in Shenzhen EDI Co., Ltd. (formerly known as Shenzhen Container Transportation EDI Co., Ltd., "Shenzhen EDI")

On 27 February 2002, Total Logistics (Shenzhen) Co., Ltd. ("Total Logistics") entered into acquisition agreements with Shenzhen Dragon Tree Information Network Co., Ltd. ("Dragon Tree"), a 60% owned subsidiary of SIHC, and Shenzhen Intelligent Transportation Centre ("Intelligent Transport"), an independent third party, respectively. Pursuant to the acquisition agreements, Total Logistics agreed to acquire 33% equity interest in Shenzhen EDI from Dragon Tree at a consideration of RMB4,785,000 (approximately HK\$4,514,000) and 6% equity interest in Shenzhen EDI from Intelligent Transport at a consideration of RMB870,000 (approximately HK\$821,000).

Further details of the above transaction are set out in an announcement made by the Company dated 28 February 2002.



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35. RELATED PARTY AND CONNECTED TRANSACTIONS (continued)

(c) Acquisition of 10% equity interest in Shenzhen Airlines (深圳航空有限責任公司)

On 2 May 2002, Total Logistics entered into an acquisition agreement with Shenzhen Tong Chan Industry Co., Ltd (formerly known as Shenzhen SIHC Networks Investment and Development Co., Ltd., "Shenzhen Tong Chan"), a subsidiary of SIHC, for the acquisition of 10% equity interest in Shenzhen Airlines at a consideration of RMB34,325,000 (approximately HK\$32,382,000).

Further details of the above transaction are set out in an announcement made by the Company dated 3 May 2002.

(d) Acquisition of 30% equity interest in Total Logistics

On 8 October 2002, XTC Development entered into an acquisition agreement with Shenzhen Tong Chan for the acquisition of 30% equity interest in Total Logistics at a consideration of RMB48,151,000 (approximately HK\$45,426,000). Upon completion of the acquisition, Total Logistics became a wholly-owned subsidiary of the Group.

Further details of the above transaction are set out in an announcement made by the Company dated 9 October 2002.

(e) Joint investment and establishment of Shenzhen Western Logistics Co., Ltd. ("Shenzhen Western Logistics")

On 3 December 2002, the Group entered into an Investment Agreement with SIHC and Nanyou (Group) Holdings Limited ("Nanyou Group") for the joint investment and establishment of Shenzhen Western Logistics in the PRC. The registered capital of Shenzhen Western Logistics is RMB180,000,000 (approximately HK\$169,800,000). The Group, SIHC and Nanyou Group own 20%, 40% and 40% of the equity interest respectively and cash contribution to the registered capital are in proportion to their respective shareholdings.

Further details of the above transaction are set out in an announcement made by the Company dated 4 December 2002.

(f) Services provided to an associate

For the year ended 31 December 2002, the income from the services rendered by the Group to an associate amounted to HK\$7,278,000 (2001: Nil). The services provided were charged on a cost plus basis.



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35. RELATED PARTY AND CONNECTED TRANSACTIONS (continued)

(g) Connected transactions during the year and subsequent to the year end

Transactions during the year disclosed in note 35 (a) to (e) to the financial statements also constitute connected transactions as defined under the Listing Rules. In addition, the Group has entered into a connected transaction subsequent to the year end. Further details of this transaction are set out in note 36(a) to the financial statements.

36. POST BALANCE SHEET EVENTS

(a) Disposal of 25% equity interest in Shenzhen Tong Chan

On 10 January 2003, XTC Development entered into a disposal agreement with SIHC for the disposal of its entire 25% equity interest in Shenzhen Tong Chan at a consideration of RMB38,596,000 (approximately HK\$36,400,000). Shenzhen Tong Chan is a company incorporated in the PRC with limited liability with approximately 70% of its assets are in cash, and its remaining assets are not in line with the core business of the Group.

Further details of the above transaction are set out in an announcement made by the Company dated 11 January 2003.

(b) Disposal of 50 million A shares in China Merchants Bank Co., Limited ("CMB")

On 9 April 2003, the Group disposed of all of the 50,000,000 CMB A shares at a net price of RMB9.2 (approximately HK\$8.68) per share, with a total consideration of RMB 460,000,000 (approximately HK\$433,799,000). This investment contributed a profit before taxation of HK\$90,000,000 to the Group, of which, HK\$39,600,000 has been recognised in the results of the Group for 2002. The remaining HK\$ 50,400,000 will be recognised in the results of the Group in 2003.

Further details of the above transaction are set out in an announcement made by the Company dated 11 April 2003.

(c) Reduction in share premium account

Pursuant to the resolution of the board of directors' meeting dated 22 April 2003, it was resolved that the share premium account of the Company with a carrying value of HK\$1,052,782,000 as at 31 December 2002 will be reduced by HK\$514,619,000 to offset directly against the entire remaining balance of accumulated losses as at 31 December 2002.

Further details of the above transactions are set out in an announcement made by the Company dated 22 April 2003.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 April 2003.