

# Notes to Condensed Consolidated Financial Statements

## I. BASIS OF PREPARATION AND ACCOUNTING POLICIES

- (i) These unaudited condensed consolidated interim financial statements are prepared in accordance with the Hong Kong Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA"). The accounting policies and basis of preparation used in the preparation of these interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2002 except as disclosed in (ii) below.
- (ii) The Group has adopted the following revised/new SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2003 and 1 July 2002 respectively:

SSAP 12 (revised)	:	Income taxes
SSAP 35	:	Accounting for government grants and disclosure of government assistance

The changes to the Group's accounting policies and the effect of adopting these revised/new policies are set out below:

### SSAP 12 (revised): Income taxes

#### Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior years, deferred taxation was 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 was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy. However, the financial statements in prior periods had not been restated as the effect on results of this change is not material to prior and current periods.

### SSAP 35: Accounting for government grants and disclosure of government assistance

#### Government grants

A government grant is recognised when there is a reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are deferred and recognised in the profit and loss account on a systematic basis over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the purchase of fixed assets are included in non-current liabilities as deferred income and are credited to the profit and loss account on a straight-line basis over the expected lives of the related assets.

Details of the effect on the adoption of the new SSAP 35 are set out in note 13 to the condensed consolidated financial statements.

## Notes to Condensed Consolidated Financial Statements

### 2. SEGMENT INFORMATION

Turnover represents income generated from total logistics and transportation ancillary services and rental income from investment properties (net of business tax and surcharges).

An analysis of the unaudited turnover and operating profit by principal activities and by geographical areas is as follows:

	Turnover Six months ended 30 June						Operating profit/(loss) Six months ended 30 June	
	2003 (Unaudited)			2002 (Unaudited)			2003 (Unaudited)	2002 (Unaudited)
	The Group Company and subsidiaries	Share of associates and jointly- controlled entities <sup>#</sup>	Total <sup>#</sup>	The Group Company and subsidiaries	Share of associates and jointly- controlled entities <sup>#</sup>	Total <sup>#</sup>	HK\$'000	HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>By principal activities</b>								
Logistics and related business	54,325	80,007	134,332	26,637	83,344	109,981	14,278	15,968
Property investment	12,562	—	12,562	11,072	—	11,072	6,865	5,725
Investment holding	—	—	—	—	—	—	64,167	194,018
Information and high-tech related manufacturing business	—	158,101	158,101	—	141,209	141,209	—	—
	<u>66,887</u>	<u>238,108</u>	<u>304,995</u>	<u>37,709</u>	<u>224,553</u>	<u>262,262</u>	<u>85,310</u>	<u>215,711</u>
<b>By geographical areas</b>								
Hong Kong	6,236	—	6,236	—	—	—	13,794	(9,185)
The People's Republic of China except Hong Kong	60,651	238,108	298,759	37,709	224,553	262,262	71,516	224,896
	<u>66,887</u>	<u>238,108</u>	<u>304,995</u>	<u>37,709</u>	<u>224,553</u>	<u>262,262</u>	<u>85,310</u>	<u>215,711</u>

<sup>#</sup> For reference only



## Notes to Condensed Consolidated Financial Statements

### 5. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's net profit from ordinary activities attributable to shareholders for the period of HK\$302,767,000 (2002: HK\$262,906,000), and on the number of 11,217,211,626 (2002: 11,215,211,626) ordinary shares in issue during the period. No dilutive earnings per share is presented as the Company has no dilutive potential shares during the period.

The calculation of diluted earnings per share for the period ended 30 June 2002 was based on the Group's net profit from ordinary activities attributable to shareholders of HK\$262,906,000 and on the number of 11,248,444,353 ordinary shares, which is the number of 11,215,211,626 ordinary shares in issue plus the weighted average of 33,232,727 ordinary shares deemed to be issued at no consideration if all outstanding share options had been exercised.

### 6. INTERIM DIVIDEND

The Board of Directors has resolved not to declare an interim dividend in respect of the six months ended 30 June 2003 (2002: Nil).

### 7. CAPITAL EXPENDITURES

	Goodwill (Unaudited) HK\$'000	Negative goodwill (Unaudited) HK\$'000	Goodwill total (Unaudited) HK\$'000	Fixed assets (Unaudited) HK\$'000
Six months ended 30 June 2003				
Net book value at beginning of period	—	(210,989)	(210,989)	212,898
Acquisition of additional equity interest in a subsidiary	4,915	—	4,915	—
Additions	—	—	—	11,978
Disposals	—	—	—	(5)
Amortisation/depreciation	(245)	18,175	17,930	(4,111)
Net book value at end of period	4,670	(192,814)	(188,144)	220,760

## Notes to Condensed Consolidated Financial Statements

### 8. 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 (31 December 2002: Nil).

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

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
0 - 90 days	13,574	17,675
91 - 180 days	3,484	1,421
181 - 365 days	2,427	301
Over 365 days	540	822
	<hr/> 20,025 <hr/>	<hr/> 20,219 <hr/>

Included in the trade receivables is an amount due from an associate of HK\$6,569,000 (31 December 2002: HK\$3,653,000).

### 9. OTHER INVESTMENTS

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Outside Hong Kong		
Listed equity securities, at market value	140	383,945
Unlisted equity securities, at cost	—	36,720
	<hr/> 140 <hr/>	<hr/> 420,665 <hr/>

## Notes to Condensed Consolidated Financial Statements

### 10. 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:

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
0 - 90 days	8,050	9,003
91 - 180 days	241	85
181 - 365 days	153	176
Over 365 days	1,828	2,081
	<u>10,272</u>	<u>11,345</u>

### 11. INTEREST-BEARING BORROWINGS

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Bank loans		
Secured	25,861	99,019
Unsecured	219,065	524,533
	<u>244,926</u>	<u>623,552</u>
Other unsecured loans and payables	151,338	231,747
	<u>396,264</u>	<u>855,299</u>
Portion classified as current liabilities	(213,344)	(533,805)
Non-current portion	<u>182,920</u>	<u>321,494</u>
Bank loans payable		
Within one year	62,006	302,058
In the second year	113,020	260,583
In the third to fifth year, inclusive	57,185	52,196
After the fifth year	12,715	8,715
	<u>244,926</u>	<u>623,552</u>
Other unsecured loans and payable		
Within one year	151,338	231,747
	<u>396,264</u>	<u>855,299</u>

The secured interest-bearing borrowings were supported by the pledge of certain land and buildings and investment properties of the Group.

## Notes to Condensed Consolidated Financial Statements

### 12. CONVERTIBLE NOTE

On 1 August 2002, the Company issued to its controlling shareholder, Shenzhen Investment Holding Corporation (“SIHC”), a redeemable non-interest bearing convertible note with a face value of HK\$330,000,000 carrying rights to convert into ordinary shares of the Company at HK\$0.365 each. The convertible note has a term of five years from the date of issue and will be matured on 31 July 2007.

### 13. ADVANCES AND OTHER PAYABLES / DEFERRED INCOME

The Group had been granted by PRC local government an amount of HK\$174,462,000 and the amount had been classified under “Advances and other payables” in long term liabilities as at 31 December 2002. Following the implementation of SSAP 35 “Accounting for government grants and disclosure of government assistance”, the amount had been reclassified to “Deferred income” during the period. The amount will be applied to designated logistics projects identified during the period and recognised in the profit and loss account on a systematic basis over the period necessary to match with the cost intended to be subsidised.

### 14. SHARE CAPITAL

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Authorised 20,000,000,000 ordinary shares of HK\$0.10 each	<u>2,000,000</u>	<u>2,000,000</u>
Issued and fully paid 11,217,211,626 ordinary shares of HK\$0.10 each	<u>1,121,721</u>	<u>1,121,721</u>

# Notes to Condensed Consolidated Financial Statements

## 15. OPERATING LEASE ARRANGEMENTS

### (a) AS LESSOR

The Group leases its investment properties under operating lease arrangements, with original leases negotiated for terms of not exceeding 15 years. The rentals are subject to the annual adjustments in accordance with the terms of lease agreements.

At 30 June 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Within one year	27,148	23,533
In the second to fifth year, inclusive	123,085	143,280
After the fifth year	122,113	105,084
	<u>272,346</u>	<u>271,897</u>

### (b) AS LESSEE

The Group leases certain of its office properties under operating lease arrangements.

At 30 June 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Within one year	1,730	2,363
In the second to fifth year, inclusive	2,028	2,494
After the fifth year	99	132
	<u>3,857</u>	<u>4,989</u>

## 16. CAPITAL COMMITMENTS

The Group had no capital commitments contracted at the balance sheet date (31 December 2002: HK\$75,637,000).



# Notes to Condensed Consolidated Financial Statements

## 17. CONTINGENT LIABILITIES

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

	30 June 2003 (Unaudited) HK\$'000	31 December 2002 (Audited) HK\$'000
Corporate guarantees for banking facilities utilised by an associate	<u>12,772</u>	<u>23,000</u>

## 18. RELATED PARTIES TRANSACTIONS

The Group had the following material transactions with related parties during the period:

(a) **COMPLETION OF ACQUISITION OF 30% EQUITY INTEREST IN TOTAL LOGISTICS (SHENZHEN) CO., LTD. ("TOTAL LOGISTICS")**

On 8 October 2002, Xin Tong Chan Development (Shenzhen) Co., Ltd. ("XTC Development") entered into an acquisition agreement with Shenzhen Tong Chan Industry Co., Ltd ("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). During the period, the acquisition was completed and 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.

(b) **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) and the transaction was completed during the period.

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

(c) **SERVICES PROVIDED TO AN ASSOCIATE**

The income from the services rendered by the Group to an associate amounted to HK\$5,368,000 (2002: HK\$2,751,000) for the six months ended 30 June 2003. The services provided were charged on a cost plus basis.