

## Notes to Condensed Interim Financial Statements

### 1. Basis of preparation and accounting policies

These unaudited consolidated condensed interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

These condensed interim accounts should be read in conjunction with the 2002 annual accounts of the Company.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those adopted in the annual accounts for the year ended 31 December 2002 except that the Group has changed certain of its accounting policies following the adoption of SSAP 12 "Income Taxes" issued by the Hong Kong Society of Accountants which is effective for accounting periods commencing on or after 1 January 2003.

The changes to the Group's accounting policies and the effect of adopting this new policy are set out below:

#### (a) *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 accounts. Tax 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 assessable 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 prevailing tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAP 12 represents a change in accounting policy. However, the accumulated deferred taxation in relation to prior years has not been restated as the effect of this change is not material to the retained earnings brought forward from prior years.

## 2. Segment information

### Analysis of the Group's revenue and results by business segments for the period ended 30 June 2003

	Ports operation		Container manufacturing and related operations		Toll road operation		Oil tanker operation		Other operations		Group	
	6 months ended		6 months ended		6 months ended		6 months ended		6 months ended		6 months ended	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	256,510	154,812	490,808	322,434	10,263	9,900	223,139	183,253	12,196	12,555	992,916	682,954
Segment results	52,243	22,032	55,171	38,241	22,583	44,121	90,990	69,179	(444)	(471)	220,543	173,102
Unallocated income less expenses											(15,545)	(8,933)
Gain on disposal of infrastructure joint ventures											—	22,147
Operating profit											204,998	186,316
Finance costs											(11,960)	(19,690)
Share of profits less losses of												
Associates	335,632	256,246	108,852	81,298	—	—	—	—	32,288	—	476,772	337,544
Jointly controlled entities	3,522	(1,138)	—	—	56,667	75,475	—	—	(2,266)	(1,601)	57,923	72,736
Profit before taxation											727,733	576,906
Taxation											(74,519)	(54,626)
Profit after taxation											653,214	522,280
Minority interests											(31,872)	(22,258)
Profit attributable to shareholders											621,342	500,022

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 - paint manufacturing by the Group and container manufacturing by the Group's associates
- 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 sufficient size to be reported separately.

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

2. Segment information (Continued)

**Geographical segment for the period ended 30 June 2003**

The Group's four business operations are managed in its headquarters 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 - port service operation, paint manufacturing and holding of properties
- Mainland China - port 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.

An analysis of the Group's turnover and contribution to operating profit for the Period by geographical segment is as follows:

	Turnover 6 months ended 30 June		Operating profit 6 months ended 30 June	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Operations other than shipping business:				
Hong Kong	150,965	123,808	3,777	(2,105)
Mainland China	579,038	346,794	106,067	115,791
Others	39,774	29,099	4,164	3,451
Shipping business	223,139	183,253	90,990	69,179
	<u>992,916</u>	<u>682,954</u>	<u>204,998</u>	<u>186,316</u>

3. Operating profit

Operating profit is arrived at after crediting and charging the following:

	6 months ended 30 June	
	2003 HK\$'000	2002 HK\$'000
<b>Crediting</b>		
Unrealised gain on listed other investments	2,655	—
Amortisation of negative goodwill	6,269	7,803
	<u>8,924</u>	<u>7,803</u>
<b>Charging</b>		
Staff costs (note 4)	85,400	65,942
Cost of inventories sold	342,458	211,645
Depreciation and amortisation on:		
Property, plant and equipment	82,164	78,901
Goodwill	7,690	8,548
Toll highway operating rights	3,537	3,295
Loss on disposal of fixed assets	11,439	54
	<u>430,628</u>	<u>368,385</u>

#### 4. Staff costs

	6 months ended 30 June	
	2003 HK\$'000	2002 HK\$'000
Wages and salaries	68,727	51,243
Bonus and allowances	2,663	3,791
Pension costs - defined contribution plans	5,757	3,632
Other staff benefits	8,253	7,276
	<u>85,400</u>	<u>65,942</u>

#### 5. Taxation

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

	6 months ended 30 June	
	2003 HK\$'000	2002 HK\$'000
Hong Kong profits tax	2,253	1,138
PRC enterprise income tax	17,659	11,263
	<u>19,912</u>	<u>12,401</u>
Share of taxation attributable to:		
Associates	63,691	41,327
Jointly controlled entities	7,508	898
	<u>91,111</u>	<u>54,626</u>
Deferred Taxation (Note 13)	(16,592)	—
	<u>74,519</u>	<u>54,626</u>

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the period.

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 Period (2002: Nil).

There was no material unprovided deferred taxation for the Period (2002: Nil).

**6. Interim dividend**

	<b>6 months ended 30 June</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Interim dividend of HK13.0 cents per ordinary share (2002: HK7.0 cents per ordinary share)	<b><u>272,716</u></b>	<u>143,933</u>

**7. Earnings per share**

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK\$621,342,000 (2002: HK\$500,022,000). The diluted earnings per share is based on the adjusted earnings of HK\$630,038,000 (2002: HK\$511,204,000).

The basic earnings per share is based on the weighted average of 2,064,952,685 (2002: 2,054,733,631) ordinary shares in issue during the Period. The diluted earnings per share is based on 2,100,649,285 (2002: 2,117,758,876) ordinary shares which is the weighted average number of ordinary shares in issue during the Period plus the weighted average of 35,696,600 (2002: 63,025,245) ordinary shares deemed to be issued at no consideration if all outstanding convertible bonds and share options had been exercised.

**8. Property, plant and equipment**

	<b>HK\$'000</b>
Net book value as at 1 January 2003	<b>2,923,089</b>
Purchase	<b>137,736</b>
Capital injection from a minority shareholder	<b>390,010</b>
Disposals	<b>(11,439)</b>
Depreciation and amortisation	<b><u>(82,164)</u></b>
Net book value as at 30 June 2003	<b><u>3,357,232</u></b>

## 9. Intangible assets

	Toll highway operating rights HK\$'000	Goodwill HK\$'000	Negative goodwill HK\$'000	Total HK'000
Net book value as at 1 January 2003	319,722	295,303	(146,279)	468,746
Amortisation charge	(3,537)	(7,690)	6,269	(4,958)
	<u>316,185</u>	<u>287,613</u>	<u>(140,010)</u>	<u>463,788</u>
<b>At 30 June 2003</b>				
Cost	349,858	307,597	(165,085)	492,370
Accumulated amortisation	(33,673)	(19,984)	25,075	(28,582)
	<u>316,185</u>	<u>287,613</u>	<u>(140,010)</u>	<u>463,788</u>
<b>At 31 December 2002</b>				
Cost	349,858	307,597	(165,085)	492,370
Accumulated amortisation	(30,136)	(12,294)	18,806	(23,624)
	<u>319,722</u>	<u>295,303</u>	<u>(146,279)</u>	<u>468,746</u>

## 10. Debtors, deposits and prepayments

Included in debtors, deposits and prepayments are trade debtors and their ageing analysis is as follows:

	0-30 days HK\$'000	31-60 days HK\$'000	61-120 days HK\$'000	Over 120 days HK\$'000	Total HK\$'000
Balance at 30 June 2003	190,596	42,848	37,617	114,735	385,796
	<u>190,596</u>	<u>42,848</u>	<u>37,617</u>	<u>114,735</u>	<u>385,796</u>
Balance at 31 December 2002	178,010	54,949	84,896	71,282	389,137
	<u>178,010</u>	<u>54,949</u>	<u>84,896</u>	<u>71,282</u>	<u>389,137</u>

The group has a credit policy of allowing an average credit period of 60 days to its trade customers.

## 11. Creditors and accruals

Included in creditors and accruals are trade payables and their ageing analysis is as follows:

	0-30 days HK\$'000	31-60 days HK\$'000	61-120 days HK\$'000	Over 120 days HK\$'000	Total HK\$'000
Balance at 30 June 2003	186,015	13,433	13,480	16,998	229,926
	<u>186,015</u>	<u>13,433</u>	<u>13,480</u>	<u>16,998</u>	<u>229,926</u>
Balance at 31 December 2002	145,710	11,395	11,034	959	169,098
	<u>145,710</u>	<u>11,395</u>	<u>11,034</u>	<u>959</u>	<u>169,098</u>

**12. Bank borrowings**

	<b>30 June 2003 HK\$'000</b>	31 December 2002 HK\$'000
Bank loans and overdraft Unsecured	<b>125,372</b>	144,611
Less: Amounts due within one year shown under current liabilities	<b>(89,685)</b>	(91,084)
	<b>35,687</b>	53,527

At 30 June 2003, the Group's bank loans and overdraft were repayable as follows:

	<b>30 June 2003 HK\$'000</b>	31 December 2002 HK\$'000
Within one year	<b>89,685</b>	91,084
In the second year	<b>35,687</b>	35,684
In the third to fifth year	<b>—</b>	17,843
	<b>125,372</b>	144,611

**13. Deferred Taxation**

Deferred taxation is calculated in full on temporary differences under the liability method using a taxation rate applicable to the country in which the group company operates.

The movement on the deferred tax liabilities/(assets) account is as follows:

	<b>6 months ended 30 June</b>	
	<b>2003 HK\$'000</b>	2002 HK\$'000
At 1 January	<b>—</b>	—
Deferred taxation credited to profit and loss account	<b>(16,592)</b>	—
At 30 June	<b>(16,592)</b>	—

The movement of deferred tax assets and liabilities during the Period is as follows:

Deferred tax liabilities

	<b>Accelerated tax depreciation 6 months ended 30 June</b>	
	<b>2003 HK'000</b>	2002 HK\$'000
At 1 January	<b>—</b>	—
Charged to profit and loss account	<b>7,629</b>	—
At 30 June	<b>7,629</b>	—

**13. Deferred Taxation (Continued)**

Deferred tax assets

	Provisions 6 months ended 30 June		Decelerated tax allowance 6 months ended 30 June		Total 6 months ended 30 June	
	2003 HK'000	2002 HK'000	2003 HK'000	2002 HK'000	2003 HK'000	2002 HK'000
At 1 January	—	—	—	—	—	—
Credited to profit and loss account	(21,186)	—	(3,035)	—	(24,221)	—
At 30 June	<u>(21,186)</u>	<u>—</u>	<u>(3,035)</u>	<u>—</u>	<u>(24,221)</u>	<u>—</u>

**14. Share capital**

	Authorised Ordinary shares of HK\$0.1 each	
	No. of shares	HK\$'000
At 1 January and 30 June 2003	<u>3,000,000,000</u>	<u>300,000</u>
	Issued and fully paid Ordinary shares of HK\$0.1 each	
	No. of shares	HK\$'000
At 1 January 2003	2,056,585,388	205,658
Issue of shares on exercise of share options	10,834,000	1,084
Issue of shares on conversion of convertible bonds	30,393,349	3,039
At 30 June 2003	<u>2,097,812,737</u>	<u>209,781</u>



**14. Share capital** (Continued)

During the period, the Company has issued shares as follows:

<b>Date of issue</b>	<b>No. of shares issued</b>	<b>Exercise price per share</b> HK\$	<b>Nominal value of shares issued</b> HK\$'000	<b>Premium on shares issued</b> HK\$'000	<b>Total consideration</b> HK\$'000
8 January 2003	800,000	4.985	80	3,908	3,988
14 January 2003	100,000	4.985	10	488	498
17 January 2003	300,000	4.985	30	1,466	1,496
20 January 2003	750,000	4.985	75	3,664	3,739
12 February 2003	100,000	4.985	10	488	498
12 February 2003	42,000	5.054	4	208	212
12 February 2003	26,000	5.615	3	143	146
13 February 2003	90,000	4.985	9	440	449
10 March 2003	700,000	4.985	70	3,420	3,490
5 May 2003	400,000	4.985	40	1,954	1,994
9 May 2003	720,000	5.054	72	3,567	3,639
12 May 2003	30,000	4.985	3	147	150
5 June 2003	2,300,000	4.985	230	11,236	11,466
5 June 2003	22,000	5.054	2	109	111
5 June 2003	50,000	4.985	5	244	249
12 June 2003	350,000	4.985	35	1,710	1,745
13 June 2003	100,000	4.985	10	488	498
18 June 2003	2,504,000	4.985	250	12,232	12,482
19 June 2003	1,450,000	4.985	145	7,083	7,228
	<u>10,834,000</u>				

During the period, no ordinary shares were repurchased and cancelled.

The Terminated Scheme was approved and adopted at an Extraordinary General Meeting of the Company held on 26 June 1992 and was terminated at an Extraordinary General Meeting of the Company held on 20 December 2001. The Existing Scheme was approved and adopted by the shareholders at the same meeting. During the Period, no options to subscribe for ordinary shares of the Company was granted under the Existing Scheme. As at 30 June 2003 there were 7,550,000 options and 19,376,000 options outstanding which are exercisable subject to the terms of the Terminated Scheme and the Existing Scheme respectively.

**15. Contingent liabilities**

	<b>30 June 2003</b> HK\$'000	31 December 2002 HK\$'000
Guarantees for bank loans and overdrafts of subsidiaries	<b>105,932</b>	124,669
Guarantees for bank loans of associates	<b>51,441</b>	53,433
Guarantees for bank loans of an investee	<b>6,630</b>	6,630
Guarantees for cash distribution of jointly controlled entities	—	16,331
Guarantees for convertible bonds issued by a subsidiary	<b>161,818</b>	317,435
	<u><b>325,821</b></u>	<u>518,498</u>

## 16. Commitments

### (a) Capital commitments for property, plant and equipment

	<b>30 June 2003 HK\$'000</b>	31 December 2002 HK\$'000
Contracted but not provided for	<u>115,290</u>	<u>19,306</u>

### (b) Capital commitments for investments

	<b>30 June 2003 HK\$'000</b>	31 December 2002 HK\$'000
Contracted but not provided for		
- Jointly controlled entities	90,675	90,675
- Port projects	850,274	940,770
	<u>940,949</u>	<u>1,031,445</u>

### (c) Commitments under operating leases

At 30 June 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases for land and buildings and plant and equipment as follows:

	<b>30 June 2003 HK\$'000</b>	31 December 2002 HK\$'000
Within one year	54,582	33,958
In the second to fifth year inclusive	40,303	74,591
	<u>94,885</u>	<u>108,549</u>

### (d) Future operating leases receivables

At 30 June 2003, the Group had future aggregate lease receivables under non-cancellable operation leases as follows:

	<b>30 June 2003 HK\$'000</b>	31 December 2002 HK\$'000
Vessels		
Within one year	160,368	46,582
In the second to fifth year inclusive	9,961	694
	<u>170,329</u>	<u>47,276</u>
Land and buildings		
Within one year	43,916	58,859
In the second to fifth year inclusive	6,603	8,919
After the fifth year	15,460	16,680
	<u>65,979</u>	<u>84,458</u>
	<u>236,308</u>	<u>131,734</u>

**17. Related party transactions**

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

	<b>6 months ended 30 June</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
<b>Holding companies and fellow subsidiaries</b>		
Rental received	12,196	12,556
Rental paid	15,673	15,673
Transportation services fee paid	591	557
Warehouse services fee paid	1,710	1,710
Cargo handling fee received	3,369	3,977
Management fees paid	6,061	5,569
<b>Associates and other related parties</b>		
Sales of paints	164,095	90,969
Rental received	214	214
Rental paid	5,005	2,502
Deposits by the Group	157,284	9,861
Interest on deposits	3,505	27
Management fees received	468	468
<b>Other connected parties</b>		
Royalties paid	16,347	10,504
Sales of paints	39,774	34,959
Interest paid	229	288

The above transactions were entered into on the following bases:

- (i) Transportation services fee, warehouse services fee, cargo handling fee, royalties and sales were charged at negotiated prices by reference to market rates.
- (ii) Management fee was charged at cost plus a percentage mark-up and by reference to turnover.
- (iii) Rental for land and building charged by the Group were based on independent property valuation reports and in accordance with the tenancy agreements commencing in February 2002 and March 2002.
- (iv) Rental charged to the Group was based on mutual agreement.
- (v) Interest paid and received was based on market rates.