

1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, investment property and other investments are stated at fair value.

In the current year, the Group adopted the revised Statement of Standard Accounting Practice (“SSAP”) 12 “Income Taxes” issued by the HKSA 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 policy are set out below.

2 PRINCIPAL ACCOUNTING POLICIES

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

(a) Consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

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

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

2 PRINCIPAL ACCOUNTING POLICIES - Continued

(b) Jointly controlled entities

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

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

The consolidated income statement includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and goodwill/negative goodwill (net of accumulated amortisation and accumulated impairment losses) on acquisition.

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

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

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

(c) Infrastructure joint ventures

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

2 PRINCIPAL ACCOUNTING POLICIES - Continued

(d) Associates

An associate is a company, not being a subsidiary, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated income statement includes the Group's share of the results of the associates for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associates and also goodwill/negative goodwill (net of accumulated amortisation and accumulated impairment losses) on acquisition.

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

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

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

(e) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the income statement.

The balance sheets of subsidiaries, jointly controlled entities and associates expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the income statements are translated at an average rate. Exchange differences arising therefrom are dealt with as a movement in reserves.

2 PRINCIPAL ACCOUNTING POLICIES - Continued

(f) Property, plant and equipment

(i) *Investment properties*

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

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

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

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the income statement.

(ii) *Vessels and ships*

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

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

Depreciation of ships is calculated to write-off their cost less accumulated impairment losses over their estimated useful lives ranging from 2.5 to 25 years on a straight-line basis.

Vessel repairs and annual survey costs are charged to the income statement when incurred.

2 PRINCIPAL ACCOUNTING POLICIES - Continued

(f) Property, plant and equipment - Continued

(iii) Other property, plant and equipment

Other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

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

Land and buildings	Over the shorter of the lease term or 50 years
Harbour works and buildings	8 to 50 years
Dockyard	8 to 35 years
Plant and machinery	3 to 20 years
Furniture and equipment	3 to 20 years
Motor vehicles	2.5 to 20 years
Leasehold improvements	5 to 20 years

Improvements are capitalised and depreciated over their expected remaining useful lives of the relevant assets.

(iv) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that property, plant and equipment other than investment properties are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the income statement.

The gain or loss on disposal of a property, plant and equipment other than investment property is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

(g) Leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the income statement on a straight-line basis over the lease periods.

2 PRINCIPAL ACCOUNTING POLICIES - Continued

(h) Intangibles

(i) *Goodwill/negative goodwill*

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

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

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

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

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

(ii) *Toll road operating rights*

Toll road operating rights are stated at cost, being its acquisition price, less accumulated amortisation and impairment losses. Amortisation is provided to write-off the cost less accumulated impairment losses of the toll road operating rights on a straight-line basis, over the periods for which the Group is granted the rights to operate the toll road.

In previous years, toll road operating rights was amortised on a units-of-usage basis, calculated based on the proportion of actual traffic volume for a particular period to the projected total traffic volume over the periods for which the Group is granted the rights to operate the toll road. This change in accounting policy does not have a material effect on the financial statements and therefore has not been applied retrospectively.

2 PRINCIPAL ACCOUNTING POLICIES - Continued

(h) Intangibles - Continued

(iii) *Impairment of intangible assets*

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

(i) Investments in securities

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

(i) *Investment securities*

Investment securities which are held for non-trading purpose are stated at cost less any provision for impairment losses. The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the income statement. This impairment loss is written-back to the income statement when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(ii) *Other investments*

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the income statement. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the income statement as they arise.

(j) Inventories

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

(k) Trade debtors

Provision is made against trade debtors to the extent that they are considered to be doubtful. Trade debtors in the balance sheet are stated net of such provision.

2 PRINCIPAL ACCOUNTING POLICIES - Continued

(l) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, cash with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts, if any.

(m) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(n) Employee benefits

(i) *Employee leave entitlements*

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

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

(ii) *Bonus plans*

Provisions for bonus plans due wholly within twelve months after balance sheet date are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(iii) *Retirement benefits*

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

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

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

2 PRINCIPAL ACCOUNTING POLICIES - Continued

(o) Income tax

- (i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.
- (ii) Current tax is expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- (iii) 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 at the balance sheet date are used to determine deferred taxation. Deferred taxation is not discounted.

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 jointly controlled entities, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

In previous years, deferred taxation was accounted for at the prevailing 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 accumulated deferred taxation in relation to previous years has not been restated as the effect of this change is not material to the retained earnings brought forward from previous years.

(p) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

2 PRINCIPAL ACCOUNTING POLICIES - Continued

(q) Convertible bonds

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

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

(r) Revenue recognition

Revenue from port-related transportation and service income, container service income and container yard management income, net of business tax payable in the People's Republic of China (the "PRC"), are recognised when the relevant services are rendered.

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

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

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

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

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

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

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

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

2 PRINCIPAL ACCOUNTING POLICIES - Continued

(s) Segment reporting

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

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

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

82

3 TURNOVER, REVENUES AND SEGMENT INFORMATION

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

	2003 HK\$'000	2002 HK\$'000
Turnover		
Port-related transportation and service income, container service and container yard management income	591,621	384,035
Sale of paints and related goods	1,086,394	872,761
Toll road operating income	23,949	23,333
Voyage and time charter income	404,072	384,255
Gross rental income from land and buildings	24,393	24,752
	<u>2,130,429</u>	<u>1,689,136</u>
Other revenues		
Income from infrastructure joint ventures	11,467	43,583
Interest income	21,754	21,167
Dividend income from listed other investments	762	556
Others	21,031	15,832
	<u>55,014</u>	<u>81,138</u>
Total revenues	<u>2,185,443</u>	<u>1,770,274</u>

3 TURNOVER, REVENUES AND SEGMENT INFORMATION - Continued

Primary reporting format - business segments

The Group is organised into four main business segments:

Ports operation -	port businesses comprising container terminal operation, bulk and general cargo terminal operation, port transportation and airport cargo handling operation by the Group and the Group's associates and jointly controlled entities
Container manufacturing and related operation -	paint manufacturing by the Group and container manufacturing by the Group's associates and jointly controlled entities
Toll road operation -	toll road operation by the Group and the Group's jointly controlled entities
Oil tankers operation -	shipping operation by the Group

Other operations of the Group mainly comprise holding of properties and dealing in shares, neither of which are of a sufficient size to be reported separately.

83

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

The turnover named as company and subsidiaries refer to the Company and subsidiaries' respective turnover. The turnover named as share of associates and jointly controlled entities refer to the Group's share of associates and jointly controlled entities' respective turnover.

Secondary reporting format - geographical segments

The Group's four business operations are managed in its headquarter in Hong Kong and other offices in the PRC. As the Group's oil tankers 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 the PRC as follows:

Hong Kong -	port operation, container manufacturing and related operation and property holding
PRC -	port operation, container manufacturing and related operation and toll road operation
Others -	container manufacturing and related operation

There are no material sales between the geographical segments.

3 TURNOVER, REVENUES AND SEGMENT INFORMATION - Continued

Primary reporting format - business segments

	Ports operation		Container manufacturing and related operations		Toll road operation		Oil tanker operation		Other operations		Group	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Income statement												
Turnover												
Company and subsidiaries	591,621	384,035	1,086,394	872,761	23,949	23,333	404,072	384,255	24,393	24,752	2,130,429	1,689,136
Share of associates and jointly controlled entities	2,443,860	2,029,453	3,080,162	2,476,285	251,804	245,747	—	—	—	—	5,775,826	4,751,485
	<u>3,035,481</u>	<u>2,413,488</u>	<u>4,166,556</u>	<u>3,349,046</u>	<u>275,753</u>	<u>269,080</u>	<u>404,072</u>	<u>384,255</u>	<u>24,393</u>	<u>24,752</u>	<u>7,906,255</u>	<u>6,440,621</u>
Company and subsidiaries												
Turnover	<u>591,621</u>	<u>384,035</u>	<u>1,086,394</u>	<u>872,761</u>	<u>23,949</u>	<u>23,333</u>	<u>404,072</u>	<u>384,255</u>	<u>24,393</u>	<u>24,752</u>	<u>2,130,429</u>	<u>1,689,136</u>
Segment results	<u>99,677</u>	<u>50,550</u>	<u>121,298</u>	<u>136,747</u>	<u>21,228</u>	<u>58,248</u>	<u>145,093</u>	<u>131,068</u>	<u>11,727</u>	<u>(3,418)</u>	<u>399,023</u>	<u>373,195</u>
Unallocated costs											(48,499)	(41,472)
Unallocated interest income											3,344	11,189
Gain on deemed disposal of interest in an associate	—	—	160,559	—	—	—	—	—	—	—	160,559	—
Gain on disposal of interests in an associate/infrastructures joint ventures	43,566	—	—	—	—	22,147	—	—	—	—	43,566	22,147
Provision for impairment on land and buildings	—	—	—	—	—	—	—	—	—	(200,000)	—	(200,000)
Operating profit											557,993	165,059
Finance costs											(20,474)	(39,707)
Share of results of associates and jointly controlled entities	749,946	581,193	246,349	162,309	144,671	167,829	—	—	47,781	47,797	1,188,747	959,128
Profit before taxation											1,726,266	1,084,480
Taxation											(182,228)	(137,201)
Profit after taxation											1,544,038	947,279
Minority interests											(78,422)	(64,792)
Profit for the year											<u>1,465,616</u>	<u>882,487</u>

3 TURNOVER, REVENUES AND SEGMENT INFORMATION - Continued

Primary reporting format - business segments - Continued

	Ports operation		Container manufacturing and related operations		Toll road operation		Oil tanker operation		Other operations		Group	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Balance sheet												
Segment assets	2,823,967	873,841	804,292	732,263	329,324	337,844	1,169,009	1,304,001	920,506	896,662	6,047,098	4,144,611
Interests in associates and jointly controlled entities	2,676,635	2,510,029	1,239,305	857,440	2,531,357	2,953,389	—	—	67,598	479,737	6,514,895	6,800,595
Investments in infrastructure joint ventures	16,380	18,721	—	—	61,285	65,663	—	—	—	—	77,665	84,384
Investments in securities	30,706	704	—	—	424,995	421,097	—	—	—	—	455,701	421,801
Goodwill	290,753	295,302	—	—	—	—	(133,741)	(146,278)	—	—	157,012	149,024
Other non-current assets	500,000	222,954	—	—	—	—	—	—	—	—	500,000	222,954
Unallocated assets											777,275	859,720
Total assets											14,529,646	12,683,089
Segment liabilities	407,276	263,439	337,958	297,065	44,027	46,273	24,764	33,278	144	74	814,169	640,129
Unallocated liabilities											40,757	421,235
Total liabilities											854,926	1,061,364
Other information												
Capital expenditure	972,611	22,933	13,181	17,681	392	—	—	—	—	—	986,184	40,614
Unallocated capital expenditure											548	272
											986,732	40,886
Depreciation	48,859	32,995	13,298	12,483	129	62	87,359	88,900	21,715	24,027	171,360	158,467
Unallocated depreciation											4,890	7,210
											176,250	165,677
Amortisation charge (net)	21,118	12,294	—	—	6,994	6,544	(12,538)	(12,538)	—	—	15,574	6,300
Impairment charges	—	—	—	—	—	—	—	—	—	200,000	—	200,000

3 TURNOVER, REVENUES AND SEGMENT INFORMATION - Continued

Secondary reporting format - geographical segments

	Turnover		Segment results	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Operations other than oil tankers business:				
Hong Kong	323,603	273,022	37,019	34,169
Mainland China	1,322,770	960,860	208,431	197,687
Others	79,984	70,999	8,480	10,271
Oil tankers business, global scale	404,072	384,255	145,093	131,068
	<u>2,130,429</u>	<u>1,689,136</u>	<u>399,023</u>	<u>373,195</u>
Unallocated costs			(48,499)	(41,472)
Unallocated interest income			3,344	11,189
Gain on deemed disposal of interest in an associate			160,559	—
Gain on disposal of interests in associates / infrastructure joint ventures			43,566	22,147
Provision for impairment on land and buildings			—	(200,000)
Operating profit			<u>557,993</u>	<u>165,059</u>

3 TURNOVER, REVENUES AND SEGMENT INFORMATION - Continued

Secondary reporting format - geographical segments - Continued

	Total assets		Capital expenditure	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Operations other than oil tankers business:				
Hong Kong	1,052,420	1,006,659	2,672	4,696
Mainland China	3,825,669	1,833,951	984,060	36,190
Others	—	—	—	—
Oil tankers business, global scale	1,169,009	1,304,001	—	—
	6,047,098	4,144,611	986,732	40,886
Interests in associates and jointly controlled entities	6,514,895	6,800,595		
Investments in infrastructure joint ventures	77,665	84,384		
Investment securities	455,701	421,801		
Other non-current assets	500,000	222,954		
Goodwill	157,012	149,024		
Unallocated assets	777,275	859,720		
Total assets	14,529,646	12,683,089		

4 OPERATING PROFIT

	2003 HK\$'000	2002 HK\$'000
Operating profit is arrived at after crediting and charging the following:		
Crediting		
Operating lease rental income from land and buildings, net of outgoings of HK\$764,000 (2002: HK\$795,000)	23,629	23,957
Write-back of provision for amount due from an associate	—	10,575
Net unrealised gain on listed other investments	9,180	—
Realised gain on trading of other investments	989	—
Amortisation on negative goodwill (included in administrative expenses)	12,538	12,538
Gain on disposal of interest in an associate/ interests in infrastructure joint ventures	43,566	22,147
Gain on deemed disposal of interest in an associate (<i>note</i>)	160,559	—
Charging		
Staff costs including Directors' emoluments (<i>note 6</i>)	210,476	167,037
Cost of inventories sold	753,208	552,660
Auditors' remuneration	3,819	3,397
Depreciation and amortisation on:		
- property, plant and equipment	176,250	165,677
- goodwill (included in administrative expenses)	15,471	12,294
- toll highway operating rights (included in cost of sales)	6,994	6,544
Loss on disposal of property, plant and equipment	936	1,780
Operating lease rentals in respect of		
- land and buildings	61,926	59,740
- plant and machinery	20,480	16,295
Provision for bad and doubtful debts	10,224	16,962
Deficit on revaluation of investment property	—	590
Net unrealised loss on listed other investments	—	1,298
Net exchange losses	3,676	4,184

Note:

The Group has a 27.57% equity interest in the form of "B" shares in the share capital of China International Marine Containers (Group) Ltd ("CIMC"), whose "A" and "B" shares are trading in the Shenzhen Stock Exchange, the PRC. All the shareholders of "A" and "B" shares rank *pari passu* in all material respects. On 26 November 2003, CIMC issued 120,000,000 "A" shares at RMB15 per share whereas no corresponding allotment was made to the shareholders of "B" shares. Accordingly, the Group's interest in CIMC was diluted by 5.25% to 22.32% resulting in a gain of HK\$160,559,000 for the year.

5 FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	8,654	6,658
Bank borrowings not wholly repayable within five years	—	5,904
Convertible bonds, wholly repayable within five years	8,696	22,363
Loan due to a fellow subsidiary	—	2,381
Amortisation of convertible bond issue expenses (note 26)	3,124	2,401
	<u>20,474</u>	<u>39,707</u>

6 STAFF COSTS INCLUDING DIRECTORS' EMOLUMENTS

	2003 HK\$'000	2002 HK\$'000
Wages and salaries	201,802	160,460
Retirement benefit scheme contributions, net of forfeited contributions of HK\$87,000 (2002: HK\$24,000)	8,674	6,577
	<u>210,476</u>	<u>167,037</u>

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

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

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

7 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

	2003 HK\$'000	2002 HK\$'000
Fees:		
Executive Directors	—	—
Independent non-executive directors	300	300
	<u>300</u>	<u>300</u>
Other emoluments (executive directors):		
Salaries, share options, other allowances and benefits in kind	15,929	3,908
Discretionary bonuses	515	281
Retirement benefit scheme contributions	139	139
	<u>16,583</u>	<u>4,328</u>
	<u>16,883</u>	<u>4,628</u>

During the year, no shares options were granted to certain Directors of the Company (2002: 6,900,000 share options at an exercise price of HK\$4.985 per share) under the Company's share option schemes. The details of share options exercised during the year are set out in note 29 to the financial statements.

The Directors' emoluments are within the following bands:

	Number of Directors	
	2003	2002
Nil - HK\$1,000,000	5	10
HK\$1,000,001 - HK\$1,500,000	3	—
HK\$1,500,001 - HK\$2,000,000	2	2
HK\$3,500,001 - HK\$4,000,000	1	—
HK\$5,500,001 - HK\$6,000,000	1	—
	<u>12</u>	<u>12</u>

No Director waived emoluments in respect of the years ended 31 December 2003 and 2002.

7 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS - Continued

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, two (2002: two) were Directors of the Company whose emoluments are included in the disclosure in note 7(a) to the financial statements. The emoluments of the remaining three (2002: three) individuals were as follows:

	2003	2002
	HK\$'000	HK\$'000
Salaries, share options, other allowances and benefits in kind	8,609	4,158
Performance related incentive payments	721	479
Retirement benefits scheme contributions	107	169
	9,437	4,806

The emoluments are within the following bands:

	Number of individuals	
	2003	2002
HK\$1,000,001 - HK\$1,500,000	—	2
HK\$2,500,001 - HK\$3,000,000	1	1
HK\$3,000,001 - HK\$3,500,000	2	—
	3	3

8 TAXATION

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

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

No provision for taxation was made in respect of the oil tankers business as the shipping companies have no assessable income under any relevant jurisdiction for the year (2002: Nil).

	2003 HK\$'000	2002 HK\$'000
The amount of taxation charged to the consolidated income statement represents:		
Hong Kong profits tax		
Current year	9,859	3,470
Over provision in prior years	(466)	(1,018)
PRC Enterprise Income Tax	29,504	26,011
Deferred taxation (<i>note 28</i>)	(8,779)	—
	30,118	28,463
Share of taxation attributable to associates:		
Hong Kong profits tax	68,956	65,806
PRC Enterprise Income Tax	54,817	40,158
Deferred taxation	17,470	—
Share of taxation attributable to jointly controlled entities:		
PRC Enterprise Income Tax	8,130	2,774
Deferred taxation	2,737	—
	182,228	137,201

8 TAXATION - Continued

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

	2003	2002
	HK\$'000	HK\$'000
Profit before taxation	1,726,266	1,084,480
Expected tax calculated at the weighted average applicable tax rate	272,731	172,365
Income not subject to taxation	(364,950)	(235,286)
Expenses not deductible for taxation purposes	282,391	198,349
Utilisation of previously unrecognised tax losses and timing difference	(9,634)	(2,638)
Others	1,690	4,411
Taxation charge	182,228	137,201

93

9 PROFIT FOR THE YEAR

Profit for the year is dealt with in the financial statements of the Company to the extent of HK\$747,439,000 (2002: HK\$628,614,000).

10 DIVIDENDS

	2003	2002
	HK\$'000	HK\$'000
Interim, paid, in respect of 2003 of HK13.0 cents (2002: HK7.0 cents) per share	277,173	143,933
Final, proposed, of 2003 of HK29.0 cents (2002: HK10.0 cents) per share	620,641	205,659
Special, proposed, of 2003: Nil (2002: HK\$5.0 cents) per share	—	102,829
	897,814	452,421

At a meeting held on 29 March 2004, the Directors declared a final dividend of HK29.0 cents per ordinary share. This proposed dividend is not reflected as a dividend payable in these financial statements but will be reflected as an appropriation of retained earnings for the year ending 31 December 2004.

11 EARNINGS PER SHARE

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

	2003	2002
	HK\$'000	HK\$'000
Earnings for the purposes of basic earnings per share	1,465,616	882,487
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds	—	22,363
Earnings for the purposes of fully diluted earnings per share	1,465,616	904,850
	Number of shares	
	2003	2002
Weighted average number of ordinary shares for the purposes of basic earnings per share	2,098,070,641	2,055,470,000
Effect of dilutive potential ordinary shares:		
Options	5,434,543	4,685,000
Convertible bonds	—	61,997,000
Weighted average number of ordinary shares for the purposes of fully diluted earnings per share	2,103,505,184	2,122,152,000

12 GOODWILL

	Group		
	Goodwill HK\$'000	Negative goodwill HK\$'000	Total HK\$'000
Net book value as at 1 January 2003	295,303	(146,279)	149,024
Acquisition of subsidiaries (<i>note 31(b)</i>)	10,921	—	10,921
Amortisation for the year (<i>note 4</i>)	(15,471)	12,538	(2,933)
Net book value as at 31 December 2003	<u>290,753</u>	<u>(133,741)</u>	<u>157,012</u>
At 31 December 2003			
Cost	318,518	(165,085)	153,433
Accumulated amortisation	(27,765)	31,344	3,579
Net book value	<u>290,753</u>	<u>(133,741)</u>	<u>157,012</u>
At 31 December 2002			
Cost	307,597	(165,085)	142,512
Accumulated amortisation	(12,294)	18,806	6,512
Net book value	<u>295,303</u>	<u>(146,279)</u>	<u>149,024</u>

95

13 TOLL ROAD OPERATING RIGHTS

	Group	
	2003 HK\$'000	2002 HK\$'000
Net book value as at 1 January	319,722	326,353
Exchange adjustments	(988)	(87)
Amortisation for the year (<i>note 4</i>)	(6,994)	(6,544)
Net book value as at 31 December	<u>311,740</u>	<u>319,722</u>
Cost	348,620	349,858
Accumulated amortisation	(36,880)	(30,136)
Net book value as at 31 December	<u>311,740</u>	<u>319,722</u>

14 PROPERTY, PLANT AND EQUIPMENT

	Group								
	Investment property HK\$'000	Land and buildings HK\$'000	Harbour works and buildings and dockyard HK\$'000	Plant, machinery, furniture and equipment HK\$'000	Vessels and ships HK\$'000	Motor vehicles HK\$'000	Leasehold improve- ments HK\$'000	Assets under construction HK\$'000	Total HK\$'000
Cost or valuation									
At 1 January 2003	13,373	1,535,492	350,302	307,513	1,874,729	33,002	12,816	12,369	4,139,596
Exchange adjustments	(54)	590	(1,578)	12	(9,622)	46	(5)	(27)	(10,638)
Additions	—	690	509,680	45,409	—	9,280	1,844	419,829	986,732
Acquisition of a subsidiary	—	—	532,037	74,651	—	1,820	696	255,384	864,588
Disposals	—	(6,470)	—	(13,881)	—	(623)	—	(32)	(21,006)
Transfers	—	1,448	3,104	12,658	—	399	—	(17,609)	—
At 31 December 2003	<u>13,319</u>	<u>1,531,750</u>	<u>1,393,545</u>	<u>426,362</u>	<u>1,865,107</u>	<u>43,924</u>	<u>15,351</u>	<u>669,914</u>	<u>5,959,272</u>
Accumulated depreciation and impairment loss									
At 1 January 2003	—	387,987	14,969	115,309	668,940	21,823	7,479	—	1,216,507
Exchange adjustments	—	113	(67)	411	(4,297)	77	(6)	—	(3,769)
Acquisition of a subsidiary	—	—	23,203	13,411	—	579	161	—	37,354
Charge for the year	—	28,619	18,007	35,087	88,332	3,878	2,327	—	176,250
Disposals	—	(2,155)	—	(9,718)	—	(469)	—	—	(12,342)
At 31 December 2003	<u>—</u>	<u>414,564</u>	<u>56,112</u>	<u>154,500</u>	<u>752,975</u>	<u>25,888</u>	<u>9,961</u>	<u>—</u>	<u>1,414,000</u>
Net book value									
At 31 December 2003	<u>13,319</u>	<u>1,117,186</u>	<u>1,337,433</u>	<u>271,862</u>	<u>1,112,132</u>	<u>18,036</u>	<u>5,390</u>	<u>669,914</u>	<u>4,545,272</u>
At 31 December 2002	<u>13,373</u>	<u>1,147,505</u>	<u>335,333</u>	<u>192,204</u>	<u>1,205,789</u>	<u>11,179</u>	<u>5,337</u>	<u>12,369</u>	<u>2,923,089</u>

14 PROPERTY, PLANT AND EQUIPMENT - Continued

- (a) The analysis of the cost or valuation of the above assets at 31 December 2003 and 2002 is as follows:

	Investment property	Land and buildings	Harbour works and buildings and dockyard	Plant, machinery, furniture and equipment	Vessels and ships	Motor vehicles	Leasehold improvements	Assets under construction	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At cost	—	1,531,750	1,393,545	426,362	1,865,107	43,924	15,351	669,914	5,945,953
At 2003 valuation	13,319	—	—	—	—	—	—	—	13,319
At 31 December 2003	<u>13,319</u>	<u>1,531,750</u>	<u>1,393,545</u>	<u>426,362</u>	<u>1,865,107</u>	<u>43,924</u>	<u>15,351</u>	<u>669,914</u>	<u>5,959,272</u>
At cost	—	1,535,492	350,302	307,513	1,874,729	33,002	12,816	12,369	4,126,223
At 2002 valuation	13,373	—	—	—	—	—	—	—	13,373
At 31 December 2002	<u>13,373</u>	<u>1,535,492</u>	<u>350,302</u>	<u>307,513</u>	<u>1,874,729</u>	<u>33,002</u>	<u>12,816</u>	<u>12,369</u>	<u>4,139,596</u>

97

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

	Group					
	Investment property		Land and buildings		Harbour work and buildings and dockyard	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Leasehold land and buildings in Hong Kong, held on leases of between 10 to 50 years	—	—	1,064,032	1,088,541	—	—
Land use rights and buildings in the Mainland China, held on:						
Land use rights with periods between 10 to 50 years	13,319	13,373	48,472	53,397	1,337,433	335,333
Land use rights with period of less than 10 years	—	—	4,682	5,567	—	—
	<u>13,319</u>	<u>13,373</u>	<u>1,117,186</u>	<u>1,147,505</u>	<u>1,337,433</u>	<u>335,333</u>

14 PROPERTY, PLANT AND EQUIPMENT - Continued

- (c) The investment property as at 31 December 2003 was revalued by Shenzhen Gongpinghen Appraisal Co., Ltd., a registered asset valuer in the PRC, on an open market value basis.
- (d) Certain properties included in leasehold land and buildings are leased to CMHK and its wholly-owned subsidiaries. The cost, accumulated depreciation and accumulated impairment loss of these properties as at 31 December 2003 were HK\$1,201,316,000 (2002: HK\$1,201,316,000), HK\$140,340,000 (2002: HK\$120,204,000) and HK\$200,000,000 (2002: HK\$200,000,000), respectively.
- (e) At 31 December 2003, no property, plant and equipment were pledged as security for the Group's banking facilities. (2002: Nil)

	Company			Total HK\$'000
	Plant, machinery, furniture and equipment HK\$'000	Motor vehicles HK\$'000	Leasehold improvements HK\$'000	
Cost				
At 1 January 2003	2,400	2,956	27	5,383
Additions	550	—	—	550
Disposals	(398)	—	—	(398)
At 31 December 2003	<u>2,552</u>	<u>2,956</u>	<u>27</u>	<u>5,535</u>
Accumulated depreciation				
At 1 January 2003	2,100	2,956	15	5,071
Charge for the year	260	—	9	269
Disposals	(398)	—	—	(398)
At 31 December 2003	<u>1,962</u>	<u>2,956</u>	<u>24</u>	<u>4,942</u>
Net book value				
At 31 December 2003	<u>590</u>	<u>—</u>	<u>3</u>	<u>593</u>
At 31 December 2002	<u>300</u>	<u>—</u>	<u>12</u>	<u>312</u>

15 INTERESTS IN SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	2,438,552	1,908,564
Amounts due from subsidiaries	<u>13,092,212</u>	<u>12,418,249</u>
	<u>15,530,764</u>	<u>14,326,813</u>
Amounts due to subsidiaries	<u>4,105,529</u>	<u>3,490,845</u>

Particulars of the Company's principal subsidiaries at 31 December 2003 are set out in note 35 to the financial statements.

The amounts due from and to subsidiaries as at 31 December 2003 are unsecured, interest free and have no fixed terms of repayment except for an amount due from a subsidiary of HK\$117,719,588 (2002: HK\$62,721,000) which is interest bearing at the Hong Kong Interbank Offered Rate per annum. In the opinion of the Directors, the amounts will not be repaid in the next twelve months from the balance sheet date and accordingly, the amounts are shown as non-current.

16 INTERESTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Interests in:				
- associates (note a)	3,539,919	3,438,793	163,743	153,174
- jointly controlled entities (note b)	2,974,976	3,361,802	2,949	2,949
	<u>6,514,895</u>	<u>6,800,595</u>	<u>166,692</u>	<u>156,123</u>

(a) Associates

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Listed shares, at cost				
Shares listed in the PRC	—	—	163,743	153,174
Share of net assets of:				
Listed associates	1,224,118	1,239,853	—	—
Unlisted associates	2,119,742	1,983,074	—	—
	<u>3,343,860</u>	<u>3,222,927</u>	<u>163,743</u>	<u>153,174</u>
(Negative goodwill)/goodwill on acquisition of associates less amortisation and impairment loss:				
Listed associates	(7,576)	(9,247)	—	—
Unlisted associates	102,719	108,869	—	—
	<u>95,143</u>	<u>99,622</u>	<u>—</u>	<u>—</u>
Amounts due from associates	<u>100,916</u>	<u>116,244</u>	<u>—</u>	<u>—</u>
	<u>3,539,919</u>	<u>3,438,793</u>	<u>163,743</u>	<u>153,714</u>
Market value of listed shares	<u>629,569</u>	<u>478,833</u>	<u>550,786</u>	<u>252,783</u>

16 INTERESTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES - Continued

(a) Associates - Continued

Particulars of the Group's principal associates at 31 December 2003 are set out in note 36 to the financial statements.

At 31 December 2003, the Group held a total of 146,954,744 (2002: 228,116,353) shares in the PRC listed associates, of which 102,313,410 (2002: 154,615,660) shares are founder shares which are not transferable and therefore, in the opinion of the Directors, it is not meaningful to present the value of such shares based on the market trading value of the listed shares. The share of net assets attributable to these founder shares amounted to HK\$590,096,000 (2002: HK\$782,437,000).

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

(b) Jointly controlled entities

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Unlisted investment, at cost	—	—	2,949	2,949
Share of net assets of jointly controlled entities	2,255,423	2,380,303	—	—
Loans to jointly controlled entities	819,553	1,081,499	—	—
Less: Provision for impairment loss	(100,000)	(100,000)	—	—
	2,974,976	3,361,802	2,949	2,949

Particulars of the Company's and the Group's jointly controlled entities at 31 December 2003 are set out in note 36 to the financial statements.

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

17 INVESTMENTS IN INFRASTRUCTURE JOINT VENTURES

	Group	
	2003 HK\$'000	2002 HK\$'000
Unlisted investments, at cost	66,707	66,707
Loans to infrastructure joint ventures	51,482	51,482
	118,189	118,189
Less:		
Accumulated capital receipts from infrastructure joint ventures	(20,920)	(18,580)
Accumulated amortisation	(4,379)	—
Provision for impairment loss	(15,225)	(15,225)
	77,665	84,384

102

Particulars of the Group's infrastructure joint ventures at 31 December 2003 are as follows:

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

Notes:

- (a) The Luo-mei Highways JV is a Sino-foreign co-operative joint venture established in the PRC for the period from June 1996 to June 2021. According to the terms of the relevant joint venture agreements, the Group is entitled to receive from Luo-mei Highways JV pre-determined annual returns during the first 20 years (the "Guaranteed Period") but is not entitled to nor obliged to share its operating results.

17 INVESTMENTS IN INFRASTRUCTURE JOINT VENTURES - Continued

The Group's entitlement to the annual return is secured by the PRC joint venture partners' pledge of their interests in the registered capital of Luo-mei Highways JV. The obligation of the PRC joint venture partners to pay the above annual return is in turn guaranteed by corporate guarantees provided by 羅定市屏風山水泥廠 and 羅定市銀河紡織總廠. In the event the Group's entitled annual returns are not repaid in full in the first 15 years, the Guaranteed Period will be extended to 30 years. At the expiry of the abovementioned joint venture period, the remaining assets of Luo-mei Highways JV will be attributable to the PRC joint venture partners upon termination of the joint venture.

- (b) The Ningbo JV is a Sino-foreign co-operative joint venture established in the PRC for the period from December 2000 to December 2015. According to the terms of the relevant joint venture agreement, the Group is entitled to receive from Ningbo JV a fixed annual return of US\$300,000 plus an annual return of 8.5% on the outstanding investment in the first 10 years but is not entitled to nor obligated to share its operating results.

At the expiry of the abovementioned joint venture period, the remaining assets of Ningbo JV will be attributable to the PRC joint venture partners upon termination of the joint venture.

- (c) In the opinion of the Directors, the above two joint ventures are classified as investments in infrastructure joint ventures as the Group's return to be derived therefrom is pre-determined and the Group is not entitled to share the assets of these joint ventures at the end of the relevant joint venture periods.

18 INVESTMENTS IN SECURITIES

103

	Group	
	2003	2002
	HK\$'000	HK\$'000
Investment securities:		
Unlisted shares, at cost	32,029	32,031
Listed shares in the PRC, at cost	30,004	—
Loans to an investee	393,668	389,770
	455,701	421,801
Market value of listed shares	31,031	—
Other investments:		
Listed shares in the PRC, at market value	20,532	9,145
PRC Government bonds, at cost	65,445	—
	85,977	9,145

The loans to an investee are unsecured, bearing interest at a rate of 1% (2002: 1%) per annum and have no fixed terms of repayment. In the opinion of the Directors, the loans will not be repayable in the next twelve months from the balance sheet date and accordingly the amounts are shown as non-current.

19 OTHER NON-CURRENT ASSETS

The current year balance of HK\$500,000,000 represents a deposit for the acquisition of a piece of land located at Shekou Industrial Zone, Shenzhen, the PRC, for the future operation of Berths number 5, 6 and 7 of Shekou Container Terminals (Phase III) Company Limited ("SCTIII"), a wholly owned subsidiary of the Group. The cost of acquisition of the land amounted to HK\$950,000,000 and therefore the Group's capital commitment at 31 December 2003 was HK\$450,000,000 which is included in note 32(b) to the financial statements. Further details of the acquisition are set out in note 34(d).

The balance of HK\$222,954,000 as at 31 December 2002 represented preliminary studies and advanced construction works incurred in respect of the development of Phase II container terminals at Shekou Container Terminal at Shekou Industrial Zone, Shenzhen, the PRC amounting to HK\$196,186,000 and other terminal projects amounting to HK\$26,768,000. The amounts had been applied as part of the capital contribution to the joint ventures that were set up to carry out the terminal projects.

20 BANK BALANCES AND CASH

As at 31 December 2003, included in the bank balances and cash of the Group were amounts of RMB704,958,000 (approximately HK\$661,498,000) (2002: RMB588,982,000; approximately HK\$555,643,000) deposited in the banks in the PRC, the repatriations of which is subject to foreign exchange control regulations of the PRC.

21 INVENTORIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Raw materials	95,218	65,505
Work in progress	1,128	1,518
Finished goods	54,767	60,856
	<u>151,113</u>	<u>127,879</u>

As at 31 December 2003, the carrying amount of inventories that are carried at net realisable value amounted to HK\$4,717,000 (2002: HK\$1,359,000)

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

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

23 DEBTORS, DEPOSITS AND PREPAYMENTS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Trade debtors	397,819	389,137	—	—
Other debtors, deposits and prepayments	158,142	124,979	14,734	8,416
Loan receivable	—	94,233	—	—
	555,961	608,349	14,734	8,416

105

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

	2003 HK\$'000	2002 HK\$'000
0-30 days	159,168	178,010
31-60 days	93,700	54,949
61-120 days	75,744	84,896
Over 120 days	69,207	71,282
	397,819	389,137

24 CREDITORS AND ACCRUALS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Trade creditors	220,607	169,098	—	—
Other payable and accruals	267,121	237,543	5,971	5,711
	487,728	406,641	5,971	5,711

The ageing analysis of the trade creditors balance is as follows:

	2003 HK\$'000	2002 HK\$'000
0-30 days	90,021	145,710
31-60 days	105,222	11,395
61-120 days	18,134	11,034
Over 120 days	7,230	959
	220,607	169,098

25 BANK BORROWINGS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Short-term bank loans, unsecured	40,000	55,400	—	—
Long-term bank loans, unsecured	—	89,211	—	—
	40,000	144,611	—	—
The long-term bank loans are repayable as follows:				
On demand or within one year	—	35,684	—	—
In the second year	—	35,684	—	—
In the third to fifth year	—	17,843	—	—
	—	89,211	—	—
Less: Amounts due within one year included under current liabilities	—	(35,684)	—	—
	—	53,527	—	—

26 CONVERTIBLE BONDS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Principal amount		
At 1 January	317,435	317,435
Conversion for the year	(317,435)	—
	<hr/>	<hr/>
At 31 December	—	317,435
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Issue expenses		
At 1 January	3,124	5,525
Amortisation for the year (note 5)	(3,124)	(2,401)
	<hr/>	<hr/>
At 31 December	—	3,124
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Carrying value at 31 December	—	314,311
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107

The US\$40,960,000 (2002: US\$40,960,000) 7% guaranteed convertible bonds are convertible into shares with a par value of HK\$0.1 each in the Company, on or after 31 May 1999 and up to 13 April 2004, at an initial conversion price of HK\$5.120 per share of the Company, determined on the basis of a fixed rate of exchange of HK\$7.7497 = US\$1.00. Unless previously converted, redeemed or purchased and cancelled, the convertible bonds will be redeemed, in whole or in part, at the option of the Group at any time on or after 20 April 2002 and prior to 20 April 2004 at the principal amount plus interest accrued. Interest is payable semi-annually in arrear on 20 May and 20 November each year commencing 20 November 1999. During the year, the convertible bonds were fully converted into ordinary shares (note 29).

27 OTHER LOANS

	Group	
	2003 HK\$'000	2002 HK\$'000
Interest bearing loans (<i>note b</i>)	93,835	—
Non-interest bearing loans	91,298	160,440
	<u>285,133</u>	<u>160,440</u>

Notes:

- (a) Other loans are obtained from minority shareholders of subsidiaries. The minority shareholders have confirmed that they do not intend to demand repayment within the next twelve months from the balance sheet date. Accordingly, the loans are shown as non-current liabilities. Except for the interest bearing loans as set out in note (b), all the loans are unsecured, interest free and have no fixed terms of repayment.
- (b) The loans bear interest at 5.841% per annum and has no fixed terms of repayment.

108

28 DEFERRED TAXATION

The components of deferred tax assets or liabilities recognised in the financial statements and the movements during the year are as follows.

Deferred tax liabilities

	Group	
	Accelerated taxation depreciation	
	2003 HK\$'000	2002 HK\$'000
At 1 January	—	—
Charged to income statement	7,622	—
At 31 December	<u>7,622</u>	<u>—</u>

28 DEFERRED TAXATION - Continued

Deferred tax assets

	Group							
	Provisions for doubtful debts and inventories		Impairment of assets		Tax losses		Total	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
At 1 January	—	—	—	—	—	—	—	—
Credited to income statement	9,268	—	5,484	—	1,649	—	16,401	—
At 31 December	9,268	—	5,484	—	1,649	—	16,401	—

29 SHARE CAPITAL

	Company			
	Number of shares		Share capital	
	2003	2002	2003 HK\$'000	2002 HK\$'000
Ordinary shares of HK\$0.1 each				
Authorised:	3,000,000,000	3,000,000,000	300,000	300,000
Issued and fully paid:				
At 1 January	2,056,585,388	2,053,472,388	205,658	205,347
Issue of shares on exercise of share options (note a)	21,560,000	3,113,000	2,156	311
Shares issued on conversion of convertible bonds (note c)	61,997,586	—	6,200	—
At 31 December	2,140,142,974	2,056,585,388	214,014	205,658

29 SHARE CAPITAL - Continued

Notes:

- (a) 21,560,000 (2002: 3,113,000) new ordinary shares of HK\$0.1 each in the Company were issued at exercise prices ranging from HK\$4.985 to HK\$5.63 per share on the exercise of share options by Directors and employees, yielding the following proceeds after transaction costs of HK\$267,000 (2002: HK\$35,000):

	2003 HK\$'000	2002 HK\$'000
Ordinary share capital-at par	2,156	311
Share premium	105,649	15,388
	<u>107,805</u>	<u>15,699</u>
Proceeds, net of issue expenses	<u>107,805</u>	<u>15,699</u>

- (b) Details of share options granted by the Company pursuant to the share option schemes of the Company adopted on 26 June 1992 and 20 December 2001 and the share options outstanding as at 31 December 2003 are as follows:

Date of grant	Note	Subscription price per share HK\$	At 1 January 2003	Share options exercised during the year	Share options cancelled during the year	At 31 December 2003
Directors						
1 March 2000	(i)	5.054	3,320,000	720,000	—	2,600,000
19 September 2000	(i)	5.615	350,000	—	—	350,000
11 October 2002	(ii)	4.985	6,900,000	3,650,000	—	3,250,000
			10,570,000	4,370,000	—	6,200,000
Employees						
1 March 2000	(i)	5.054	2,314,000	264,000	—	2,050,000
19 September 2000	(i)	5.615	1,002,000	226,000	26,000	750,000
24 May 2001	(i)	5.63	700,000	600,000	—	100,000
6 July 2001	(i)	5.61	700,000	—	—	700,000
11 October 2002	(ii)	4.985	23,000,000	16,100,000	500,000	6,400,000
			27,716,000	17,190,000	526,000	10,000,000
			38,286,000	21,560,000	526,000	16,200,000

Notes:

- (i) The outstanding share options can be exercised at any time during a period of 6 years commencing on the date of grant of the options.
- (ii) The outstanding share options can be exercised at any time during a period of 10 years commencing on the date of grant of the options.
- (c) During the year, 61,997,586 ordinary shares of HK\$0.1 each were issued at a par value of HK\$5.120 per share upon the conversion of the US\$40,960,000 7% guaranteed convertible bonds (note 26).

30 RESERVES

	Group							Total HK\$'000
	Share	Assets	Capital	Capital	Translation	Statutory	Retained	
	premium	revaluation	reserves	redemption				
	HK\$'000	reserves	(Goodwill)	reserve	reserve	reserves	earnings	
At 1 January 2003	8,058,421	—	(197,635)	70	(4,477)	158,839	3,220,742	11,235,960
Share of reserves of associates	—	422	—	—	—	—	—	422
Issue of shares on exercise of share options, net of share issue expenses	105,649	—	—	—	—	—	—	105,649
Issue of shares on conversion of convertible bonds	311,230	—	—	—	—	—	—	311,230
Release of reserves upon disposal of interests in associates	—	—	55,873	—	257	(18,933)	18,933	56,130
Exchange differences	—	—	—	—	10,506	—	—	10,506
Transfer to reserves	—	—	—	—	—	52,176	(52,176)	—
Profit for the year	—	—	—	—	—	—	1,465,616	1,465,616
2002 final dividend paid	—	—	—	—	—	—	(209,333)	(209,333)
2002 special dividend paid	—	—	—	—	—	—	(104,667)	(104,667)
2003 interim dividend paid (note 10)	—	—	—	—	—	—	(277,173)	(277,173)
At 31 December 2003	8,475,300	422	(141,762)	70	6,286	192,082	4,061,942	12,594,340
Represented by:								
Reserves	8,475,300	422	(141,762)	70	6,286	192,082	3,441,301	11,973,699
Proposed final dividend	—	—	—	—	—	—	620,641	620,641
	8,475,300	422	(141,762)	70	6,286	192,082	4,061,942	12,594,340
Analysed by:								
Company and subsidiaries	8,475,300	—	(115,923)	70	(15,230)	86,059	2,244,364	10,674,640
Associates and jointly controlled entities	—	422	(25,839)	—	21,516	106,023	1,817,578	1,919,700
At 31 December 2003	8,475,300	422	(141,762)	70	6,286	192,082	4,061,942	12,594,340

30 RESERVES - Continued

	Group						
	Share premium	Capital reserves (Goodwill)	Capital redemption reserve	Translation reserve	Statutory reserves	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2002	8,043,033	(197,635)	70	(3,925)	123,941	2,702,105	10,667,589
Issue of shares on exercise of share options, net of share issue expenses	15,388	—	—	—	—	—	15,388
Exchange differences	—	—	—	(552)	—	—	(552)
Profit for the year	—	—	—	—	—	882,487	882,487
Transfer to reserves	—	—	—	—	34,898	(34,898)	—
2001 final dividend paid	—	—	—	—	—	(185,019)	(185,019)
2002 interim dividend paid (note 10)	—	—	—	—	—	(143,933)	(143,933)
At 31 December 2002	<u>8,058,421</u>	<u>(197,635)</u>	<u>70</u>	<u>(4,477)</u>	<u>158,839</u>	<u>3,220,742</u>	<u>11,235,960</u>
Represented by:							
Reserves	8,058,421	(197,635)	70	(4,477)	158,839	2,912,254	10,927,472
Proposed final dividend	—	—	—	—	—	205,659	205,659
Proposed special dividend	—	—	—	—	—	102,829	102,829
	<u>8,058,421</u>	<u>(197,635)</u>	<u>70</u>	<u>(4,477)</u>	<u>158,839</u>	<u>3,220,742</u>	<u>11,235,960</u>
Analysed by:							
Company and subsidiaries	8,058,421	(171,796)	70	(7,269)	77,007	1,854,813	9,811,246
Associates and jointly controlled entities	—	(25,839)	—	2,792	81,832	1,365,929	1,424,714
At 31 December 2002	<u>8,058,421</u>	<u>(197,635)</u>	<u>70</u>	<u>(4,477)</u>	<u>158,839</u>	<u>3,220,742</u>	<u>11,235,960</u>

30 RESERVES - Continued

	Company				
	Share	Capital	Capital	Retained	Total
	premium	reserve	redemption reserve	earnings	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2003	8,058,421	2,339,985	70	581,474	10,979,950
Issue of shares on exercise of share options, net of share issue expenses	105,918	—	—	—	105,918
Issue of shares on conversion of convertible bonds	310,961	—	—	—	310,961
Profit for the year (note 9)	—	—	—	747,439	747,439
2002 final dividend paid	—	—	—	(209,333)	(209,333)
2002 special dividend paid	—	—	—	(104,667)	(104,667)
2003 interim dividend paid (note 10)	—	—	—	(277,173)	(277,173)
At 31 December 2003	<u>8,475,300</u>	<u>2,339,985</u>	<u>70</u>	<u>737,740</u>	<u>11,553,095</u>
Represented by:					
Reserves	8,475,300	2,339,985	70	117,099	10,932,454
Proposed final dividend	—	—	—	620,641	620,641
	<u>8,475,300</u>	<u>2,339,985</u>	<u>70</u>	<u>737,740</u>	<u>11,553,095</u>
At 1 January 2002	8,043,033	2,339,985	70	281,812	10,664,900
Issue of shares on exercise of share options, net of share issue expenses	15,388	—	—	—	15,388
Profit for the year	—	—	—	628,614	628,614
2001 final dividend paid	—	—	—	(185,019)	(185,019)
2002 interim dividend paid (note 10)	—	—	—	(143,933)	(143,933)
At 31 December 2002	<u>8,058,421</u>	<u>2,339,985</u>	<u>70</u>	<u>581,474</u>	<u>10,979,950</u>
Represented by:					
Reserves	8,058,421	2,339,985	70	272,986	10,671,462
Proposed final dividend	—	—	—	205,659	205,659
Proposed special dividend	—	—	—	102,829	102,829
	<u>8,058,421</u>	<u>2,339,985</u>	<u>70</u>	<u>581,474</u>	<u>10,979,950</u>

30 RESERVES - Continued

- (a) The Company's capital reserve, which arose in 1998 upon reduction of share premium as confirmed by the Order of the High Court of the Hong Kong Special Administrative Region, is not a realised profit and is a non-distributable reserve.
- (b) The statutory reserves are reserves required under PRC laws and regulations.
- (c) The Company's reserves available for distribution to shareholders as at 31 December 2003 amounted to approximately HK\$737,740,000 (2002: HK\$581,474,000) being its retained earnings at that date.

31 NOTES TO CONSOLIDATED CASH FLOW STATEMENT**(a) Reconciliation of operating profit to net cash inflow from operations**

	2003	2002
	HK\$'000	HK\$'000
Operating profit	557,993	165,059
Depreciation and amortisation	186,177	171,977
Provision for loan to a jointly controlled entity	9,292	—
Write-back of provision for amount due from an associate	—	(10,575)
Provision for impairment on land and building	—	200,000
Loss on disposal of property, plant and equipment	936	1,780
Interest income	(21,754)	(21,167)
Income received from infrastructure joint ventures	(7,089)	(43,583)
Net unrealised (gain)/loss on listed other investments	(9,180)	1,298
Deficit on revaluation of investment property	—	590
Dividend income from listed other investments	(762)	(556)
Gain on deemed disposal of interests in an associate	(160,559)	—
Gain on disposal of interests in an associate/interests in infrastructure joint ventures	(43,566)	(22,147)
	<hr/>	<hr/>
Operating profit before working capital changes	511,488	442,676
Increase in inventories	(22,273)	(15,066)
Increase in debtors, deposits and prepayments	(24,665)	(61,623)
Increase in other investments	(2,207)	—
Net increase in amounts due from and to intermediate holding company and fellow subsidiaries	(21,267)	(42,129)
Net decrease/(increase) in amounts due from and to associates	5,983	(87,011)
Increase in creditors and accruals	39,236	77,577
	<hr/>	<hr/>
Net cash inflow from operations	486,295	314,424

31 NOTES TO CONSOLIDATED CASH FLOW STATEMENT - Continued

(b) Purchase of subsidiaries

	2003 HK\$'000	2002 HK\$'000
Net assets acquired		
Property, plant and equipment	827,233	546,058
Investments in associates	—	5,523
Other investments	—	704
Inventories	961	7,806
Debtors, deposits and prepayments	21,078	123,257
Bank balances and cash	74,953	38,452
Creditors and accruals	(25,979)	(105,062)
Amounts due to fellow subsidiaries	—	(50,332)
Amounts due to immediate holding company	(51,449)	—
Amounts due to intermediate holding company	(140,753)	—
Short-term bank loans	(37,534)	—
Taxation payable	—	(1,842)
Minority interests	(299,440)	(2,475)
	<u>369,070</u>	<u>562,089</u>
Interest in jointly controlled entities previously accounted for	(304,923)	—
	<u>64,147</u>	<u>562,089</u>
Goodwill	10,921	307,597
	<u>75,068</u>	<u>869,686</u>
Satisfied by Cash	<u>75,068</u>	<u>869,686</u>

115

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

	2003 HK\$'000	2002 HK\$'000
Cash consideration	75,068	869,686
Bank balances and cash in hand acquired	(74,953)	(38,452)
Net cash outflow in respect of the purchase of subsidiaries	<u>115</u>	<u>831,234</u>

The subsidiaries acquired during the year contributed HK\$6,625,000 (2002: HK\$64,158,000) to the Group's net operating cash flows, utilised HK\$54,918,000 (2002: HK\$24,373,000) for investing activities and HK\$38,141,000 (2002: Nil) in financing activities.

31 NOTES TO CONSOLIDATED CASH FLOW STATEMENT - Continued

(c) Disposal of a subsidiary

	2003 HK\$'000	2002 HK\$'000
Net assets disposed of:		
Property, plant and equipment	—	1,129
Debtors, deposits and prepayments	—	2,110
Amount due from fellow subsidiaries	—	5,138
Bank balances and cash	—	1,351
Creditors and accruals	—	(4,693)
Taxation payable	—	(10)
Minority interests	—	(2,467)
	<u>—</u>	<u>2,558</u>
Satisfied by:		
Cash consideration	—	2,558
Other receivable	—	120
	<u>—</u>	<u>2,678</u>

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

	2003 HK\$'000	2002 HK\$'000
Cash consideration	—	2,558
Bank balances and cash disposed of	—	(1,351)
	<u>—</u>	<u>1,207</u>

31 NOTES TO CONSOLIDATED CASH FLOW STATEMENT - Continued

(d) Major non-cash transactions

- (i) Additions to harbour works and building and dockyard included in property, plant and equipment of HK\$226,408,000 during the year represented contributions from a minority shareholder of subsidiaries in the form of capital to the subsidiaries.
- (ii) As set out in note 34(d) and 34(e) to the financial statements, a deposit of HK\$500,000,000 for an acquisition of a piece of land at Jetty Three, Shekou Industrial Zone, Shenzhen, the PRC was settled by the sales proceed receivable of HK\$494,891,000 from the disposal of a listed associate.
- (iv) The convertible bonds of HK\$314,311,000 were fully converted during the year. Details are set out in note 26 to the financial statements.
- (v) The costs of the preliminary studies and advanced construction works incurred and included as non-current assets as at 31 December 2002 of HK\$196,186,000 were applied to contributions to joint ventures as capital.

117

32 COMMITMENTS

(a) Capital commitments for property, plant and equipment

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Authorised but not contracted for	1,764,545	—	—	—
Contracted but not provided for	193,555	19,306	—	—
	1,958,100	19,306	—	—

(b) Capital commitments for investments

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Contracted but not provided for				
Jointly controlled entities	128,982	90,675	—	—
Port projects	545,023	940,770	—	—
	674,005	1,031,445	—	—

32 COMMITMENTS - Continued**(c) Commitments under operating leases**

At 31 December 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases for land and buildings as follows:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	61,296	33,958	—	—
In the second to fifth year inclusive	72,142	74,591	—	—
	133,438	108,549	—	—

(d) Future operating lease receivables

At 31 December 2003, the Group had future aggregate lease receivables under non-cancellable operating leases as follows:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Vessels				
Within one year	159,149	46,582	—	—
In the second to fifth year inclusive	25,517	694	—	—
	184,666	47,276	—	—
Land and buildings				
Within one year	4,742	58,859	—	—
In the second to fifth year inclusive	7,413	8,919	—	—
After the fifth year	14,716	16,680	—	—
	26,871	84,458	—	—
	211,537	131,734	—	—

33 CONTINGENT LIABILITIES

At 31 December 2003, there were contingent liabilities in respect of the following:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Guarantees for bank loans and overdrafts of subsidiaries	—	—	25,600	124,669
Guarantees for bank loans of associates	49,545	53,433	49,545	53,433
Guarantees for bank loans of an investee	6,630	6,630	6,630	6,630
Guarantees for cash distribution of jointly controlled entities	—	16,331	—	16,331
Guarantees for convertible bonds issued by a subsidiary	—	—	—	317,435
	56,175	76,394	81,775	518,498

119

34 RELATED PARTY TRANSACTIONS

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

Name of party	Nature of transaction	Note	Income/(expenses)	
			2003 HK\$'000	2002 HK\$'000
<i>Holding company:</i>				
China Merchants Holdings (Hong Kong) Company Limited	Rentals of office premises charged by the Group	(i)	16,058	16,058

34 RELATED PARTY TRANSACTIONS - Continued

Name of party	Nature of transaction	Note	Income/(expenses)	
			2003 HK\$'000	2002 HK\$'000
<i>Fellow subsidiaries:</i>				
Associated Maritime Company (Hong Kong) Limited	Management fee paid by the Group	(ii)	(11,582)	(11,355)
China Merchants Godown Wharf and Transportation Company Limited	Rental of use of nine vessels charged to the Group	(iii)	(3,024)	(3,024)
China Merchants Shekou Holdings Company Ltd	Rental of properties and fixed assets charged to the Group	(iii)	(11,307)	(10,001)
China Merchants Shekou Industrial Zone Company Limited	Interest charged to the Group	(iv)	—	(2,381)
Euroasia Dockyard Enterprise and Development Limited	Rentals of properties at Tsing Yi Terminal charged to the Group	(iii)	(20,285)	(20,285)
Hoi Tung Marine Machinery Suppliers Limited	Rentals of the office premises charged by the Group	(iii)	2,754	2,934
	Rentals of warehouse charged to the Group	(iii)	(4,598)	(4,526)
	Transportation service fee charged to the Group	(v)	(1,261)	(1,336)
Hong Kong Ming Wah Shipping Company Limited	Rental of office premises charged by the Group	(i)	5,580	5,761
	Fees for cargo handling, loading, unloading and warehousing services charged by the Group	(v)	6,527	8,130

34 RELATED PARTY TRANSACTIONS - Continued

Name of party	Nature of transaction	Note	Income/(expenses)	
			2003 HK\$'000	2002 HK\$'000
<i>Fellow subsidiaries: - Continued</i>				
Yiu Lian Dockyards Limited	Rentals of properties at Tsing Yi Terminal charged to the Group	(iii)	(5,589)	(5,589)
	Rentals of warehouse charged to the Group	(iii)	<u>(3,420)</u>	<u>(3,420)</u>
<i>Jointly controlled entity:</i>				
Zhangzhou China Merchants Port Co Ltd	Management fee charged by the Group	(vi)	<u>780</u>	<u>936</u>
<i>Associates:</i>				
China International Marine Containers (Group) Co., Ltd.	Sales of container paints by the Group	(v)	393,290	252,989
Valspar Hai Hong Coatings (Shenzhen) Company Limited	Rentals of premises charged by the Group	(iii)	428	428
China Merchants Bank ("CMB")	Interest earned by the Group	(vii)	<u>4,568</u>	<u>1,353</u>

Notes:

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

34 RELATED PARTY TRANSACTIONS - Continued

- (b) Balances with related parties

China Merchants Bank ("CMB")	Deposits placed with CMB	<u>304,742</u>	<u>147,678</u>
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- (c) On 26 February 2003, the Group entered into an agreement with Shenzhen Chiwan Wharf Holdings Limited ("SCWH"), for the transfer of the entire 16.7% equity interest in Hidoney Development Limited ("Hidoney"), an indirect subsidiary of the Group, as well as the Shareholders' loans to MTL Chiwan Holdings Limited, a subsidiary of the Group. The Company also entered into an agreement for the transfer of 4% equity interest held by Hidoney in Chiwan Container Terminal Company Limited as well as the shareholders' loans to SCWH. The consideration for each of the two transfers was HK\$53,000,000.
- (d) On 11 September 2003, the Group entered into an agreement with a wholly-owned subsidiary of China Merchant Shekou Industrial Zone Company Limited ("CMSIZ"), a wholly-owned subsidiary of CMG, in respect of the sale and buy back of Shekou Container Terminals (Phase III) Company Limited ("SCTIII") and the acquisition of a piece of land at Jetty Three Shekou Industrial Zone, Shenzhen, the PRC for the future operations of Berths number 5, 6 and 7 of SCTIII. Pursuant to the agreements, the Group will pay to the subsidiary of CMSIZ consideration for the land amounting to HK\$950,000,000. As at 31 December 2003, the Group has brought back SCTIII, which became a wholly owned subsidiary of the Group, and has paid a deposit of HK\$500,000,000 (note 19) to CMSIZ for the acquisition of the land.
- (e) On 11 September 2003, the Group entered into agreements with Orienture Holdings Company Limited, a wholly-owned subsidiary of CMSIZ in respect of the disposal of the Group's 17.32% equity interest in China Merchants Skekou Holdings Co. Ltd ("CMSH"), a company listed on the Shenzhen Stock Exchange, for an aggregate consideration of HK\$494,891,000, resulting in a gain on disposal amounting to HK\$43,566,000 to the Group.
- (f) On 28 October 2003, the Company entered into an agreement with Zhangzhou Joint Vetur Company, a former 49% owned jointly controlled entity (note (g) below), for the provision of a RMB300,000,000 (approximately HK\$272,700,000) credit facility for a term of three years to the jointly controlled entity.
- (g) In October 2003, the Group completed the acquisition of an additional 11% equity interest in Zhangzhou China Merchants Ports Company Limited ("Zhangzhou Port") from the PRC joint venture partner for a consideration of RMB80,000,000 (approximately HK\$75,068,000). Upon completion of the acquisition, Zhongzhou Port changed from a jointly controlled entity to a subsidiary of the Group.

35 PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

Particulars of the Company's principal subsidiaries are as follows:

Name of subsidiary	Place of Incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of issued capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
CMHI Caymans Inc.	Cayman Islands	US\$2	100%	—	Provision of financial services to group companies
China Merchants Container Services Limited *	Hong Kong	HK\$500,000	—	100%	Provision of container terminal services and port transportation
China Merchants International Terminals (Ningbo) Limited	BVI	US\$1	100%	—	Investment holding
China Merchants International Terminal (Qingdao) Company Limited * ^ (set up on 19 September 2003)	PRC	US\$12,000,000	—	90.1%	Port, container terminal and logistic business
China Merchants Port Services (Shenzhen) Company Limited * #	PRC	RMB100,000,000	—	100%	Provision of terminal services and port transportation
CMH International (China) Investment Company Limited * # (set up on 16 June 2003)	PRC	US\$30,000,000	100%	—	Investment holding
Cotter International Limited	BVI	US\$1	—	100%	Investment in an infrastructure joint venture, Luo-mei Highways Co. Ltd

35 PARTICULARS OF PRINCIPAL SUBSIDIARIES - Continued

Name of subsidiary	Place of Incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of issued capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Fair Oaks Development Limited	Hong Kong	HK\$2	100%	—	Investment holding and securities trading
Finstead Shipping Limited	Liberia	US\$500	—	100%	Ship owning and operation
Fully Profit Property Limited	Hong Kong	HK\$2	100%	—	Property investment
Hai Hong Industry (Shenzhen) Co Ltd * #	PRC	HK\$30,700,000	—	100%	Manufacture and sales of paint products
Hempel-Hai Hong (China) Limited *	Hong Kong	HK\$106,000,000	—	64%	Sales of paint products
Hempel-Hai Hong Coatings (Kunshan) Company Limited * #	PRC	HK\$40,000,000	—	64%	Manufacture and sales of paint products
Hempel-Hai Hong Coatings (Shenzhen) Company Limited * #	PRC	HK\$40,000,000	—	64%	Manufacture and sales of paint products
Hempel-Hai Hong Coatings (Yan Tai) Company Limited * #	PRC	HK\$20,000,000	—	64%	Manufacture and sales of paint products
Hempel Coatings (Shenshen) Company Limited * #	PRC	HK\$20,000,000	—	64%	Manufacture and sales of paint products
Island Tanker No. 1 Shipping Inc.	Liberia	US\$100	—	100%	Ship-owning and operation
Island Tanker No. 2 Shipping Inc.	Liberia	US\$100	—	100%	Ship-owning and operation
Island Tanker No. 3 Shipping Inc.	Liberia	US\$100	—	100%	Ship-owning and operation

35 PARTICULARS OF PRINCIPAL SUBSIDIARIES - Continued

Name of subsidiary	Place of Incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of issued capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Island Tanker No. 4 Shipping Inc.	Liberia	US\$100	—	100%	Ship-owning and operation
New Alliance Shipping Inc.	Liberia	US\$5,000	—	100%	Ship-owning and operation
New Amity Shipping Inc.	Liberia	US\$5,000	—	100%	Ship-owning and operation
Ningbo Changzhen Highway Co. Ltd * ^	PRC	US\$7,730,640	—	60%	Operation of a toll road
Ningbo Zhenluo Highway Co. Ltd * ^	PRC	US\$6,329,440	—	60%	Operation of a toll road
Shekou Contaner Terminals (Phase II) Company Limited	PRC	US\$12,000,000	—	100%	Port and contanier terminal business
Shenzhen Mawan Port Service Co., Ltd. ^	PRC	RMB200,000,000	—	30.0%	Operation of berth New 5 ^z in Mawan, Shenzhen, PRC
Shenzhen Mawan Wharf Co., Ltd. (Nirgbo) Limited ^	PRC	RMB200,000,000	—	30.0%	Operation of berth 0 ^z in Mawan, Shenzhen, PRC
Shenzhen Mawan Terminals Co., Ltd. ^	PRC	RMB200,000,000	—	30.0%	Operation of berths New 6 ^z & New 7 ^z in Mawan, Shenzhen, PRC

35 PARTICULARS OF PRINCIPAL SUBSIDIARIES - Continued

Name of subsidiary	Place of Incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of issued capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Universal Sheen Investment Limited	Hong Kong	HK\$100	100%	—	Property holding
Wharton Overseas Limited	BVI	US\$1	—	100%	Investment in an infrastructure joint venture, Luo-mei Highways Co. Ltd.
Zhangzhou China Merchants Port Company Limited * ^ (Increased interest from 49% to 60% in November 2003)	PRC	RMB 240,000,000	—	60%	Operation of berth No. 3 in the Zhongzhou Economic Development Zone, Fujian Province PRC

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

Foreign investment enterprises.

^ Sino-foreign joint ventures

36 PARTICULARS OF PRINCIPAL ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

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

(a) Associates

Name of associate	Place of Incorporation/ registration and operation	Proportion of issued capital/ registered capital held by the Company		Principal activities
		Directly	Indirectly	
Asia Airfreight Terminal Company Limited ("AAT")	Hong Kong	—	20%	Airfreight
China International Marine Containers (Group) Co., Ltd. ("CIMC") (B shares listed in the Mainland China)	PRC	6.05%	16.23%	Design, manufacture and sales of dry freight containers and refrigerated containers
China Merchants Holdings (Pacific) Limited ("CMHP")	Singapore	—	24%	Investment holding
China Nanshan Development (Group) Incorporation ("CND")	PRC	—	37%	Port transportation, petroleum services, property development, food and oil processing, building materials and other engineering services
Chiwan Container Terminal Co. Ltd ("CCT")	PRC	—	20%	Port and container terminal business

127

36 PARTICULARS OF PRINCIPAL ASSOCIATES AND JOINTLY CONTROLLED ENTITIES - Continued

(a) Associates - Continued

Name of associate	Place of incorporation or registration and operation	Proportion of nominal value of issued capital or registered capital held by the Company		Principal activities
		Directly	Indirectly	
Jinan Metallic Pigment Company Limited	PRC	—	35%	Manufacture and sales of metallic pigments for industrial use
Modern Terminals Limited ("MTL")	Hong Kong	—	22.1%	Provides container terminal services and warehouse services
PPG Coatings (Tianjin) Company Limited	PRC	—	30%	Manufacture and sales of automotive coatings
Shekou Container Terminals Limited ("SCT")	PRC	—	32.5%	Container jetty business
Valspar Hai Hong Coatings (Shenzhen) Company Limited	PRC	—	40%	Manufacture and sales of packaging coating

36 PARTICULARS OF PRINCIPAL ASSOCIATES AND JOINTLY CONTROLLED ENTITIES - Continued

(a) Associates - Continued

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

	CIMC	
	2003 HK\$'000	2002 HK\$'000
Turnover	<u>6,207,292</u>	<u>8,507,857</u>
Profit for the year	<u>2,380,645</u>	<u>398,994</u>
Non-current assets	11,530,932	2,975,377
Current assets	8,776,071	4,635,043
Current liabilities	(2,548,533)	(4,265,032)
Non-current liabilities	<u>(4,149,223)</u>	<u>(76,350)</u>
Net assets	<u>(13,609,247)</u>	<u>3,269,038</u>

129

The aggregate results and assets and liabilities of the Group's significant associates within the ports operations segment are set out as follows:

	2003 HK\$'000	2002 HK\$'000
Turnover	<u>6,207,292</u>	<u>5,190,309</u>
Profit for the year	<u>3,280,645</u>	<u>2,095,532</u>
Non-current assets	11,530,932	9,537,066
Current assets	8,776,071	2,349,439
Current liabilities	(2,548,533)	(1,784,408)
Non-current liabilities	<u>(4,149,223)</u>	<u>(2,767,918)</u>
Net assets	<u>13,609,247</u>	<u>7,334,179</u>

36 PARTICULARS OF PRINCIPAL ASSOCIATES AND JOINTLY CONTROLLED ENTITIES - Continued

(a) Associates - Continued

The above financial information includes the financial information of AAT, CMHP, CND, CCT, MTL and SCT. MTL is regarded as a significant associate of the Group. In accordance with SSAP 10 paragraph 37, detailed information including turnover, profit or losses, non-current assets, current assets, current liabilities, non-current liabilities and contingent liabilities of MTL should be disclosed. However, because of two undertakings provided by the Company to MTL, the information pertaining to MTL cannot be disclosed separately in the financial statements. In the opinion of the Directors, information given above is sufficient enough for shareholders to obtain a comparable information on MTL and the non-disclosure of the information on MTL alone would not prevent these financial statements from giving a true and fair view of the Group's results and state of affairs as a whole.

(b) Jointly controlled entities

130

Name of jointly controlled entity	issued capital/ registered capital	Proportion of issued capital/ registered capital held indirectly by the Company	Principal activities
(i) Joint ventures which hold the operating rights of the Guilu Expressway in Guangxi, PRC (the "Guiliu JVs") ¹ :			
Guangxi Fushan Infrastructure Facilities Co., Ltd.	HK\$55,317,800	40%	Operation of toll road
Guangxi Guida Infrastructure Co., Ltd.	HK\$90,737,370	40%	Operation of toll road
Guangxi Liugui Highway Co., Ltd.	HK\$92,563,400	40%	Operation of toll road
Guangxi Liujing Highway Co., Ltd.	HK\$84,661,600	40%	Operation of toll road
Guangxi Luqing Highway Construction Co., Ltd.	HK\$89,692,600	40%	Operation of toll road

36 PARTICULARS OF PRINCIPAL ASSOCIATES AND JOINTLY CONTROLLED ENTITIES - Continued

(b) Jointly controlled entities - Continued

Name of jointly controlled entity	issued capital/ registered capital	Proportion of issued capital/ registered capital held indirectly by the Company	Principal activities
廣西新村公路管理有限責任公司	HK\$84,126,200	40%	Operation of toll road
Guangxi Rongzhu Highway Construction Co., Ltd.	HK\$83,443,000	40%	Operation of toll road
廣西黃里路面管理有限責任公司	HK\$67,552,000	40%	Operation of toll road
Guangxi Wanli Highway Engineering Co., Ltd.	HK\$92,453,900	40%	Operation of toll road
Guangxi Wushi Highway Co., Ltd.	HK\$66,732,800	40%	Operation of toll road
Guangxi Xinya Engineering Co., Ltd.	HK\$73,232,200	40%	Operation of toll road
Guangxi Zhenxing Infrastructure facilities Co., Ltd.	HK\$49,317,000	40%	Operation of toll road
(ii) Joint ventures which hold the operating rights of the Guihuang Highway in Guizhou, PRC (the "Guihuang JVs"):			
Guizhou Jinguan Highway Co., Ltd.	US\$11,761,300	60%	Operation of toll road
Guizhou Jinhua Highway Co., Ltd.	US\$11,372,100	60%	Operation of toll road
Guizhou Pantao Highway Co., Ltd.	US\$10,204,320	60%	Operation of toll road
Guizhou Yunguan Highway Co., Ltd.	US\$10,201,600	60%	Operation of toll road

36 PARTICULARS OF PRINCIPAL ASSOCIATES AND JOINTLY CONTROLLED ENTITIES - Continued

(b) Jointly controlled entities - Continued

Name of jointly controlled entity	issued capital/ registered capital	Proportion of issued capital/ registered capital held indirectly by the Company	Principal activities
(iii) Joint ventures which hold the operating rights of the Yuyao Highway in Ningbo, PRC (the "Yuyao JVs") ¹ :			
Ningbo Baoshun Infrastructure Development Co. Ltd.	RMB54,304,000	60%	Operation of toll road
Ningbo Deshun Transportation Management Co. Ltd.	RMB79,696,000	60%	Operation of toll road
Ningbo Gangshun Communications Development Co. Ltd.	RMB65,624,000	60%	Operation of toll road
Ningbo Longshun Roads Development Co. Ltd.	RMB64,376,000	60%	Operation of toll road
Ningbo Yashun Roads & Bridges Co. Ltd.	RMB26,345,000	60%	Operation of toll road
Ningbo Yishun Roads Engineering Co. Ltd.	RMB98,924,000	60%	Operation of toll road
(iv) Other:			
CMF Technology Fund I Limited	US\$42,875,000	43.38%	Investment holding
Dichain Holdings Limited	HK\$1,680,000	19.4% ¹	Investment holding
Shekou Container Terminals (Phase II) Company Limited	RMB608,549,000	51%	Port and container terminal business
Ningbo Daxie China Merchants International Terminals Company Limited	US\$16,390,000	45%	Port and container terminal business

36 PARTICULARS OF PRINCIPAL ASSOCIATES AND JOINTLY CONTROLLED ENTITIES - Continued

(b) Jointly controlled entities - Continued

Name of jointly controlled entity	issued capital/ registered capital	Proportion of issued capital/ registered capital held indirectly by the Company	Principal activities
Shenzhen Cyber-Harbour Network Co. Limited	RMB5,000,000	62.5%	Provision of computer network services

1 In the opinion of the Directors, the Group exercised joint control over the financial and operating activities of these jointly controlled entities and hence are classified as such.

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

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

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

36 PARTICULARS OF PRINCIPAL ASSOCIATES AND JOINTLY CONTROLLED ENTITIES - Continued

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

	2003	2002
	HK\$'000	HK\$'000
Turnover	131,640	131,833
Profit for the year	37,538	30,804
Non-current assets	2,450,908	2,506,985
Current assets	122,223	92,826
Current liabilities	(14,761)	(18,962)
Non-current liabilities	(1,046,758)	(1,103,077)
Net assets	1,511,612	1,477,772

134

37 ULTIMATE HOLDING COMPANY

The Directors regard China Merchants Group Limited, a company registered in the PRC, as being the ultimate holding company.

38 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 29 March 2004.