

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the consolidated accounts are set out below:

(a) Basis of preparation of the accounts

The accounts 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 (the "HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, investment properties are stated at fair value and certain leasehold land and buildings are carried at valuation as at 31st December 1994 less accumulated depreciation and impairment losses.

In the current year, the Group adopted the new Statement of Standard Accounting Practice ("SSAP") 12 "Income taxes" issued by HKSA which is effective for accounting periods commencing on or after 1st January 2003. The adoption of the new SSAP 12 resulted in a change to the Group's accounting policy on deferred taxation and such change has been applied retrospectively so that the comparative figures presented have been restated to conform to the changed policy. The effect of the adoption of the new SSAP 12 is to decrease the opening retained profits as at 1st January 2003 and 2002 by US\$34,854,000 and US\$22,483,000 respectively and to decrease the profit attributable to shareholders for the year ended 31st December 2002 by US\$12,371,000. Details of the change in the accounting policy on deferred taxation, as a result of the adoption of the new SSAP 12, are set out in note 1(k) below.

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

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

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

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

In the Company's balance sheet, 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 dividend income.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Group accounting (Continued)

(ii) Jointly controlled entities

A jointly controlled entity is a joint venture established as a corporation, partnership or other entity in which the venturers have their respective interests and establish a contractual arrangement among them to define joint control over the economic activity of the entity.

The consolidated profit and loss account includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and goodwill (net of accumulated amortisation) on acquisition.

(iii) Associated companies

An associated company is a company, not being a subsidiary and jointly controlled entity, in which an equity interest is held for long term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and goodwill (net of accumulated amortisation) on acquisition.

(iv) Gain or loss on disposal

The gain or loss on the disposal of a subsidiary, a jointly controlled entity or an associated company represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill, including goodwill previously taken to reserves, which was not previously charged or recognised in the consolidated profit and loss account.

(c) Fixed assets

(i) Investment properties

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

Investment properties held on leases with unexpired periods greater than 20 years are valued annually by independent valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to the operating profit. Any subsequent increases are credited to the operating profit up to the amount previously debited.

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

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Fixed assets (Continued)

(ii) Fixed assets other than investment properties

Fixed assets other than investment properties (note 1(c)(i)) are stated at cost or valuation less accumulated depreciation/amortisation and impairment losses.

Effective from 30th September 1995, no further revaluations of the Group's leasehold land and buildings have been carried out. The Group places reliance on paragraph 80 of SSAP 17 "Property, plant and equipment" issued by the HKSA which provides exemption from the need to make regular revaluations for such assets.

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over the expected useful lives to the Group.

(iii) Depreciation

Investment properties held on leases with unexpired period of 20 years or less are depreciated over the remaining portion of the leases.

Leasehold land is amortised based on the cost/valuation less accumulated impairment losses over the remaining period of the lease on a straight line basis.

Land use rights represent amounts paid for use of land in China mainland under operating leases. Land use rights are amortised based on the cost less accumulated impairment losses over the remaining period of the lease on a straight line basis.

Containers and generator sets are depreciated at cost less accumulated impairment losses on a straight line basis over their estimated useful lives of 15 years and 12 years respectively, after taking into account of the residual value of 10% on cost.

Buildings, leasehold improvements and other fixed assets, which comprise motor vehicles, furniture, fixtures and equipment, computer systems and plant and machinery, are depreciated at rates sufficient to write off their cost or valuation less accumulated impairment losses over their estimated useful lives to their respective residual values estimated by the directors on a straight line basis. The estimated useful lives of these fixed assets are summarised as follows:

Buildings	25 to 50 years
Leasehold improvements	5 years or the remaining period of the lease, whichever is shorter
Other fixed assets	5 to 20 years

No depreciation is provided for computer system under development and construction in progress.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Fixed assets (Continued)

(iv) Impairment of fixed assets

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

(v) Gain or loss on sale of fixed assets

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained profits and is shown as a movement in reserves.

(vi) Capitalisation of fixed assets

Costs associated with developing or maintaining computer systems are expensed as incurred. However, costs which enhances or extends the performance of computer systems beyond their original specifications and have probable future economic benefits are recognised as assets. Direct costs, including staff costs, consultancy fees and an appropriate portion of relevant overheads, which related to development of computer systems are capitalised under computer system under development.

All direct and indirect costs relating to the construction of plant and machinery including interest costs on related borrowed funds during the construction period and operating results prior to the commissioning date are capitalised as construction in progress.

A plant is considered to be commissioned when it is capable of producing saleable quality output in commercial quantities on an ongoing basis.

The construction in progress and computer system under development are transferred to relevant categories of fixed assets upon the completion of their respective construction and development and depreciation will then be commenced accordingly.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(d) Goodwill/negative goodwill

Goodwill represents the excess of purchase consideration over the fair value of the Group's share of the net assets of subsidiaries, jointly controlled entities and associated companies acquired at the date of acquisition.

Goodwill on acquisitions occurring on or after 1st January 2001 is amortised using the straight line method over its estimated useful life of not exceeding 20 years.

Negative goodwill represents the excess of the fair values ascribed to the net assets of subsidiaries, jointly controlled entities and associated companies acquired over the purchase consideration. For acquisition on or after 1st January 2001, negative goodwill is presented in the same balance sheet classification as goodwill.

Goodwill/negative goodwill on acquisitions that occurred prior to 1st January 2001 was taken to reserves.

Where an indication of impairment exists, the carrying amount of goodwill, including goodwill previously taken to reserves, is assessed and written down immediately to its recoverable amount.

(e) Assets under leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessors are accounted for as operating leases. Leases that substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as finance leases.

- (i) Leases – where the company is the lessee
Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight line basis over the lease periods.
- (ii) Leases – where the company is the lessor
When the company leases out assets under operating leases, the assets are included in the balance sheet according to their nature and where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 1(c)(iii) above. Revenue arising from assets leased out under operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 1(m)(i) and 1(m)(v) below.

Finance leases for assets leased out are leases of assets which contain a provision giving the lessee an option to acquire legal title to the assets upon the fulfillment of certain conditions stated in the contracts.

When assets are leased out under a finance lease, the present value of the minimum lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

Revenue on containers leased out under finance leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 1(m)(i) below.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Investments in securities

(i) Investment securities

Listed and unlisted investments which are intended to be held on a continuing basis are stated at cost less 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 investment is reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs and write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(ii) Other investments

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

(g) Inventories

Inventories, including spare parts, consumables and resaleable containers, are stated at the lower of cost and net realisable value. Costs are calculated on first-in first-out basis for spare parts and consumables and on weighted average basis for resaleable containers. Net realisable value of spare parts and consumables is the expected amount to be realised from use as estimated by the directors whereas that of resaleable containers is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(h) Accounts receivable

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

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Provisions

Provisions are recognised when the company 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 company expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(k) Deferred taxation

In accordance with new SSAP 12, deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future 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, jointly controlled entities and associated companies, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior years, deferred taxation was accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts only to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future.

(l) Contingent liabilities and contingent assets

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 company. 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 accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the company.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) Revenue recognition

The Group recognises revenue on the following bases:

- (i) Revenue from leasing of containers and generator sets
Rental income from leasing of containers and generator sets under operating leases are recognised on a straight line basis over the period of each lease. Direct costs or reimbursements from lessees relating to the lifting and storage of containers are included in cost of sales when incurred or occurred.

Revenue on containers leased out under finance leases is allocated to accounting period to give a constant periodic rate of return on the company's net investment in the lease in each period.

Direct costs relating to the negotiations and arrangement of a contract are written off in the profit and loss account when incurred.

- (ii) Revenue from container handling, transportation and storage
Revenue from container handling and transportation is recognised when the services are rendered.

Revenue from container storage is recognised on a straight line basis over the period of storage.

- (iii) Revenue from container terminal operations
Revenue from container terminal operations is recognised when the services rendered are complete and the vessel leaves the berth.

- (iv) Container management income
Container management income is recognised when the services are rendered.

- (v) Operating lease rental income from investment properties
Operating lease rental income from investment properties is recognised on a straight line basis over the period of each lease.

- (vi) Revenue from sale of containers
Revenue from sale of containers is recognised on the transfer of risks and rewards on ownership, which generally coincides with the time when the containers are delivered to customers and title has passed. Direct costs relating to the lifting and storage of containers for sale are expensed as incurred.

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

- (viii) Dividend income
Dividend income is recognised when the company's right to receive payment is established.

- (ix) Income on sale of investment securities
Income on sale of investment securities is recognised when the title to the investments is passed to the purchaser.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) Employee benefits

(i) Retirement benefit costs

The Group contributes to defined contribution retirement schemes which are available to all employees in Hong Kong and the United States of America. The assets of the schemes are held separately from those of the Group in independently administered funds.

Pursuant to the relevant regulations of the government authorities in Germany, Italy, Japan, Australia, the United Kingdom, the United States of America and China mainland, the subsidiaries of the Group in these countries participate in respective government benefit schemes (the "Schemes") whereby the subsidiaries are required to contribute to the Schemes for the retirement benefits of eligible employees. The subsidiaries in Japan and the United Kingdom also contribute to the Schemes for other benefits of eligible employees.

Contributions made to the Schemes are calculated either based on certain percentages of the applicable payroll costs or fixed sums that are determined with reference to salary scale, as stipulated under the requirements of the respective countries. The government authorities of the respective countries are responsible for the entire benefit obligation payable to the retired employees. The only obligation of the Group with respect to the Schemes is to pay the ongoing contributions required by the Schemes.

The Group's contributions to the aforesaid defined contribution retirement schemes and the Schemes are charged to the profit and loss account as incurred.

(ii) Employee leave entitlements

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

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

(iii) Equity compensation benefits

Share options are granted to directors and employees of the Group. As there is no specific accounting guidance issued by the HKSA on the accounting for employee share options, no compensation cost is recognised in the profit and loss account in connection with share options granted. When the share options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium.

(iv) Bonus entitlements

The expected cost of bonus payments is recognised as a liability when the company has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(o) Borrowing costs

Discount on the issue of notes represents the difference between principal amount payable by the company on maturity of the notes and the proceeds received and is recognised in the profit and loss account using the effective yield method over the life of the notes.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(p) Financial instruments

The Group manages interest rate exposure of the loans by interest rate swap contracts. Any differential to be paid or received on an interest rate swap contract is recognised as a component of interest expense over the period of the contract.

(q) Translation of foreign currencies

Transactions in currencies other than United States dollars are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in currencies other than United States dollars at the balance sheet date are translated at exchange rates ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries, jointly controlled entities and associated companies expressed in currencies other than United States dollars are translated at the exchange rates ruling at the balance sheet date whilst their profit and loss accounts expressed in currencies other than United States dollars are translated at the average exchange rates during the year. Exchange differences are dealt with as a movement in reserves.

(r) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments are presented as the primary reporting format.

Unallocated costs represent net corporate expenses and corporate finance costs less corporate interest income. Segment assets consist primarily of fixed assets, investment securities, inventories, receivables and operating cash, and mainly exclude investments in jointly controlled entities and associated companies. Segment liabilities comprise operating liabilities and exclude items such as taxation and corporate borrowings. Capital expenditure comprises additions to investment securities and fixed assets, including additions resulting from acquisitions through purchases of subsidiaries.

Notes to the Accounts

2 TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in container leasing, container handling and storage and container terminal operations. Revenues recognised during the year are as follows:

	2003 US\$'000	2002 US\$'000
Turnover		
Operating leases rentals		
– containers	239,046	224,440
– generator sets	60	–
Finance lease income on containers	484	545
Container handling, transportation and storage income	8,761	8,790
Container terminal operation income	9,045	7,850
Container management income	99	19
	257,495	241,644
Other revenues		
Sale of inventories	10,762	7,048
Interest income	2,343	3,794
Dividend income from unlisted investments	20,421	5,003
Gross rental income from investment properties	53	55
	33,579	15,900
Total revenues	291,074	257,544

(a) Primary reporting format – business segments

The Group has categorised its businesses into the following segments:

- (i) container leasing and related business
- (ii) container terminal and related businesses
- (iii) banking
- (iv) other operations
- (v) corporate

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

(a) Primary reporting format – business segments (Continued)

Segment turnover and results

	For the year ended 31st December 2003					
	Container leasing and related business US\$'000	Container terminal and related businesses US\$'000	Banking US\$'000	Other operations US\$'000	Corporate US\$'000	Total US\$'000
Turnover						
Total revenues	239,689	17,853	–	–	–	257,542
Inter-segment sales	–	(47)	–	–	–	(47)
External sales	239,689	17,806	–	–	–	257,495
Segment results	91,896	24,709	–	–	–	116,605
Unallocated costs						
– net corporate expenses	–	–	–	–	(5,543)	(5,543)
– corporate finance costs	–	–	–	–	(3,160)	(3,160)
– corporate interest income	–	–	–	–	1,085	1,085
Operating profit/(loss) after finance costs	91,896	24,709	–	–	(7,618)	108,987
Share of profits less losses of						
– jointly controlled entities	–	511	–	6,200	–	6,711
– associated companies	–	55,153	9,762	–	–	64,915
Profit before taxation						180,613
Taxation						(24,424)
Profit after taxation						156,189
Minority interests						(1,858)
Profit attributable to shareholders						154,331

Notes to the Accounts

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

(a) Primary reporting format – business segments (Continued)

Segment turnover and results (Continued)

	For the year ended 31st December 2002 (Restated)					
	Container leasing and related business US\$'000	Container terminal and related businesses US\$'000	Banking US\$'000	Other operations US\$'000	Corporate US\$'000	Total US\$'000
Turnover						
External sales	225,004	16,640	–	–	–	241,644
Segment results	86,358	6,641	–	–	–	92,999
Unallocated costs						
– net corporate expenses	–	–	–	–	(3,498)	(3,498)
– corporate finance costs	–	–	–	–	(638)	(638)
– corporate interest income	–	–	–	–	2,699	2,699
Operating profit/(loss) after finance costs	86,358	6,641	–	–	(1,437)	91,562
Share of profits less losses of						
– jointly controlled entities	–	2,890	–	5,861	–	8,751
– associated companies	–	59,005	8,456	–	–	67,461
Profit before taxation						167,774
Taxation						(23,886)
Profit after taxation						143,888
Minority interests						(1,699)
Profit attributable to shareholders						142,189

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

(a) Primary reporting format – business segments (Continued)

Segment assets, liabilities and other information

	Container leasing and related business US\$'000	Container terminal and related businesses US\$'000	Banking US\$'000	Other operations US\$'000	Corporate US\$'000	Total US\$'000
2003						
Segment assets	1,208,517	114,213	–	–	–	1,322,730
Jointly controlled entities	7	61,036	–	22,239	–	83,282
Associated companies	–	116,201	158,409	–	–	274,610
Unallocated assets						219,644
						<u>1,900,266</u>
Segment liabilities	(362,431)	(45,785)	–	–	–	(408,216)
Minority interests	–	(8,644)	–	–	–	(8,644)
Unallocated liabilities						(162,242)
						<u>(579,102)</u>
Capital expenditure	197,905	17,189	–	–	2,038	217,132
Depreciation and amortisation	94,041	1,169	–	–	307	95,517
Impairment loss recognised in consolidated profit and loss account	9,865	–	–	–	–	9,865
Other non-cash expenses	2,254	2,350	–	–	827	5,431

Notes to the Accounts

2 TURNOVER, REVENUE AND SEGMENT INFORMATION (Continued)

(a) Primary reporting format – business segments (Continued)

Segment assets, liabilities and other information (Continued)

	Container leasing and related business US\$'000	Container terminal and related businesses US\$'000	Banking US\$'000	Other operations US\$'000	Corporate US\$'000	Total US\$'000
2002 (Restated)						
Segment assets	1,140,061	101,525	–	–	–	1,241,586
Jointly controlled entities	(4,754)	24,576	–	26,230	–	46,052
Associated companies	–	128,497	156,073	–	–	284,570
Unallocated assets						171,589
						<u>1,743,797</u>
Segment liabilities	(447,404)	(8,890)	–	–	–	(456,294)
Minority interests	–	(8,314)	–	–	–	(8,314)
Unallocated liabilities						<u>(26,141)</u>
						<u>(490,749)</u>
Capital expenditure	155,314	36,449	–	–	113	191,876
Depreciation and amortisation	86,230	1,173	–	–	279	87,682
Impairment loss recognised in						
– consolidated profit and loss account	15,997	–	–	–	–	15,997
– other properties revaluation reserve	165	–	–	–	–	165
Other non-cash expenses	2,531	3,280	–	–	5	5,816

(b) Secondary reporting format – geographical segments

The movements of containers and generator sets under operating leases or finance leases are known through report from the lessees but the Group is not able to control the movements of containers and generator sets except to the degree that the movements are restricted by the terms of the leases or where safety of the containers and generator sets is concerned. It is therefore impracticable to present segment information by geographical areas.

The activities of container terminal and related businesses, other operations and corporate segments are carried out in Hong Kong, China mainland and Singapore while that of banking operation is predominantly carried out in Hong Kong.

3 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2003 US\$'000	2002 US\$'000
Crediting		
Recovery of bad debts	1,047	2,999
Gain on disposal of fixed assets	858	213
Gross rental income under operating sublease	–	426
Charging		
Depreciation and amortisation		
– owned fixed assets leased out under operating leases	92,060	84,384
– other owned fixed assets	3,457	3,298
Impairment loss (including in other operating expenses) (note 12)		
– containers	9,865	15,056
– leasehold land and buildings	–	941
Cost of inventories sold	13,322	8,929
Auditors' remuneration		
– current year	519	477
– over provision in prior years	–	(40)
Loss on disposal/write-off of fixed assets	769	238
Write-off of computer system development costs	–	436
Loss on compensation for loss of containers from a fellow subsidiary	37	25
Loss on disposal of an unlisted investment (note 16)	2,192	–
Outgoings in respect of investment properties	8	6
Provision for bad and doubtful debts, net	1,370	1,142
Provision for loan to an investee company	–	3,296
Provision for inventories	155	832
Rental expense under operating leases		
– land and buildings leased from third parties	2,606	2,965
– land and buildings leased from fellow subsidiaries	796	714
– plant and machinery	373	394
Revaluation deficit of investment properties (note 12(b))	81	60
Total staff costs (including directors' emoluments and retirement benefit costs) (note)	15,769	13,506
Less: Amounts capitalised in computer system under development	(228)	(176)
	15,541	13,330

Note:

Total staff costs do not include the amounts of benefits in kind provided to the Company's directors and the Group's employees in respect of staff quarters and the Company's share options being granted and exercised. Details of the Company's share options are set out in note 21(b) to the accounts.

Notes to the Accounts

4 FINANCE COSTS

	2003 US\$'000	2002 US\$'000
Interest expense on		
– bank loans	4,355	10,786
– other loans wholly repayable within five years	1,831	2,639
– other loans not wholly repayable within five years	–	479
– Notes not wholly repayable within five years	4,406	–
– loans from a minority shareholder of a subsidiary wholly repayable within five years	76	106
Amortised amount of discount on issue of Notes	62	–
Net loss on interest rate swap contracts	1,193	1,454
	11,923	15,464
Other incidental borrowing costs	5,226	2,555
	17,149	18,019

5 SHARE OF PROFITS LESS LOSSES OF ASSOCIATED COMPANIES

The share of profits less losses of associated companies in 2002 included a gain of US\$7,474,000 on disposal of entire interest in a co-operative joint venture owned by an associated company of the Group.

6 TAXATION

	2003 US\$'000	2002 US\$'000 (Restated)
Company and subsidiaries		
Current taxation		
Hong Kong profits tax	526	723
China mainland taxation	625	257
Overseas taxation	106	106
Over provision in prior years	(97)	(15)
	1,160	1,071
Deferred taxation relating to the origination and reversal of temporary differences	11,354	9,858
Deferred taxation resulting from an increase in Hong Kong profits tax rate	(12)	–
	12,502	10,929
Share of taxation attributable to:		
Jointly controlled entities		
China mainland taxation	659	1,049
Overseas taxation	75	–
Associated companies		
Hong Kong profits tax	9,025	8,505
China mainland taxation	1,017	890
Deferred taxation	1,146	2,513
	24,424	23,886

Hong Kong profits tax has been provided at a rate of 17.5% (2002: 16.0%) on the estimated assessable profit for the year. In 2003, the Hong Kong government enacted a change in profits tax rate from 16.0% to 17.5% for fiscal year of 2003/2004.

Taxation on profits from a subsidiary operating in China mainland has been calculated at an effective tax rate of 15.0% (2002: 7.5%) on the estimated assessable profit for the year. The subsidiary was eligible for a 50% relief from corporate income tax of 15.0% for five years since 1998 and up to 2002.

Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

Notes to the Accounts

6 TAXATION (Continued)

The Group's China mainland sourced income from container leasing are currently exempt from income tax in China mainland in accordance with a notice granting temporary exemption of income tax on rental payments made to foreign companies for leasing of containers which are used in international transportation (Guo Shui Fa (1993) No. 49) issued by the State Administration of Taxation of the People's Republic of China (the "PRC") on 12th March 1993.

The Group is also exempt from business tax currently on its China mainland sourced rental income earned in accordance with a notice granting exemption from business tax for foreign enterprises which has no establishment in China mainland earning rental income from leasing of movable properties (Guo Shui Fa (1997) No. 35) issued by the State Administration of Taxation of the PRC on 14th March 1997.

Below is a numerical reconciliation between tax expense in the consolidated profit and loss account and aggregate tax expense at the domestic rates applicable to profits in respective territories concerned:

	2003 US\$'000	2002 US\$'000
Profit before taxation	180,613	167,774
Aggregate tax at domestic rates applicable to profits in respective territories concerned	25,990	22,566
Income not subject to taxation	(1,851)	(2,301)
Expenses not deductible for taxation purposes	1,199	899
Under/(over) provision in prior years	36	(28)
Decrease in opening deferred tax assets arising from expiry of tax losses	–	1,191
Increase in opening net deferred tax liabilities resulting from an increase in tax rate	1,208	–
Utilisation of previously unrecognised tax losses	(59)	(23)
Net income under tax exemption period/tax relief granted by the Tax Bureau in China mainland	(2,172)	(1,874)
Others	73	3,456
Taxation charge	24,424	23,886

7 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of US\$84,320,000 (2002: US\$72,334,000).

8 DIVIDENDS

	2003 US\$'000	2002 US\$'000
Interim, paid, of US1.769 cents (2002: US1.410 cents) per ordinary share	37,986	30,278
Final, proposed, of US2.308 cents (2002: US 2.308 cents) per ordinary share	49,582	49,546
Additional 2001 final dividend paid on shares issued due to the exercise of share options before the closure of register of members	–	80
	87,568	79,904

Note:

At a board meeting held on 25th March 2004, the directors proposed a final dividend of HK18.0 cents (equivalent to US2.308 cents) per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts until it has been approved at the annual general meeting, but will be reflected as an appropriation of retained profits for the year ending 31st December 2004.

9 EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of US\$154,331,000 (2002: US\$142,189,000, as restated).

The basic earnings per share is based on the weighted average number of 2,147,340,079 (2002: 2,146,159,454) ordinary shares in issue during the year. The diluted earnings per share is based on the weighted average number of ordinary shares in issue during the year plus the weighted average of 926,165 (2002: 80,810) ordinary shares deemed to be issued at no consideration as if all outstanding share options had been exercised.

10 RETIREMENT BENEFIT COSTS

The retirement benefit costs charged to the consolidated profit and loss account represent contributions payable by the Group to the retirement benefit schemes and amounted to US\$789,000 (2002: US\$706,000). Contributions totalling US\$26,000 (2002: US\$16,000) were payable to the retirement benefit schemes as at 31st December 2003 and are included in trade and other payables. Forfeited contributions of US\$129,000 (2002: US\$Nil) were utilised during the year and no forfeited contributions were available as at 31st December 2003 to reduce future contributions (2002: US\$100,000).

11 DIRECTORS' AND MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments paid to directors of the Company during the year are as follows:

	2003 US\$'000	2002 US\$'000
Fees	263	256
Salaries, housing and other allowances, benefits in kind	2,153	1,464
Bonuses	33	74
Contributions to retirement schemes	2	2
	2,451	1,796

Directors' fees disclosed above include US\$88,462 (2002: US\$88,462) paid to independent non-executive directors.

As at 31st December 2003, a director (2002: two directors) of the Company had 1,500,000 (2002: 3,000,000) share options which are exercisable at HK\$5.53 per share granted by the Company on 1st July 1996 under the share option scheme adopted by the Company on 30th November 1994 (the "1994 Share Option Scheme").

Benefits in kind included the difference between the aggregate amount of the market price of the Company's shares issued at the date of exercise of these share options and the amount paid by the director in exercising these share options. During the year, a director exercised 1,500,000 (2002: Nil) share options at HK\$5.53 per share. The market price per share at the exercise date was HK\$9.50.

As at 31st December 2003 and 2002, a director of the Company had 5,000,000 share options which are exercisable at HK\$8.80 per share granted by the Company on 20th May 1997 under the 1994 Share Option Scheme.

As at 31st December 2003, twenty directors (2002: not applicable) of the Company had 16,500,000 share options which are exercisable at HK\$9.54 per share granted by the Company under the share option scheme approved by the shareholders of the Company on 23rd May 2003 (the "2003 Share Option Scheme").

The consideration paid by the directors for each offer of share options granted was HK\$1.00.

Details and movement of share options granted and exercised during the year are set out in note 21(b) to the accounts.

11 DIRECTORS' AND MANAGEMENT'S EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

The directors' emoluments are analysed as follows:

	Number of directors	
	2003	2002
Emoluments band		
US\$Nil – US\$128,205 (HK\$Nil – HK\$1,000,000)	21	16
US\$128,206 – US\$192,308 (HK\$1,000,001 – HK\$1,500,000)	1	1
US\$256,411 – US\$320,513 (HK\$2,000,001 – HK\$2,500,000)	2	2
US\$641,026 – US\$705,128 (HK\$5,000,001 – HK\$5,500,000)	1	–
US\$705,129 – US\$769,230 (HK\$5,500,001 – HK\$6,000,000)	–	1
US\$769,231 – US\$833,333 (HK\$6,000,001 – HK\$6,500,000)	1	–
	26	20

The above analysis includes four (2002: three) individuals whose emoluments were among the five highest in the Group.

(b) Management's emoluments

Details of the aggregate emoluments paid to an individual (2002: two individuals) whose emoluments were the highest in the Group and have not been included in the directors' emoluments above are set out below:

	2003 US\$'000	2002 US\$'000
Salaries, housing and other allowances, benefits in kind	347	694
Bonuses	55	34
Contributions to retirement benefit schemes	2	15
	404	743

Notes to the Accounts

11 DIRECTORS' AND MANAGEMENT'S EMOLUMENTS (Continued)

(b) Management's emoluments (Continued)

The emoluments of the highest paid individuals fell within the following bands:

	Number of individuals	
	2003	2002
Emoluments band		
US\$320,514 – US\$384,615 (HK\$2,500,001 – HK\$3,000,000)	–	1
US\$384,616 – US\$448,718 (HK\$3,000,001 – HK\$3,500,000)	1	1
	1	2

(c) During the year, no emoluments had been paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office. No directors waived or agreed to waive any emoluments during the year.

12 FIXED ASSETS

Company	Other fixed assets US\$'000
Cost	
Additions for the year and at 31st December 2003	389
Accumulated depreciation	
Charge for the year and at 31st December 2003	(19)
Net book value	
At 31st December 2003	370

12 FIXED ASSETS (Continued)

Group

	Leasehold land and buildings		Investment properties	Land use rights		Containers	Generator sets	Leasehold improvements	Other fixed assets	Computer system	Construction	Total
	in Hong Kong	outside Hong Kong	in Hong Kong	in Hong Kong	outside Hong Kong					under development	in progress	
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000					US\$'000	US\$'000	
Cost or valuation												
At 1st January 2003	21,722	12,071	825	1,856	1,528,450	–	2,119	24,124	1,201	656	–	1,593,024
Additions	1,302	–	–	–	195,606	973	207	1,029	1,101	191	–	200,409
Disposals/transfer/write-off	–	(10)	–	–	(95,145)	–	(1,225)	(833)	–	–	–	(97,213)
Revaluation deficit (note b)	–	–	(81)	–	–	–	–	–	–	–	–	(81)
Reclassification	–	44	–	–	–	–	–	1,783	(980)	(847)	–	–
Exchange differences	–	–	–	–	–	–	10	31	–	–	–	41
At 31st December 2003	23,024	12,105	744	1,856	1,628,911	973	1,111	26,134	1,322	–	–	1,696,180
Accumulated depreciation/ amortisation and impairment losses												
At 1st January 2003	6,579	2,427	–	370	521,347	–	2,013	12,130	–	–	–	544,866
Impairment loss recognised in consolidated profit and loss account	–	–	–	–	9,865	–	–	–	–	–	–	9,865
Depreciation/amortisation charge for the year	542	403	–	74	92,030	30	68	2,370	–	–	–	95,517
Disposals/transfer/write-off – accumulated impairment losses	–	–	–	–	(7,116)	–	–	–	–	–	–	(7,116)
– accumulated depreciation	–	(7)	–	–	(50,947)	–	(1,222)	(784)	–	–	–	(52,960)
Exchange differences	–	–	–	–	–	–	8	29	–	–	–	37
At 31st December 2003	7,121	2,823	–	444	565,179	30	867	13,745	–	–	–	590,209
Net book value												
At 31st December 2003	15,903	9,282	744	1,412	1,063,732	943	244	12,389	1,322	–	–	1,105,971
At 31st December 2002	15,143	9,644	825	1,486	1,007,103	–	106	11,994	1,201	656	–	1,048,158

Notes to the Accounts

12 FIXED ASSETS (Continued)

Group

	Leasehold land and buildings		Investment properties	Land use rights	Containers	Generator sets	Leasehold improvements	Other fixed assets	Computer system	Construction	Total
	in Hong Kong	outside Hong Kong	in Hong Kong	outside Hong Kong					under development	in progress	
	US\$'000	US\$'000	US\$'000	US\$'000					US\$'000	US\$'000	
The analysis of cost or valuation of the above assets as at 31st December 2003 is as follows:											
At cost	3,051	12,105	–	1,856	1,628,911	973	1,111	26,134	1,322	–	1,675,463
At professional valuation											
– 1994	19,973	–	–	–	–	–	–	–	–	–	19,973
– 2003	–	–	744	–	–	–	–	–	–	–	744
	23,024	12,105	744	1,856	1,628,911	973	1,111	26,134	1,322	–	1,696,180
The analysis of cost or valuation of the above assets as at 31st December 2002 is as follows:											
At cost	1,749	12,071	–	1,856	1,528,450	–	2,119	24,124	1,201	656	1,572,226
At professional valuation											
– 1994	19,973	–	–	–	–	–	–	–	–	–	19,973
– 2002	–	–	825	–	–	–	–	–	–	–	825
	21,722	12,071	825	1,856	1,528,450	–	2,119	24,124	1,201	656	1,593,024

12 FIXED ASSETS (Continued)

Notes:

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

	Group	
	2003 US\$'000	2002 US\$'000
In Hong Kong, held on leases of over 50 years	16,647	15,968
Outside Hong Kong, held on leases of between 10 to 50 years	9,282	9,644
	25,929	25,612

- (b) The investment properties as at 31st December 2003 and 2002 were revalued on an open market value basis by DTZ Debenham Tie Leung Limited, an independent professional property valuer. The revaluation deficit was accounted for in the consolidated profit and loss account (note 3).
- (c) Certain leasehold land and buildings in Hong Kong as at 31st December 2003 were revalued in 1994 on an open market value basis by C.Y. Leung & Company Limited (now known as DTZ Debenham Tie Leung Limited), an independent professional property valuer.
- The carrying amount of these leasehold land and buildings as at 31st December 2003 would have been US\$12,591,000 (2002: US\$13,009,000) had the leasehold land and buildings been carried at cost less accumulated depreciation/amortisation and impairment losses in the accounts.
- (d) The aggregate cost, accumulated depreciation and accumulated impairment losses as at 31st December 2003 of the leased assets other than investment properties, where the Group is a lessor, comprised containers and generator sets leased to fellow subsidiaries and third parties under operating leases and amounted to US\$1,602,567,000 (2002: US\$1,521,075,000), US\$544,515,000 (2002: US\$503,402,000) and US\$20,694,000 (2002: US\$17,945,000) respectively.
- (e) The accumulated impairment losses of fixed assets as at 31st December 2003 amounted to US\$23,351,000 (2002: US\$20,602,000).
- (f) Certain containers with an aggregate net book value of US\$318,976,000 (2002: US\$278,378,000) as at 31st December 2003 were pledged as security for loan facilities granted by banks and third parties.
- (g) During the year, the Group transferred containers with an aggregate net book value of US\$13,493,000 (2002: US\$9,081,000) to inventories.
- (h) As at 31st December 2003, the accumulated staff costs capitalised in computer system under development amounted to US\$230,000 (2002: US\$179,000).

Notes to the Accounts

13 SUBSIDIARIES

	Company	
	2003 US\$'000	2002 US\$'000
Unlisted investments, at cost	159,654	159,654
Amounts due from subsidiaries (note a)	1,164,643	936,159
Loan due to a subsidiary (note b)	(177,800)	–
Amounts due to subsidiaries (note a)	(2,013)	–
Provision	(45,651)	(47,820)
	1,098,833	1,047,993

Notes:

- (a) The amounts due from/(to) subsidiaries are unsecured, interest free and have no fixed terms of repayment.
- (b) The loan due to a subsidiary is unsecured and wholly repayable on or before 3rd October 2013. The balance was interest free for the year as agreed with the subsidiary.
- (c) Details of the subsidiaries as at 31st December 2003 are shown in note 35 to the accounts.

14 JOINTLY CONTROLLED ENTITIES

	Group	
	2003 US\$'000	2002 US\$'000
Share of net assets	67,662	44,663
Goodwill on acquisition	5,643	–
	73,305	44,663
Loan to a jointly controlled entity (note a)	9,396	–
Amounts due from jointly controlled entities (note b)	581	6,143
Amounts due to jointly controlled entities (note b)	–	(4,754)
	83,282	46,052

Notes:

- (a) The loan to a jointly controlled entity is unsecured and bears interest at 1.60% per annum above the applicable swap offer rate as determined by the Association of Banks in Singapore. The loan is wholly repayable on or before October 2013.
- (b) The amounts due from/(to) jointly controlled entities are unsecured and interest free. Balances in relation to normal course of business have credit periods similar to those of third parties while the other balances have no fixed terms of repayment.

14 JOINTLY CONTROLLED ENTITIES (Continued)

- (c) The Group's share of the results of its jointly controlled entities, Shanghai CIMC Far East Container Co., Ltd. and Tianjin CIMC North Ocean Container Co., Ltd. (collectively "Shanghai and Tianjin CIMC"), were based on the guaranteed profits as stated in the relevant subcontracting agreements entered into with the venturer of Shanghai and Tianjin CIMC, which is a related company of the Group (note 30(f)). The guaranteed profit arrangements for Shanghai and Tianjin CIMC are for a term of five years commencing from 1st January 2000.
- (d) The Company has no directly owned jointly controlled entity as at 31st December 2003 and 2002. Details of the jointly controlled entities held by the Company's wholly owned subsidiaries as at 31st December 2003 are shown in note 36 to the accounts.

15 ASSOCIATED COMPANIES

	Group	
	2003	2002
	US\$'000	US\$'000 (Restated)
Share of net assets	274,605	274,720
Amount due from an associated company (note a)	5	5
Loan to an associated company (notes a and b)	–	9,845
	274,610	284,570
Investments, at cost		
Listed shares in Hong Kong	219,189	219,189
Unlisted shares	339,762	314,986
	558,951	534,175
Market value of listed shares	133,846	78,077

Notes:

- (a) Loan to and amount due from associated companies are unsecured, interest free and have no fixed terms of repayment.
- (b) On 17th March 2003, the directors of the Twinbridge Development Corp. ("Twinbridge"), an associated company of the Group, resolved to wind up Twinbridge and submitted the plan of dissolution to Twinbridge's shareholders for their approval (the "Dissolution"). Upon the application of the Dissolution, Twinbridge has paid the Group an aggregate amount of US\$51,780,000, representing the repayment of the loan advanced by the Group to Twinbridge of US\$9,845,000 and the return of the Group's investment costs in Twinbridge and its share of the distributable reserves of Twinbridge totalling US\$41,935,000. The Dissolution was subsequently completed in January 2004.
- (c) The Company has no directly owned associated company as at 31st December 2003 and 2002. Details of the associated companies held by the Company's wholly owned subsidiaries as at 31st December 2003 are shown in note 37 to the accounts.

Notes to the Accounts

16 INVESTMENT SECURITIES

	Group	
	2003 US\$'000	2002 US\$'000
Equity securities (note a)		
– unlisted investments in Hong Kong, at cost	1	1
– unlisted investments in China mainland, at cost	21,666	24,581
Loans to investee companies (note b)	41,582	56,485
Provision	–	(14,191)
	63,249	66,876

Notes:

- (a) Unlisted investments as at 31st December 2003 represent equity interests in entities which are involved in container terminal operations in Yantian, Shekou and Dalian of China mainland. The unlisted investments as at 31st December 2002 also included an equity interest in river trade terminal operation in Hong Kong which was disposed of during the year and resulted in a loss of US\$2,192,000 (note 3).
- (b) Loans to investee companies are unsecured and have no fixed terms of repayment. These loans are interest free except for a balance of US\$19,349,000 as at 31st December 2003 (2002: US\$2,625,000) which bears interest at Hong Kong dollar prime rate.

17 FINANCE LEASE RECEIVABLES

Group	2003				2002		
	Gross receivables US\$'000	Unearned finance income US\$'000	Provision US\$'000	Present value of minimum lease payment receivable US\$'000	Gross receivables US\$'000	Unearned finance income US\$'000	Present value of minimum lease payment receivable US\$'000
Amounts receivable under finance leases:							
Current portion							
– not later than one year	1,516	(532)	(37)	947	2,826	(130)	2,696
Non-current portion							
– later than one year and not later than five years	4,658	(1,238)	(29)	3,391	233	(36)	197
– later than five years	1,793	(190)	–	1,603	–	–	–
	7,967	(1,960)	(66)	5,941	3,059	(166)	2,893

17 FINANCE LEASE RECEIVABLES (Continued)

As at 31st December 2003, the Group entered into 18 (2002: 15) finance leases contracts for leasing of certain containers. The average term of finance leases is 5 years (2002: 5 years).

The cost of assets acquired for the purpose of letting under finance leases amounted to US\$10,147,000 (2002: US\$19,023,000) as at 31st December 2003.

Unguaranteed residual values of assets leased under finance leases are estimated at approximately US\$4,000 (2002: US\$9,000).

18 INVENTORIES

As at 31st December 2003, inventories of the Group represent spare parts and consumables of US\$193,000 (2002: US\$269,000) and resaleable containers of US\$2,407,000 (2002: US\$2,379,000).

Spare parts and consumables are stated at cost. The carrying amount of resaleable containers that are carried at net realisable value amounted to US\$2,341,000 (2002: US\$2,308,000).

19 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2003	2002	2003	2002
	US\$'000	US\$'000	US\$'000	US\$'000
Trade receivables (note a)	28,862	25,387	–	–
Other receivables, deposits and prepayments	27,278	7,445	270	312
Amounts due from (notes a and b)				
– fellow subsidiaries	23,765	22,619	–	–
– related companies	634	701	–	–
	80,539	56,152	270	312

Notes to the Accounts

19 TRADE AND OTHER RECEIVABLES (Continued)

Notes:

- (a) The Group grants credit period of 30 to 90 days to its customers.

At 31st December 2003, the ageing analysis of the trade balances due from third parties (net of provision), fellow subsidiaries and related companies was as follows:

	Group	
	2003 US\$'000	2002 US\$'000
Within 30 days	23,793	27,507
31-60 days	21,258	17,141
61-90 days	5,925	2,403
Over 90 days	1,779	982
	52,755	48,033

- (b) The amounts due from fellow subsidiaries and related companies are unsecured and interest free. Trading balances have credit periods ranging from 30 days to 90 days while other balances have no fixed terms of repayment.

20 TRADE AND OTHER PAYABLES

	Group		Company	
	2003 US\$'000	2002 US\$'000	2003 US\$'000	2002 US\$'000
Trade payables (note a)	10,007	5,333	–	–
Other payables and accruals	26,521	25,576	182	143
Dividend payable	12	8	12	8
Amounts due to (notes a and b)				
– ultimate holding company	235	–	–	–
– fellow subsidiaries	136	25	–	–
– related companies	15,276	2,738	–	–
– minority shareholders of subsidiaries	3,856	3,319	–	–
	56,043	36,999	194	151

20 TRADE AND OTHER PAYABLES (Continued)

Notes:

- (a) At 31st December 2003, the ageing analysis of the trade balances due to third parties, ultimate holding company, fellow subsidiaries, related companies, minority shareholders of subsidiaries and jointly controlled entities was as follows:

	Group	
	2003 US\$'000	2002 US\$'000
Within 30 days	24,528	6,409
31-60 days	295	3,791
61-90 days	1,097	1,842
Over 90 days	3	1,519
	25,923	13,561
Included under trade and other payables	25,923	8,807
Included under jointly controlled entities	–	4,754
	25,923	13,561

- (b) The amounts due to ultimate holding company, fellow subsidiaries, related companies and minority shareholders of subsidiaries are unsecured and interest free. Balances in relation to purchases of containers have similar credit periods granted as those of other third party suppliers while the other balances have no fixed terms of repayment.

21 SHARE CAPITAL

	2003 US\$'000	2002 US\$'000
Authorised:		
3,000,000,000 ordinary shares of HK\$0.10 each	38,462	38,462
Issued and fully paid:		
2,148,542,298 (2002: 2,147,012,298) ordinary shares of HK\$0.10 each	27,553	27,533

Notes to the Accounts

21 SHARE CAPITAL (Continued)

(a) The movements of the issued share capital of the Company are summarised as follows:

	Number of ordinary shares	Nominal value US\$'000
At 1st January 2002	2,142,542,298	27,476
Issued on exercise of share options	4,470,000	57
At 31st December 2002	2,147,012,298	27,533
At 1st January 2003	2,147,012,298	27,533
Issued on exercise of share options (note b)	1,530,000	20
At 31st December 2003	2,148,542,298	27,553

(b) Share options

Under the 1994 Share Option Scheme, the directors of the Company may, at their discretion, grant to any director, executive and/or employee who are in full time employment with any company in the Group, share options to subscribe for the Company's shares, subject to the terms and conditions stipulated therein.

On 23rd May 2003, the shareholders of the Company approved the adoption of the 2003 Share Option Scheme and the termination of the 1994 Share Option Scheme.

No further options shall be granted under the 1994 Share Option Scheme after 23rd May 2003 but the outstanding share options which had been granted shall continue to be valid and exercisable in accordance with their terms and provisions under the 1994 Share Option Scheme.

Under the 2003 Share Option Scheme, the directors of the Company may, at their discretion, invite any participants, as defined under the 2003 Share Option Scheme to take up share options for subscribing the Company's shares, subject to the terms and conditions stipulated therein.

The consideration on acceptance of an offer of the grant of an option is HK\$1.00.

21 SHARE CAPITAL (Continued)

(b) Share options (Continued)

Movements of the share options granted during the year are set out below:

Category	Note	Exercise price HK\$	Number of share options				Outstanding as at 31st December 2003	Vested percentage as at 31st December 2003	Vested percentage as at 31st December 2002
			Outstanding at 1st January 2003	Granted during the year	Exercised during the year	Lapsed during the year			
Directors	(i)	5.53	3,000,000	–	(1,500,000)	–	1,500,000	100%	0%
	(ii)	8.80	5,000,000	–	–	–	5,000,000	100%	100%
	(iii)	9.54	–	16,500,000	–	–	16,500,000	100%	N/A
Continuous contract employees	(i)	5.53	80,000	–	–	–	80,000	100%	0%
	(ii)	8.80	6,800,000	–	–	(1,200,000)	5,600,000	100%	100%
	(iii)	9.54	–	23,150,000	(10,000)	–	23,140,000	100%	N/A
Others	(iii)	9.54	–	6,200,000	(20,000)	–	6,180,000	100%	N/A
			14,880,000	45,850,000	(1,530,000)	(1,200,000)	58,000,000		

Notes:

- (i) The share options were granted on 1st July 1996 under the 1994 Share Option Scheme and are exercisable on or before 30th June 2006, subject to the following conditions:

Percentage of the total number of options granted to each grantee which can be exercised (including the options which have already been exercised)

Price level per share at which the options can be exercised#

20% of the options	HK\$6.50 or above
40% of the options	HK\$7.00 or above
60% of the options	HK\$7.50 or above
80% of the options	HK\$8.00 or above
100% of the options	HK\$8.50 or above

- # The price level refers to the closing price of the Company's share on The Stock Exchange of Hong Kong Limited at the date prior to the exercise of the options.

On 14th October 2003, 1,500,000 share options were exercised by a director.

Notes to the Accounts

21 SHARE CAPITAL (Continued)

(b) Share options (Continued)

(ii) The share options were granted on 20th May 1997 (the “Offer Date”) under the 1994 Share Option Scheme and are exercisable on or before 19th May 2007, subject to the following conditions:

- (1) For those grantees who have completed one year full-time service in the Group may exercise a maximum of 20% of share options granted in each of the first five anniversary years from the Offer Date.
- (2) For those grantees who have not completed one year full-time service in the Group as at the Offer Date, a maximum of 20% of options granted may be exercisable in each of the first five anniversary years of the Offer Date after completion of one year full-time service.

Following the resignations of two employees, 1,200,000 (2002: 750,000) share options were lapsed during the year.

(iii) The share options were granted during the period from 28th October 2003 to 6th November 2003 under the 2003 Share Option Scheme. The options are exercisable at any time within ten years from the date on which an offer is accepted or deemed to be accepted by the grantee under the 2003 Share Option Scheme (the “Commencement Date”). The Commencement Date of the options granted started from 28th October 2003 to 6th November 2003.

10,000 and 20,000 share options were exercised by an employee of the Group and an employee of COSCO (Hong Kong) Group Limited, the Company’s immediate holding company, on 6th November 2003 and 3rd December 2003 respectively.

(iv) 1,500,000 shares at HK\$5.53 per share and 30,000 shares at HK\$9.54 per share were issued upon the exercise of 1,530,000 share options during the year which yielded the following proceeds, after transaction costs of US\$78:

	2003 US\$'000	2002 US\$'000
Ordinary share capital – at par	20	57
Share premium (net of issue expenses)	1,081	2,049
Proceeds (net of issue expenses)	1,101	2,106

The weighted average closing price of the Company’s shares on the dates when the share options were exercised was HK\$9.51 (2002: HK\$4.96).

(v) For those share options granted on 1st July 1996 and 20th May 1997 under the 1994 Share Option Scheme, all grantees may reserve their rights to exercise and accumulate their share options exercisable during their employment within the Group.

22 RESERVES

Company	Share premium US\$'000	Contributed surplus US\$'000	Retained profits US\$'000	Total US\$'000
At 1st January 2002	558,008	414,214	174,113	1,146,335
Issue of shares on exercise of share options	2,051	–	–	2,051
Share issue expenses	(2)	–	–	(2)
Profit for the year	–	–	72,334	72,334
Dividends – 2001 final	–	–	(38,536)	(38,536)
– 2002 interim	–	–	(30,278)	(30,278)
At 31st December 2002	560,057	414,214	177,633	1,151,904
Representing:				
Reserves	560,057	414,214	128,087	1,102,358
2002 final dividend proposed	–	–	49,546	49,546
At 31st December 2002	560,057	414,214	177,633	1,151,904
At 1st January 2003	560,057	414,214	177,633	1,151,904
Issue of shares on exercise of share options	1,081	–	–	1,081
Profit for the year	–	–	84,320	84,320
Dividends – 2002 final	–	–	(49,546)	(49,546)
– 2003 interim	–	–	(37,986)	(37,986)
At 31st December 2003	561,138	414,214	174,421	1,149,773
Representing:				
Reserves	561,138	414,214	124,839	1,100,191
2003 final dividend proposed	–	–	49,582	49,582
At 31st December 2003	561,138	414,214	174,421	1,149,773

Notes to the Accounts

23 LONG TERM LIABILITIES

	Group	
	2003 US\$'000	2002 US\$'000
Borrowings		
Secured	177,523	156,578
Unsecured	300,837	263,614
	478,360	420,192
Amounts due within one year included under current liabilities	(32,848)	(209,707)
	445,512	210,485

(a) The analysis of the above is as follows:

	Group	
	2003 US\$'000	2002 US\$'000
Wholly repayable within five years		
Bank loans	166,553	223,599
Other loans (notes e and f)	12,681	140,000
Loans from a minority shareholder of a subsidiary (note g)	963	1,445
	180,197	365,044
Not wholly repayable within five years		
Bank loans	–	40,179
Other loans (note e)	–	14,969
Notes (note d)	298,163	–
	298,163	55,148
	478,360	420,192

23 LONG TERM LIABILITIES (Continued)

(b) Long term liabilities were repayable as follows:

	Group	
	2003 US\$'000	2002 US\$'000
Bank loans		
Within one year	29,902	66,937
In the second year	29,474	64,464
In the third to fifth years inclusive	107,177	124,342
In more than five years	–	8,035
	166,553	263,778
Notes		
In more than five years	298,163	–
Other loans		
Within one year	2,464	142,288
In the second year	2,653	2,464
In the third to fifth years inclusive	7,564	8,590
In more than five years	–	1,627
	12,681	154,969
Loans from a minority shareholder of a subsidiary		
Within one year	482	482
In the second year	481	482
In the third to fifth years inclusive	–	481
	963	1,445
	478,360	420,192

(c) Secured bank loans and other loans of US\$177,523,000 (2002: US\$156,578,000) were secured by certain containers of the Group (note 12(f)). These loans of amounts of US\$164,842,000 (2002: US\$141,609,000) were also secured by the assignment of the container lease agreements and the rental income thereon, other assets and shares of certain subsidiaries.

Bank loan of a subsidiary of approximately US\$1,108,000 (2002: US\$1,566,000) was guaranteed by the minority shareholder of that subsidiary.

Notes to the Accounts

23 LONG TERM LIABILITIES (Continued)

(d) Details of the Notes as at 31st December 2003 are as follows:

	2003 US\$'000	2002 US\$'000
Principal amount	300,000	–
Discount on issue	(1,899)	–
Proceeds received	298,101	–
Accumulated amortised amount of discount on issue	62	–
	298,163	–

Notes with principal amount of US\$300,000,000 were issued by a subsidiary of the Company to investors on 3rd October 2003. The Notes carried an interest yield of 5.96% and were issued at a price of 99.367 per cent of their principal amount with a coupon rate of 5.875%, resulting in a discount on issue of US\$1,899,000. The Notes bear interest from 3rd October 2003, payable semi-annually in arrear on 3rd April and 3rd October of each year, commencing on 3rd April 2004. The Notes are guaranteed unconditionally and irrevocably by the Company and listed on the Singapore Exchange Securities Trading Limited.

Unless previously redeemed or repurchased by the Company, the Notes will mature on 3rd October 2013 at their principal amount. The Notes are subject to redemption in whole, at their principal amount, together with accrued interest, at the option of the Company at any time in the event of certain changes affecting the taxes of certain jurisdictions.

- (e) Other loan of US\$12,681,000 (2002: US\$14,969,000) is repayable by quarterly instalment over a period of 32 quarters starting from 7th July 2000. Interest is charged on the outstanding balance at the rate of 1.125% per annum over the London Interbank Offered Rate (“LIBOR”) (2002: 1.125% per annum over LIBOR).
- (f) As at 31st December 2002, other loans included a sum of US\$140,000,000 US commercial notes (the “Commercial Notes”) which were issued to investors pursuant to an agreement dated 24th December 2001. The Commercial Notes were backed by a letter of credit issued by a bank and guaranteed by the Company. Each Commercial Note bore interest at prevailing market rates. The Commercial Notes were fully repaid during the year.
- (g) As at 31st December 2003, loans to a non-wholly owned subsidiary by the Group and a minority shareholder of the subsidiary amounted to US\$1,128,000 (2002: US\$1,610,000) and US\$963,000 (2002: US\$1,445,000) respectively. These loans are unsecured and repayable in various annual instalments up to December 2005. Annual interest rate is calculated at prevailing market rate quoted by the State Development Bank of the PRC during the year. The interest rate was at 5.76% per annum for the year ended 31st December 2003 while the interest rate ranged from 5.76% to 6.21% for the year ended 31st December 2002.

24 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using tax rates substantively enacted by the balance sheet date.

The movement on the net deferred tax liabilities during the year is as follows:

	Group	
	2003 US\$'000	2002 US\$'000
At 1st January	23,683	13,825
Charged to consolidated profit and loss account	11,342	9,858
At 31st December	35,025	23,683

Deferred income tax assets are recognised for tax losses carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. As at 31st December 2003, the Group and the Company has unrecognised tax losses of US\$3,758,000 (2002: US\$3,610,000) and US\$2,546,000 (2002: US\$2,546,000) respectively, which have no expiry date, to carry forward.

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) of the Group during the year is as follows:

Deferred tax liabilities

	Accelerated tax depreciation		Others		Total	
	2003	2002	2003	2002	2003	2002
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At 1st January	67,685	49,733	3,136	2,698	70,821	52,431
Charged to consolidated profit and loss account	23,219	17,952	–	438	23,219	18,390
At 31st December	90,904	67,685	3,136	3,136	94,040	70,821

Deferred tax assets

	Tax losses		Others		Total	
	2003	2002	2003	2002	2003	2002
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At 1st January	46,389	37,915	749	691	47,138	38,606
Credited to consolidated profit and loss account	9,679	8,474	2,198	58	11,877	8,532
At 31st December	56,068	46,389	2,947	749	59,015	47,138

Notes to the Accounts

24 DEFERRED TAXATION (Continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	2003 US\$'000	2002 US\$'000
Deferred tax assets	196	262
Deferred tax liabilities	35,221	23,945

The amounts shown in the consolidated balance sheet include the following:

	2003 US\$'000	2002 US\$'000
Deferred tax assets to be recovered after more than 12 months	182	194
Deferred tax liabilities to be settled after more than 12 months	35,209	23,927

As at 31st December 2003, the Company did not have any deferred tax assets and liabilities (2002: US\$Nil).

25 CONTINGENT LIABILITIES

	Group		Company	
	2003 US\$'000	2002 US\$'000	2003 US\$'000	2002 US\$'000
Guarantees for				
– Notes issued by a subsidiary (note 23(d))	–	–	300,000	–
– other credit or loan facilities granted to subsidiaries	–	–	177,523	416,577
	–	–	477,523	416,577

26 CAPITAL COMMITMENTS

The Group has the following significant capital commitments:

	Group	
	2003 US\$'000	2002 US\$'000
Authorised but not contracted for:		
Containers	147,816	155,977
Generator sets	3,000	–
Computer system under development	985	–
	151,801	155,977
Contracted but not provided for:		
Containers	22,329	468
Investments (note a)	395,295	76,086
Other fixed assets	254	–
	417,878	76,554

Notes:

- (a) The Group's committed investments as at 31st December 2003 primarily included the acquisitions of 49% equity interest in COSCO Logistics Co., Ltd. ("COSCO LOGISTICS") and 14% equity interest in Tianjin Five Continents International Container Terminal Co., Ltd. of approximately US\$148,662,000 and US\$19,045,000 respectively. The committed investments as at 31st December 2003 also mainly included the contributions to Qingdao Qianwan Container Terminal Co., Ltd ("QQCT") and COSCO-PSA Terminal Private Limited, both are jointly controlled entities of the Group, of approximately US\$168,011,000 and US\$43,233,000 respectively.

As of the date of approval of the accounts, the consideration paid for the acquisition of COSCO LOGISTICS and the contribution made to QQCT amounted to US\$142,615,000 and US\$61,131,000 respectively.

The Group's committed investment as at 31st December 2002 represented investment in Shanghai Pudong International Container Terminal Limited and Yantian International Container Terminal (Phase III) Limited of US\$45,908,000 and US\$30,178,000 respectively.

- (b) The Company did not have any capital commitments as at 31st December 2003 (2002: US\$Nil).

Notes to the Accounts

27 LEASE ARRANGEMENTS/COMMITMENTS

(a) Operating lease arrangements – where the Group is the lessor

At 31st December 2003, the Group had future minimum lease receipts under non-cancellable operating leases as follows:

	Group	
	2003 US\$'000	2002 US\$'000
Containers		
– not later than one year	176,306	176,300
– later than one year and not later than five years	426,121	472,250
– later than five years	78,167	139,816
	680,594	788,366
Generator sets		
– not later than one year	175	–
– later than one year and not later than five years	455	–
	630	–
Investment properties		
– not later than one year	38	41
– later than one year and not later than five years	9	11
	47	52
	681,271	788,418

The future lease receipts above do not include those lease contracts which the amount of future lease receipts depends on the timing of pick up and drop off of containers by lessees during the lease period of the contracts.

27 LEASE ARRANGEMENTS/COMMITMENTS (Continued)

(b) Operating lease commitments – where the Group is the lessee

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

	Group	
	2003 US\$'000	2002 US\$'000
Land and buildings		
– not later than one year	2,614	3,095
– later than one year and not later than five years	2,818	3,799
– over five years	4,917	5,232
	10,349	12,126
Plant and machinery		
– not later than one year	358	293
– later than one year and not later than five years	185	90
	543	383
	10,892	12,509

(c) The Company did not have any lease commitments as at 31st December 2003 (2002: US\$Nil).

28 FINANCIAL INSTRUMENTS AND COMMITMENTS

The Group has employed interest rate swaps to manage its interest rate exposure. These instruments are used solely to reduce or eliminate the interest rate risk associated with the Group's borrowings and not for trading or speculation purposes.

The notional principal amounts of the outstanding interest rate swap contracts as at 31st December 2003 were US\$300,000,000 (2002: US\$100,000,000). Interest rate swap contracts of notional amount of US\$100,000,000 (2002: US\$100,000,000) were committed with the fixed interest rates ranging from 3.88% to 4.90% (2002: 3.88% to 4.90%) per annum whereas the remaining interest rate swap contracts of notional amount of US\$200,000,000 (2002: US\$Nil) were committed with the interest rates ranging from 1.05% to 1.16% per annum above the LIBOR.

Notes to the Accounts

29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to cash generated from operations

	2003 US\$'000	2002 US\$'000
Profit before taxation	180,613	167,774
Depreciation and amortisation	95,517	87,682
Interest expenses	11,861	15,464
Amortised amount of discount on issue of Notes	62	–
Other incidental borrowing costs	5,226	2,555
Impairment losses of fixed assets	9,865	15,997
Provision for loan to an investee company	–	3,296
Net (gain)/loss on disposal/write-off of fixed assets	(52)	486
Provision for inventories	155	832
Revaluation deficit of investment properties	81	60
Share of profits less losses of jointly controlled entities	(6,711)	(8,751)
Share of profits less losses of associated companies	(64,915)	(67,461)
Dividend income from unlisted investments	(20,421)	(5,003)
Loss on disposal of an unlisted investment	2,192	–
Interest income	(2,343)	(3,794)
Provision for bad and doubtful debts, net	1,370	1,142
Recovery of bad debts	(1,047)	(2,999)
Operating profit before working capital changes	211,453	207,280
Decrease in net balance with jointly controlled entities	39	436
Decrease in finance lease receivables	3,156	4,584
Decrease in inventories	13,386	8,879
Increase in trade and other receivables, deposits and prepayments	(15,081)	(2,626)
Increase in amounts due from fellow subsidiaries	(1,146)	(1,690)
Decrease/(increase) in amounts due from related companies	67	(101)
Increase in trade and other payables and accruals	4,226	397
Increase/(decrease) in amount due to ultimate holding company	235	(49)
Increase/(decrease) in amounts due to fellow subsidiaries	111	(3)
Increase in amounts due to related companies	83	60
Increase in amounts due to minority shareholders of subsidiaries	537	550
Cash generated from operations	217,066	217,717

29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year

	Share capital (including share premium) US\$'000	Loans and Notes US\$'000	Minority interests US\$'000 (Restated)
At 1st January 2002	585,484	509,538	7,511
Issue of shares on exercise of share options	2,108	–	–
Share issue expenses	(2)	–	–
Minority interests' share of profit for the year	–	–	1,699
Loans borrowed	–	95,604	–
Repayment of loans	–	(184,468)	–
Dividends paid to minority shareholders	–	–	(896)
At 31st December 2002	587,590	420,674	8,314
At 1st January 2003	587,590	420,674	8,314
Issue of shares on exercise of share options	1,101	–	–
Minority interests' share of profit for the year	–	–	1,858
Loans borrowed	–	89,620	–
Proceeds on issue of Notes	–	298,101	–
Amortised amount of discount on issue of Notes	–	62	–
Repayment of loans	–	(330,097)	–
Dividends paid to minority shareholders	–	–	(1,528)
At 31st December 2003	588,691	478,360	8,644

Notes to the Accounts

29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Analysis of the balances of cash and cash equivalents

	2003 US\$'000	2002 US\$'000
Total time deposits, bank balances and cash (note i)	283,835	236,121
Restricted bank deposits included in non-current assets (note ii)	(12,056)	(7,817)
	271,779	228,304
Representing:		
Time deposits	248,574	202,224
Bank balances and cash	23,205	26,080
	271,779	228,304

Notes:

- (i) As at 31st December 2003, cash and cash equivalents of US\$20,712,000 (2002: US\$39,427,000) were denominated in Renminbi which are held by certain subsidiaries of the Group with bank accounts operating in the PRC where exchange controls apply.
- (ii) Restricted bank deposits are deposits pledged as securities for repayment of bank loans of the Group and are restricted for the purpose of the related banking facilities.

30 RELATED PARTY TRANSACTIONS

In addition to those disclosed elsewhere in the accounts, the following is a summary of significant related party transactions which were carried out in the normal course of the Group's business:

	2003 US\$'000	2002 US\$'000
Container rental income from fellow subsidiaries (note a)		
– long term leases	130,283	135,636
– short term leases	556	474
Income for container terminal handling services rendered by an associated company of the Group to a fellow subsidiary (note b)	58,971	70,383
Handling and storage income from fellow subsidiaries (note c)	6,320	6,782
Net transportation income from fellow subsidiaries (note c)	1,939	1,637
Management fee income from an associated company (note d)	2,564	2,564
Container terminal handling fee received from fellow subsidiaries and an associated company of the ultimate holding company (note e)	1,767	1,257
Purchase of containers from (note f)		
– Related Entities	(58,892)	(40,105)
– jointly controlled entities of the Group	(8,549)	(18,588)
Container freight charges to (note g)		
– Related Entities	(1,434)	(2,241)
– jointly controlled entities of the Group	(230)	(357)
Approved continuous examination program fee to a fellow subsidiary (note h)	(2,200)	(2,200)
Property rental expense paid to fellow subsidiaries under operating leases (note i)	(796)	(714)
Purchase of equity interests in investment securities (note j)	–	(24,460)

Notes:

- (a) The Group has conducted long term container leasing business with COSCO Container Lines Company Limited (“COSCON”), a subsidiary of China Ocean Shipping (Group) Company (“COSCO Group”) which is the Company's ultimate holding company.

During the two years ended 31st December 2003, the Group entered into new long term container leasing arrangements with COSCON. The Group's long term container leasing transactions with COSCON during the year have been conducted based on the average leasing rates quoted from three of the top ten independent container leasing companies and in the ordinary course of the business of the Group.

During the two years ended 31st December 2003, the Group entered into short term container leasing arrangements with certain subsidiaries of COSCO Group whereby those fellow subsidiaries have agreed to lease from the Group, on a short term basis, certain containers returned from COSCON after the expiry of the long term leases. The short term container leasing arrangements with those fellow subsidiaries were conducted in accordance with the pricing policy of the Group.

30 RELATED PARTY TRANSACTIONS (Continued)

- (b) COSCO-HIT Terminals (Hong Kong) Limited (“COSCO-HIT”), an associated company of the Group, provided handling and storage services to COSCON for cargoes shipped from/to Container Terminal 8 (East) in Hong Kong. The services rendered were charged at terms pursuant to agreements entered into by COSCO-HIT with COSCON for the year ended 31st December 2003.
- (c) The handling and storage income and the transportation income received from fellow subsidiaries of the Company were conducted at terms as set out in the agreements entered into between the Group and these fellow subsidiaries.
- (d) The Group provided advisory and management services to COSCO-HIT during the year. Management fee was charged and agreed at HK\$20,000,000 (2002: HK\$20,000,000) per annum.
- (e) During the year, the Group provided handling and storage services to fellow subsidiaries and an associated company of COSCO Group for cargoes shipped from/to Zhangjiagang port. The tariff rates charged by the Group were by reference to rates as set out by the Ministry of Communications of the PRC.
- (f) The purchases of containers from certain companies owned by a related company (the “Related Entities”) and jointly controlled entities of the Group were conducted at terms as set out in the agreements entered into between the Group and the parties in concern. During the year, COSCO Group invested in the related company with equity interest of 21.22% for the period from 1st January 2003 to 19th November 2003 and of 17.18% for the period from 20th November 2003 to 31st December 2003.
- (g) During the year, the Group paid container freight charges of US\$1,434,000 (2002: US\$2,241,000) and US\$230,000 (2002: US\$357,000) to the Related Entities and jointly controlled entities of the Group respectively for container repositioning services rendered to the Group.
- (h) An approved continuous examination program fee of US\$2,200,000 to COSCON in connection with the containers leased to COSCON on a long term basis was agreed between the Group and COSCON for the year ended 31st December 2003 (2002: US\$2,200,000).
- (i) On 7th March 2001, a subsidiary of the Group (the “Subsidiary”) entered into a lease agreement with a fellow subsidiary, Wing Thye Holdings Limited (“Wing Thye”), a subsidiary of COSCO (Hong Kong) Group Limited (“COSCO Hong Kong”) which is the Company’s immediate holding company, for the lease of its office space for a period of 3 years commencing with retrospective effect from 4th December 2000 at a monthly rental of HK\$465,023, exclusive of rates and management fees. COSCO Hong Kong provided a guarantee of HK\$1,395,069 representing rentals for three months to Wing Thye (the “Guarantee”) as security for due payment of rental and other monies by the Subsidiary.

On 7th August 2003, the Subsidiary entered into a sub-tenancy agreement with COSCO Information & Technology (HK) Limited (“COSCO IT”), a subsidiary of COSCO Hong Kong, for the sub-lease of additional office space from COSCO IT with retrospective effect for the period from 27th January 2003 to 28th November 2003 at a monthly rental of HK\$72,749, exclusive of rates and management fees. Wing Thye, the landlord of the premise, has given its consent to this sub-tenancy agreement.

30 RELATED PARTY TRANSACTIONS (Continued)

On 12th January 2004, the Subsidiary entered into new tenancy agreements with Wing Thye for the lease of the above office spaces at monthly rentals of HK\$267,564 and HK\$72,436 respectively, exclusive of rates and management fees. The new tenancy agreements are for a term of 23 months and 25 days commencing with retrospective effect from 4th December 2003 and a term of 24 months commencing with retrospective effect from 29th November 2003 respectively. The Guarantee provided by COSCO Hong Kong to Wing Thye for the subsidiary in connection with these new tenancy agreements amounted to HK\$1,020,000 in total.

The rentals for all the tenancy agreements as mentioned above were by reference to valuations conducted by DTZ Debenham Tie Leung Limited, an independent professional valuer.

- (j) Pursuant to an agreement dated 25th November 2002 entered into between COSCO Group and COSCO Ports (Shekou) Limited (“COSCO Ports Shekou”), an indirect wholly owned subsidiary of the Company, COSCO Ports Shekou agreed to acquire from COSCO Group’s entire 17.5% equity interest in Shekou Container Terminals Ltd (“Shekou CTL”), which is an equity joint venture established in the PRC and engages in the provision of container terminal business, at a cash consideration of HK\$155,543,000 (equivalent to approximately US\$19,941,000). The consideration was determined by reference to a valuation of the acquired interest of Shekou CTL as at 30th September 2002 conducted by DTZ Debenham Tie Leung Limited, an independent professional valuer.

On 28th December 2001, the Group entered into a Promoters’ Agreement with China Dalian Ocean Shipping Agency, an indirect wholly owned subsidiary of COSCO Group, and three other independent third parties in relation to the establishment of Dalian Port Container Co., Ltd. (“Dalian Port”), a joint stock limited company which engages in container terminal operations and related business in Dalian, China mainland. The Group acquired 8% equity interest in Dalian Port at cash considerations of RMB37,516,200 (equivalent to approximately US\$4,519,000) and the considerations were paid in 2002.

- (k) On 22nd September 2003, COSCO Pacific Logistics Company Limited (“CPLCL”), a wholly owned subsidiary of the Company, entered into agreements with COSCO Group to effect, subsequent to the fulfilment of certain conditions precedent, a capital increase and transfer of equity interest transaction for the acquisition of 49% equity interest in COSCO Logistics Co., Ltd (“COSCO LOGISTICS”) (formerly COSCO Logistics Company), a then wholly owned subsidiary of COSCO Group, at a total consideration of RMB1,180,410,000 (equivalent to approximately US\$142,615,000) (the “Acquisition”). CPLCL also agreed to pay COSCO Group an additional amount of RMB50,000,000 (equivalent to approximately US\$6,047,000) if the pro forma combined net profit of COSCO LOGISTICS (as if its group reorganisation had been completed) for the year ended 31st December 2003 exceeds RMB200,000,000 (equivalent to approximately US\$24,190,000). COSCO LOGISTICS principally engages in shipping agency, freight forwarding, third party logistics and supporting services in China mainland.

The Acquisition was subsequently completed in January 2004.

- (l) On 25th November 2003, the Group entered into agreements with COSCO International Holdings Limited, a fellow subsidiary, to dispose of its entire 20% equity interests in each of Shanghai COSCO Kansai Paint & Chemicals Co., Ltd. and Tianjin COSCO Kansai Paint & Chemicals Co., Ltd., both were then jointly controlled entities of the Group, at aggregate considerations in cash totalling RMB41,040,000 (equivalent to approximately US\$4,943,000) (the “Disposals”). The Disposals were completed in January 2004 and the gain on Disposals was not significant.

Notes to the Accounts

31 SIGNIFICANT ASSOCIATED COMPANIES

A summary of the audited financial information of Liu Chong Hing Bank Limited and COSCO-HIT Terminals (Hong Kong) Limited, two significant associated companies of the Group, after making adjustments by directors of the Company to conform with the Group's principal accounting policies, for the years ended 31st December 2003 and 2002 is set out as follows:

(a) Liu Chong Hing Bank Limited

	2003 US\$'000	2002 US\$'000 (Restated)
Result for the year		
Net interest income	85,920	96,073
Profit for the year	39,564	35,041
Assets		
Cash and short-term funds	1,538,704	1,588,267
Advances and other accounts	2,574,557	2,511,436
Tangible fixed assets and other assets	1,047,470	971,329
	5,160,731	5,071,032
Liabilities		
Deposits with customers	4,178,409	4,165,673
Certificates of deposit, deposits with other banks and financial institutions	132,743	53,954
Other liabilities	57,885	71,040
	4,369,037	4,290,667
Net assets as at 31st December	791,694	780,365

31 SIGNIFICANT ASSOCIATED COMPANIES (Continued)

(b) COSCO – HIT Terminals (Hong Kong) Limited

	2003 US\$'000	2002 US\$'000 (Restated)
Result for the year		
Turnover	127,918	139,558
Profit for the year	61,829	69,746
Net assets as at 31st December		
Fixed assets	315,539	326,927
Current assets	39,589	61,185
Current liabilities	(17,185)	(25,274)
Non-current liabilities	(276,350)	(274,612)
	61,593	88,226

32 COMPARATIVE FIGURES

The comparative figures of the taxation charge, deferred tax assets and liabilities, share of the results and net assets of associated companies and minority interests have been restated as a result of the adoption of the new SSAP 12 (note 1(a)).

33 ULTIMATE HOLDING COMPANY

The directors regard China Ocean Shipping (Group) Company, a state-owned enterprise established in the People's Republic of China, as being the ultimate holding company.

34 APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 25th March 2004.

Notes to the Accounts

35 DETAILS OF SUBSIDIARIES

Details of the subsidiaries as at 31st December 2003 are as follows:

Name	Place of incorporation/ establishment	Place of operation	Principal activities	Issued share capital/ paid-up capital	Group equity interest	
					2003	2002
² Allgood International Limited	British Virgin Islands	Hong Kong	Dormant	1 ordinary share of US\$1	100%	100%
^{1,2} Bauhinia 97 Ltd.	Cayman Islands	Hong Kong	Investment holding	2 ordinary shares of US\$1 each	100%	100%
Cheer Hero Development Limited	Hong Kong	Hong Kong	Container handling, storage and stevedoring	10,000 ordinary shares of HK\$10 each	75%	75%
COSCO Container Services Limited	Hong Kong	Hong Kong	Investment holding, depot handling, storage and container repairing	2 ordinary shares of HK\$1 each	100%	100%
^{1,2,4} COSCO Pacific (China) Investments Co., Ltd.	PRC	PRC	Investment holding	US\$30,000,000	100%	100%
¹ COSCO Pacific Finance (2003) Company Limited	British Virgin Islands	Hong Kong	Financing	1 ordinary share of US\$1	100%	–
^{1,2} COSCO Pacific Logistics Company Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US\$1	100%	–
¹ COSCO Pacific Management Company Limited	Hong Kong	Hong Kong	Investment holding and provision of management services	2 ordinary shares of HK\$1 each	100%	100%
^{1,2} COSCO Pacific Nominees Limited	British Virgin Islands	Worldwide	Provision of nominee services	1 ordinary share of US\$1	100%	100%

35 DETAILS OF SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment	Place of operation	Principal activities	Issued share capital/ paid-up capital	Group equity interest	
					2003	2002
² COSCO Ports (Dalian RoRo) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US\$1	100%	–
² COSCO Ports (Shekou) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US\$1	100%	100%
² COSCO Ports (Singapore) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US\$1	100%	–
¹ COSCO Ports (Holdings) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US\$1	100%	100%
² COSCO Ports (Qianwan) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US\$1	100%	–
² COSCO Ports (Qingdao) Limited (formerly COSCO Qingdao Terminal Holdings Limited)	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US\$1	100%	100%
² COSCO Ports (Tianjin) Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US\$1	100%	–
^{1,2} CPL Treasury Limited	British Virgin Islands	Hong Kong	Provision of treasury services	1 ordinary share of US\$1	100%	100%
Crestway International Limited	British Virgin Islands	Hong Kong	Investment holding	50,000 ordinary shares of US\$1 each	100%	100%
^{1,2} Elegance Investment Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US\$1	100%	100%

Notes to the Accounts

35 DETAILS OF SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment	Place of operation	Principal activities	Issued share capital/ paid-up capital	Group equity interest	
					2003	2002
Fairbreeze Shipping Company Limited	Hong Kong	Hong Kong	Property investment	5,000 ordinary shares of HK\$100 each	100%	100%
² Famous International Limited	British Virgin Islands	Worldwide	Investment holding and sale of old containers	1 ordinary share of US\$1	100%	100%
² Fentalic Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US\$1	100%	100%
³ Florens Container (Macao Commercial Offshore) Limited	Macau	Worldwide	Sale of old containers and administration of marine shipping container activities	1 quota of MOP 100,000	100%	–
Florens Container Corporation S.A.	Panama	Worldwide	Container leasing	100 ordinary shares of US\$100 each	100%	100%
¹ Florens Container Holdings Limited	British Virgin Islands	Hong Kong	Investment holding	22,014 ordinary shares of US\$1 each	100%	100%
Florens Container Inc.	United States of America	United States of America	Container leasing	1 ordinary share of US\$1	100%	100%
Florens Container, Inc. (1998)	United States of America	United States of America	Container leasing	100 ordinary shares of US\$1 each	100%	100%
Florens Container Inc. (1999)	United States of America	United States of America	Container leasing	100 ordinary shares of US\$1 each	100%	100%

35 DETAILS OF SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment	Place of operation	Principal activities	Issued share capital/ paid-up capital	Group equity interest	
					2003	2002
Florens Container, Inc. (2000)	United States of America	United States of America	Container leasing	100 ordinary shares of US\$1 each	100%	100%
Florens Container, Inc. (2001)	United States of America	United States of America	Container leasing	1 ordinary share of US\$1	100%	100%
² Florens Container, Inc. (2003)	United States of America	United States of America	Container leasing	1 ordinary share of US\$1	100%	–
^{2,3} Florens Container Services (Australia) Pty Limited	Australia	Australia	Provision of container management services	100 ordinary shares of AUD 1 each	100%	–
Florens Container Services Company Limited	Hong Kong	Worldwide	Provision of container management services	100 ordinary shares of HK\$1 each	100%	100%
² Florens Container Services (Deutschland) GmbH.	Germany	Germany	Provision of container management services	2 shares of EURO 12,782.30 each	100%	100%
² Florens Container Services (Italy) S.R.L.	Italy	Italy	Provision of container management services	20,000 quotas of EURO 0.52 each	100%	100%
² Florens Container Services (Japan) Co. Ltd.	Japan	Japan	Provision of container management services	200 ordinary shares of JPY 50,000 each	100%	100%
² Florens Container Services (UK) Limited	United Kingdom	United Kingdom	Provision of container management services	183,610 ordinary shares of GBP 1 each	100%	100%

Notes to the Accounts

35 DETAILS OF SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment	Place of operation	Principal activities	Issued share capital/ paid-up capital	Group equity interest	
					2003	2002
² Florens Container Services (USA), Ltd.	United States of America	United States of America	Provision of container management services	1,000 ordinary shares of US\$0.001 each	100%	100%
^{1,2} Florens Industrial Holdings Limited	Bermuda	PRC	Investment holding	12,000 ordinary shares of US\$1 each	100%	100%
³ Florens Management Services (Macao Commercial Offshore) Limited	Macau	Macau	Provision of container management services	1 quota of MOP 100,000	100%	—
Florens Shipping Corporation Limited	Bermuda	Worldwide	Container leasing	12,000 ordinary shares of US\$1 each	100%	100%
² Florens U.S. Holdings, Inc.	United States of America	United States of America	Investment holding	1 ordinary share of US\$1	100%	100%
² Frosti International Limited	British Virgin Islands	Hong Kong	Investment holding	2 ordinary shares of US\$1 each	100%	100%
Greating Services Limited	Hong Kong	Hong Kong	Transportation of containers	250,000 ordinary shares of HK\$1 each	100%	100%
² Hero King Limited	British Virgin Islands	Hong Kong	Property holding	1 ordinary share of US\$1	100%	100%
² Loson Investment Limited	British Virgin Islands	Hong Kong	Property holding	1 ordinary share of US\$1	100%	—
² Plangreat Limited	British Virgin Islands	Hong Kong	Investment holding	100 ordinary shares of US\$1 each	100%	100%

35 DETAILS OF SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment	Place of operation	Principal activities	Issued share capital/ paid-up capital	Group equity interest	
					2003	2002
^{1,2} Topview Investment Limited	British Virgin Islands	Hong Kong	Investment holding	1 ordinary share of US\$1	100%	100%
Win Hanverky Investments Limited	Hong Kong	Hong Kong	Investment holding	10,000 ordinary shares of HK\$10 each	100%	100%
^{2,4} Zhangjiagang Win Hanverky Container Terminal Co., Ltd.	PRC	PRC	Operation of container terminal	US\$16,800,000	51%	51%

¹ Shares held directly by the Company

² Subsidiaries not audited by PricewaterhouseCoopers

³ These subsidiaries have not commenced operations as of 31st December 2003.

⁴ COSCO Pacific (China) Investments Co., Ltd and Zhangjiagang Win Hanverky Container Terminal Co., Ltd are wholly foreign-owned enterprise and sino-foreign equity joint venture established in the PRC respectively.

Notes to the Accounts

36 DETAILS OF JOINTLY CONTROLLED ENTITIES

Details of the jointly controlled entities as at 31st December 2003 are as follows:

Name	Place of establishment/ operation	Principal activities	Paid-up capital	Percentage of interest in ownership/voting power/profit sharing	
				2003	2002
Qingdao Cosport International Container Terminals Co., Ltd.	PRC	Operation of container terminal	RMB337,868,700	50.00%/50.00%/50.00%	50.00%/50.00%/50.00%
Shanghai CIMC Reefer Containers Co., Ltd.	PRC	Container manufacturing	US\$31,000,000	20.00%/21.40%/20.00%	20.00%/21.40%/20.00%
Shanghai CIMC Far East Container Co., Ltd. (note 14(c))	PRC	Container manufacturing	US\$9,480,000	20.00%/20.00%/20.00%	20.00%/20.00%/20.00%
Shanghai COSCO Kansai Paint & Chemicals Co., Ltd. (formerly Shanghai Kansai Paint & Chemical Co., Ltd.) (note 30(l))	PRC	Production of container and marine paints	US\$7,000,000	20.00%/18.75%/20.00%	20.00%/18.75%/20.00%
Tianjin COSCO Kansai Paint & Chemicals Co., Ltd. (formerly Tianjin Kansai Paint and Chemical Co., Ltd.) (note 30(l))	PRC	Production of container and marine paints	US\$5,000,000	20.00%/18.75%/20.00%	20.00%/18.75%/20.00%
Tianjin CIMC North Ocean Container Co., Ltd. (note 14(c))	PRC	Container manufacturing	US\$16,682,000	22.50%/20.00%/22.50%	22.50%/20.00%/22.50%
Qingdao Qianwan Container Terminal Co., Ltd.	PRC	Operation of container terminal	US\$29,750,000	20.00%/18.18%/20.00%	–/–/–
COSCO-PSA Terminal Private Limited	Singapore	Operation of container terminal	SGD48,900,000	49.00%/50.00%/49.00%	–/–/–

37 DETAILS OF ASSOCIATED COMPANIES

Details of the associated companies as at 31st December 2003 are as follows:

Name	Place of incorporation/ establishment/ operation	Principal activities	Issued share capital/registered capital	Group equity interest	
				2003	2002
COSCO-HIT Terminals (Hong Kong) Limited	Hong Kong	Operation, management and development of Container Terminal 8 (East)	2 "A" ordinary shares of HK\$10 each and 2 "B" ordinary shares of HK\$10 each	50%	50%
Dawning Company Limited	British Virgin Islands/ Hong Kong	Investment holding	200 "A" shares of US\$1 each and 800 "B" shares of US\$1 each	20%	20%
Liu Chong Hing Bank Limited	Hong Kong	Banking and related financial services	435,000,000 ordinary shares of HK\$0.5 each	20%	20%
Twinbridge Development Corp. (note 15(b))	British Virgin Islands/ Hong Kong	In the process of dissolution	10,000 shares of US\$1 each	30%	30%
Shanghai Pudong International Container Terminals Limited	PRC	Operation of container terminal	RMB1,900,000,000	20%	—