



Notes to the Financial Statements

1 Basis of preparation

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

2 Recently issued accounting standards

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3 Principal accounting policies

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

(a) Consolidation

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

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

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

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

3 Principal accounting policies - Continued

(a) Consolidation - Continued

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

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

(b) Associates

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

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

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

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

In the Company's balance sheet, the investment in an associate is stated at cost less provision for impairment losses. The result of the associate is accounted for by the Company on the basis of dividends received and receivable.

(c) Jointly controlled entities

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

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

3 Principal accounting policies - Continued

(c) Jointly controlled entities - Continued

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

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

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

In the Company's balance sheet, the investment in a jointly controlled entity is stated at cost less provision for impairment losses. The result of the jointly controlled entity is accounted for by the Company on the basis of dividends received and receivable.

(d) Infrastructure joint ventures

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

3 Principal accounting policies - Continued

(e) Translation of foreign currencies

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

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

(f) Property, plant and equipment

(i) *Investment properties*

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential.

Investment properties are valued by independent professional valuers at the balance sheet date. 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 financial statements. Increase in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to the income statement. Any subsequent increases are credited to the income statement up to the amount previously debited.

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

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

3 Principal accounting policies - Continued

(f) Property, plant and equipment - Continued

(ii) *Vessels and ships*

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

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

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

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

(iii) *Other property, plant and equipment*

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

Freehold land is not depreciated. Leasehold land is depreciated over the period of the lease. Land use rights represent amounts paid for use of land in Mainland China under operating leases. Land use rights are amortised based on the cost less accumulated impairment losses over the period of the lease on a straight-line basis while other property, plant and equipment are depreciated at rates sufficient to write-off their cost less accumulated impairment losses over their estimated useful lives, on a straight-line basis. The principal annual rates are as follows:

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

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

3 Principal accounting policies - Continued

(f) Property, plant and equipment - Continued

(iv) *Assets under construction*

No depreciation is provided on assets under construction. All direct and indirect costs relating to the construction of property, plant and equipment including interest costs on the related borrowed funds during the construction period are capitalised as the cost of assets under construction.

The assets under construction are transferred to relevant categories of property, plant and equipment upon the completion of their construction and depreciation will then be commenced accordingly.

(v) *Impairment and gain or loss on sale*

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

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

(g) Leases

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

(h) Intangibles

(i) *Goodwill/negative goodwill*

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

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

3 Principal accounting policies - Continued

(h) Intangibles - Continued

(i) Goodwill/negative goodwill - Continued

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

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

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

(ii) Impairment of intangible assets

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

3 Principal accounting policies - Continued

(i) Investments in securities

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

(i) *Investment securities*

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

(ii) *Other investments*

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

(j) Inventories

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

(k) Properties under development for sale

Properties under development for sale are stated at cost less progress billings received and provision for any possible loss. Cost comprises land cost, development expenditure, professional fees and interest capitalised. On completion, the properties are transferred to investment properties or to completed properties for sale.

3 Principal accounting policies - Continued

(l) Completed properties for sale

Completed properties for sale is stated at the lower of cost and net realisable value. Net realisable value is determined by reference to management estimates based on prevailing market conditions.

(m) Trade debtors

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

(n) Cash and cash equivalents

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

(o) Provisions

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

(p) Employee benefits

- (i) Salaries, bonus, paid annual leave and the cost of other benefits to the Group are accrued in the year in which the associated services are rendered by employees of the Group.
- (ii) The Group operates a number of defined contribution schemes, the assets of which are held in separate administered funds. The Group's contributions to the defined contribution schemes are expensed as incurred and are not reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions.

The Group also contributes on a monthly basis to various defined contribution retirement benefit plans organised by relevant municipal and provincial governments in Mainland China. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees for post-retirement benefits beyond the contributions made. The assets of these plans are held separately from those of the Group in independently administered funds managed by the government in Mainland China. Contributions to these plans are expensed as incurred.

3 Principal accounting policies - Continued

(p) Employee benefits - Continued

(iii) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(q) Deferred taxation

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

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

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, 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.

(r) Contingent liabilities

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

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

(s) Borrowing costs

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 or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the income statement in the year in which they are incurred.

3 Principal accounting policies - Continued

(t) Revenue recognition

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

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

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

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

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

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

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

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

(u) Segment reporting

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

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

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

4 Turnover, revenues and segment information

The principal activities of the Group comprise ports and ports-related operations (include ports operation and container manufacturing and related operation) and non-ports operations (include toll roads operation and oil tankers operation). Revenues recognised during the year are as follows:

	2004			Total HK\$'000
	The Company and subsidiaries HK\$'000	Share of associates HK\$'000	Share of jointly controlled entities HK\$'000	
Turnover				
Ports-related transportation and service income, container service and container yard management income	731,789	2,055,038	392,917	3,179,744
Sale of paints and related goods	1,301,168	5,824,073	—	7,125,241
Toll road operating income	—	—	279,103	279,103
Voyage and time charter income	350,111	—	—	350,111
Gross rental income from land and buildings	26,270	—	—	26,270
	<u>2,409,338</u>	<u>7,879,111</u>	<u>672,020</u>	<u>10,960,469</u>
Other revenues				
Income from infrastructure joint ventures	13,410			
Interest income	20,002			
Dividend income from listed other investments	1,845			
Others	40,269			
	<u>75,526</u>			
Turnover and other revenues	<u>2,484,864</u>			

4 Turnover, revenues and segment information - Continued

	2003			
	The Company and subsidiaries HK\$'000	Share of associates HK\$'000	Share of jointly controlled entities HK\$'000	Total HK\$'000
Turnover				
Ports-related transportation and service income, container service and container yard management income	591,621	2,367,456	76,404	3,035,481
Sale of paints and related goods	1,086,394	3,080,162	—	4,166,556
Toll road operating income	23,949	—	251,804	275,753
Voyage and time charter income	404,072	—	—	404,072
Gross rental income from land and buildings	24,393	—	—	24,393
	<u>2,130,429</u>	<u>5,447,618</u>	<u>328,208</u>	<u>7,906,255</u>
Other revenues				
Income from infrastructure joint ventures	11,467			
Interest income	21,754			
Dividend income from listed investments	762			
Others	21,031			
	<u>55,014</u>			
Turnover and other revenues	<u>2,185,443</u>			

4 Turnover, revenues and segment information - Continued

Primary reporting format - business segments

The Group is organised into two main business segments:

- | | |
|---|---|
| Ports and ports-related operations include: | (a) container terminal operation, bulk and general cargo terminal operation, ports transportation and airport cargo handling operation by the Group and the Group's associates and jointly controlled entities; and |
| | (b) paint manufacturing by the Group and container manufacturing by the Group's associates. |
| Non-ports operations include: | (a) toll road operation by the Group's jointly controlled entities; and |
| | (b) shipping operation by the Group. |

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

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

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

Secondary reporting format - geographical segments

The Group's two business operations are managed in its headquarters in Hong Kong and other offices in Mainland China. As the Group's oil tankers business covers the world's shipping routes, the Directors consider that it would not be meaningful to allocate turnover and operating profit of the oil tankers business to specific geographical segments. The Group's other businesses are mainly in Hong Kong and Mainland China as follows:

- | | |
|----------------|--|
| Hong Kong | - ports operation, container manufacturing and related operations, holding of properties and dealing in shares |
| Mainland China | - ports operation, container manufacturing and related operations and toll road operation |
| Others | - holding of properties and dealing in shares |

There were no material sales between the geographical segments.

4 Turnover, revenues and segment information - Continued

Primary reporting format - business segments

	Ports and ports-related operations						Non-ports operations						Total			
	Ports operation		Container manufacturing and related operations		Subtotal		Toll road operation		Oil tanker operation (note 5)		Other operations				Subtotal	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Income statement																
Turnover																
Company and subsidiaries	731,789	591,621	1,301,168	1,086,394	2,032,957	1,678,015	—	23,949	350,111	404,072	26,270	24,393	376,381	452,414	2,409,338	2,130,429
Share of associates	2,055,038	2,367,456	5,824,073	3,080,162	7,879,111	5,447,618	—	—	—	—	—	—	—	—	7,879,111	5,447,618
Share of jointly controlled entities	392,917	76,404	—	—	392,917	76,404	279,103	251,804	—	—	—	—	279,103	251,804	672,020	328,208
	3,179,744	3,035,481	7,125,241	4,166,556	10,304,985	7,202,037	279,103	275,753	350,111	404,072	26,270	24,393	655,484	704,218	10,960,469	7,906,255
Company and subsidiaries																
Turnover	731,789	591,621	1,301,168	1,086,394	2,032,957	1,678,015	—	23,949	350,111	404,072	26,270	24,393	376,381	452,414	2,409,338	2,130,429
Segment results	123,526	99,677	128,712	121,298	252,238	220,975	7,573	21,228	136,454	145,093	77	11,727	144,104	178,048	396,342	399,023
Unallocated costs															(67,348)	(48,499)
Unallocated interest income															4,126	3,344
Gain on disposal of discontinued operation															273,590	—
Gain on deemed disposal of interest in an associate															—	160,559
Gain on disposal of interest in an associate															—	43,566
Operating profit															606,710	557,993
Finance costs															(16,398)	(20,474)
Share of results of associates	733,374	718,329	616,583	246,349	1,349,957	964,678	—	—	—	—	—	51,783	—	51,783	1,349,957	1,016,461
Share of results of jointly controlled entities	245,624	31,617	—	—	245,624	31,617	159,588	144,671	—	—	—	(4,002)	159,588	140,669	405,212	172,286
Profit before taxation															2,345,481	1,726,266
Taxation															(224,693)	(182,228)
Profit after taxation															2,120,788	1,544,038
Minority interests															(63,329)	(78,422)
Profit attributable to shareholders															2,057,459	1,465,616

4 Turnover, revenues and segment information - Continued

Primary reporting format - business segments - Continued

	Ports and ports-related operations						Non-ports operations						Total			
	Ports operation		Container manufacturing and related operations		Subtotal		Toll road operation		Oil tanker operation (note 5)		Other operations				Subtotal	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000			2004 HK\$'000	2003 HK\$'000
Balance sheet																
Segment assets	5,064,878	2,823,967	953,868	804,292	6,018,746	3,628,259	—	329,324	—	1,169,009	1,501,046	920,506	1,501,046	2,418,839	7,519,792	6,047,098
Interests in associates	2,262,792	2,300,611	1,718,788	1,239,308	3,981,580	3,539,919	—	—	—	—	—	—	—	—	3,981,580	3,539,919
Interests in jointly controlled entities	1,274,370	376,021	—	—	1,274,370	376,021	2,714,902	2,531,357	—	—	—	67,598	2,714,902	2,598,955	3,989,272	2,974,976
Investments in infrastructure joint ventures	14,048	16,380	—	—	14,048	16,380	51,998	61,285	—	—	—	—	51,998	61,285	66,046	77,665
Investment securities	30,706	30,706	—	—	30,706	30,706	411,984	424,995	—	—	115,480	—	527,464	424,995	558,170	455,701
Goodwill	274,829	290,753	—	—	274,829	290,753	—	—	—	(133,741)	(102,697)	—	(102,697)	(133,741)	172,132	157,012
Other non-current assets	908	500,000	—	—	908	500,000	—	—	—	—	2,319	—	2,319	—	3,227	500,000
Unallocated assets															1,898,800	777,275
Total assets															18,189,019	14,529,646
Segment liabilities	1,089,246	407,276	436,417	337,958	1,525,663	745,234	—	44,027	—	24,764	252,138	144	252,138	68,935	1,777,801	814,169
Unallocated liabilities															1,236,224	40,757
Total liabilities															3,014,025	854,926
Other information																
Capital expenditure	1,422,683	972,611	22,586	13,181	1,445,269	985,792	—	392	—	—	—	—	—	392	1,445,269	986,184
Unallocated capital expenditure															1,821	548
Depreciation	113,196	48,859	14,437	13,298	127,633	62,157	—	129	72,227	87,359	21,713	21,715	93,940	109,203	221,573	171,360
Unallocated depreciation															4,529	4,890
Amortisation charge (net)	21,573	21,118	58	—	21,631	21,118	—	6,994	(10,448)	(12,538)	—	—	(10,448)	(5,544)	11,183	15,574

4 Turnover, revenues and segment information - Continued

Secondary reporting format - geographical segments

	Turnover		Segment results	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Operations other than oil tankers business:				
Hong Kong	337,519	323,603	14,142	37,019
Mainland China	1,579,555	1,322,770	231,644	208,431
Others	142,153	79,984	14,102	8,480
Oil tankers business, global scale (note 5)	350,111	404,072	136,454	145,093
	2,409,338	2,130,429	396,342	399,023
Unallocated costs			(67,348)	(48,499)
Unallocated interest income			4,126	3,344
Gain on disposal of discontinued operation			273,590	—
Gain on deemed disposal of interest in an associate			—	160,559
Gain on disposal of interest in an associate			—	43,566
Operating profit			606,710	557,993

4 Turnover, revenues and segment information - Continued

Secondary reporting format - geographical segments - Continued

	Total assets		Capital expenditure	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Operations other than oil tankers business:				
Hong Kong	1,011,174	1,052,420	7,768	2,672
Mainland China	5,865,304	3,825,669	1,439,322	984,060
Others	643,314	—	—	—
Oil tankers business, global scale (note 5)	—	1,169,009	—	—
	7,519,792	6,047,098	1,447,090	986,732
Interests in associates	3,981,580	3,539,919		
Interests in jointly controlled entities	3,989,272	2,974,976		
Investments in infrastructure joint ventures	66,046	77,665		
Investment securities	558,170	455,701		
Goodwill	172,132	157,012		
Other non-current assets	3,227	500,000		
Unallocated assets	1,898,800	777,275		
Total assets	18,189,019	14,529,646		

5 Discontinued operation

On 25 August 2004, the Group entered into an agreement for the disposal of the oil tanker business for a cash consideration of HK\$1,310,000,000. The disposal was approved by the independent shareholders at an extraordinary general meeting held on 4 October 2004 and completion of the disposal and payment of the consideration took place on 18 October 2004.

The disposal of oil tanker business by the Group is part of its strategy to divest its non-core businesses and to focus on its ports and ports-related businesses. The Group considered the scale of its oil tanker business to be relatively small and that the business would require substantial investment to purchase more oil tankers for further expansion. In addition, the Group had not been involved in the daily management of the fleet. The Group was of the view that the oil tanker business did not complement the core business of the Group, and therefore, the disposal was beneficial to the Group, allowing the Group to focus its resources on its ports and ports-related businesses. The Group recorded a gain of HK\$273,590,000 in the financial year ended 31 December 2004 in connection with the disposal.

The sales, results, cash flows and net assets of the oil tanker segment were as follows:

	Period from 1 January 2004 to 18 October 2004 HK\$'000	Year ended 31 December 2003 HK\$'000
Turnover	350,111	404,072
Other revenue	78	2,231
Operating costs	(213,735)	(261,210)
Operating profit	136,454	145,093
Taxation	—	—
Profit after taxation	136,454	145,093
Net operating cash inflow	197,921	230,088
Net investing cash inflow	78	54
Total net cash inflow	197,999	230,142

5 Discontinued operation - Continued

	As at 18 October 2004 HK\$'000	As at 31 December 2003 HK\$'000
Property, plant and equipment (note 15)	1,034,640	1,122,436
Current assets	178,093	46,573
Total assets	1,212,733	1,169,009
Total liabilities	(44,647)	(42,874)
Net assets	1,168,086	1,126,135
Net assets disposed	(1,168,086)	
Realisation of translation reserve upon disposal of subsidiaries	8,383	
Reversal of negative goodwill (note 14)	123,293	
Proceed from sale (note 34(d))	1,310,000	
Gains on disposal of discontinued operation	273,590	

6 Operating profit

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

Crediting

Operating lease rental income from land and buildings, net of outgoings of HK\$705,000 (2003: HK\$764,000)	25,565	23,629
Net unrealised gain on listed other investments	4,424	9,180
Realised gain on trading of other investments	—	989
Amortisation on negative goodwill (included in administrative expenses)	10,448	12,538
Gain on disposal of discontinued operation (note 5)	273,590	—
Gain on deemed disposal of interest in an associate	—	160,559
Gain on disposal of interest in an associate	—	43,566
Reversal of provision for bad and doubtful debts	10,160	—
Net gains on disposal of property, plant and equipment	13,551	—
Net exchange gains	815	—
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Charging

Staff costs (including Directors' emoluments) (note 8)	235,705	210,476
Cost of inventories sold	955,688	753,208
Auditors' remuneration	4,198	3,819
Depreciation and amortisation on:		
- property, plant and equipment	226,102	176,250
- goodwill (included in administrative expenses)	15,926	15,471
- toll road operating rights (included in cost of sales)	—	6,994
Net loss on disposal of property, plant and equipment	—	936
Operating lease rentals in respect of		
- land and buildings	61,710	61,926
- plant and machinery	20,626	20,480
Provision for bad and doubtful debts	—	10,224
Loss on disposal of listed other investments	3,900	—
Net exchange losses	—	3,676
	<hr/>	<hr/>

7 Finance costs

	2004 HK\$'000	2003 HK\$'000
Interest on:		
Bank borrowings, wholly repayable within five years	6,705	8,654
Loans from minority shareholders of subsidiaries	11,773	—
Amounts due to minority shareholders of subsidiaries	761	—
Convertible bonds, wholly repayable within five years	—	8,696
Other incidental borrowing costs	5,456	—
Amortisation of convertible bond issue expenses	—	3,124
Total borrowing costs incurred	24,695	20,474
Less: amount capitalised in assets under construction	(8,297)	—
	16,398	20,474

The capitalisation rates applied to funds borrowed from minority shareholders of subsidiaries generally and used for the development of assets under construction are between 5.841% to 6.138% per annum.

8 Staff costs (including Directors' emoluments)

	2004 HK\$'000	2003 HK\$'000
Wages and salaries	222,392	201,802
Retirement benefit scheme contributions, net of forfeited contributions of HK\$6,000 (2003: HK\$87,000)	13,313	8,674
	235,705	210,476

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

8 Staff costs (including Directors' emoluments) - Continued

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

The Group's contributions to the schemes were expensed as incurred.

9 Directors' and senior management's emoluments

(a) Directors' emoluments

	2004 HK\$'000	2003 HK\$'000
Fees:		
Executive Directors	—	—
Independent non-executive directors	300	300
	<u>300</u>	<u>300</u>
Other emoluments (executive directors):		
Salaries, share options, other allowances and benefits in kind	2,963	15,929
Discretionary bonuses	726	515
Retirement benefit scheme contributions	206	139
	<u>3,895</u>	<u>16,583</u>
	<u>4,195</u>	<u>16,883</u>

During the year, 5,300,000 share options at an exercise price of HK\$11.08 per share were granted to certain Directors under the Company's share option schemes. The details of share options exercised during the year are set out in note 32 to the financial statements.

9 Directors' and senior management's emoluments - Continued

(a) Directors' emoluments - Continued

The Directors' emoluments are within the following bands:

	Number of Directors	
	2004	2003
Nil - HK\$1,000,000	10	5
HK\$1,000,001 - HK\$1,500,000	—	3
HK\$1,500,001 - HK\$2,000,000	1	2
HK\$2,000,001 - HK\$2,500,000	1	—
HK\$3,500,001 - HK\$4,000,000	—	1
HK\$5,500,001 - HK\$6,000,000	—	1
	12	12

No Director waived emoluments in respect of the years ended 31 December 2004 (2003: Nil).

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, two (2003: two) were Directors of the Company whose emoluments are included in the disclosure in note 9(a) above. The emoluments of the remaining three (2003: three) individuals were as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries, share options, other allowances and benefits in kind	4,684	8,609
Performance related incentive payments	686	721
Retirement benefits scheme contributions	155	107
	5,525	9,437

9 Directors' and senior management's emoluments - Continued

(b) Five highest paid individuals - Continued

The emoluments are within the following bands:

	Number of individuals	
	2004	2003
HK\$1,000,001 - HK\$1,500,000	1	—
HK\$1,500,001 - HK\$2,000,000	1	—
HK\$2,500,001 - HK\$3,000,000	1	1
HK\$3,000,001 - HK\$3,500,000	—	2
	<hr/>	<hr/>
	3	3
	<hr/>	<hr/>

10 Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the year.

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

Taxation on profits from certain subsidiaries, associates and jointly controlled entities operating in the special economic zones of Mainland China have been calculated at the rate of 15% (2003: 15%) in accordance with the relevant PRC tax laws and regulations.

10 Taxation - Continued

No provision for taxation was made in respect of the oil tankers business as the shipping companies have no assessable income under any relevant jurisdiction for the year (2003: Nil).

	2004 HK\$'000	2003 HK\$'000
The amount of taxation charged to the consolidated income statement represents:		
Hong Kong profits tax:		
Current year	9,684	9,859
Overprovision in prior years	(664)	(466)
PRC Enterprise Income Tax	38,071	29,504
Deferred taxation (note 30)	(805)	(8,779)
	<u>46,286</u>	<u>30,118</u>
Share of taxation attributable to associates:		
Hong Kong profits tax	75,813	68,956
PRC Enterprise Income Tax	87,775	54,817
Deferred taxation	(693)	17,470
Share of taxation attributable to jointly controlled entities:		
PRC Enterprise Income Tax	10,114	8,130
Deferred taxation	5,398	2,737
	<u>224,693</u>	<u>182,228</u>

10 Taxation - Continued

The differences between the Group's expected tax charges, using average applicable tax rates and the Group's tax charges for the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	<u>2,345,481</u>	<u>1,726,266</u>
Expected tax calculated at the weighted average applicable tax rate	355,140	272,731
Income not subject to taxation	(382,844)	(364,950)
Expenses not deductible for taxation purposes	257,878	282,391
Utilisation of previously unrecognised tax losses and timing difference	(1,740)	(9,634)
Overprovision in prior years	(664)	(466)
Other temporary differences	<u>(3,077)</u>	<u>2,156</u>
Taxation charge	<u>224,693</u>	<u>182,228</u>

11 Profit attributable to shareholders

Profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK\$1,711,575,000 (2003: HK\$747,439,000).

12 Dividends

	2004	2003
	HK\$'000	HK\$'000
Interim, paid, of 2004 of HK15.0 cents (2003: HK13.0 cents) per share	321,201	277,173
Final, proposed, of 2004 of HK30.0 cents (2003: HK29.0 cents) per share	642,658	620,641
	963,859	897,814

At a meeting held on 22 March 2005, the Directors proposed a final dividend of HK30 cents which will be satisfied by allotment of new shares of the Company, credited as fully paid, by way of scrip dividend, with an alternative to shareholders to elect to receive such final dividend (or part thereof) in cash in lieu of such allotment. This proposed dividend is not reflected as a dividend payable in these financial statements but will be reflected as an appropriation of retained earnings for the year ending 31 December 2005.

The amount of proposed final dividend for 2003 was based on 2,140,142,974 shares issued at 31 December 2003 and the amount paid of HK\$620,888,000 was based on 2,140,992,974 shares issued and recorded on the Register of Members of the Company on 8 June 2004.

13 Earnings per share

The calculation of the basic and diluted earnings per share are based on the Group's profit attributable to shareholders of HK\$2,057,459,000 (2003: HK\$1,465,616,000).

The basic earnings per share is based on the weighted average number of 2,141,117,655 (2003: 2,098,070,641) ordinary shares in issue during the year. The diluted earnings per share is based on 2,148,993,696 (2003: 2,103,505,184) ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighted average number of 7,876,041 (2003: 5,434,543) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

14 Intangibles

	Group			
	Goodwill	Negative goodwill	Toll road operating rights	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net book value as at				
1 January 2004	290,753	(133,741)	311,740	468,752
Acquisition of subsidiaries (note 34(c))	—	(102,695)	—	(102,695)
Disposal/reclassification of subsidiaries (note 34(d))	—	123,293	(311,740)	(188,447)
Amortisation for the year (note 6)	(15,926)	10,448	—	(5,478)
	<u>274,827</u>	<u>(102,695)</u>	<u>—</u>	<u>172,132</u>
Net book value as at				
31 December 2004	<u>274,827</u>	<u>(102,695)</u>	<u>—</u>	<u>172,132</u>
At 31 December 2004				
Cost	318,518	(102,695)	—	215,823
Accumulated amortisation	(43,691)	—	—	(43,691)
	<u>274,827</u>	<u>(102,695)</u>	<u>—</u>	<u>172,132</u>
Net book value	<u>274,827</u>	<u>(102,695)</u>	<u>—</u>	<u>172,132</u>
At 31 December 2003				
Cost	318,518	(165,085)	348,620	502,053
Accumulated amortisation	(27,765)	31,344	(36,880)	(33,301)
	<u>290,753</u>	<u>(133,741)</u>	<u>311,740</u>	<u>468,752</u>
Net book value	<u>290,753</u>	<u>(133,741)</u>	<u>311,740</u>	<u>468,752</u>

15 Property, plant and equipment

	Group									
	Investment property HK\$'000	Land and buildings HK\$'000	Land use rights HK\$'000	Harbour works and buildings and dockyard HK\$'000	Plant, machinery, furniture and equipment HK\$'000	Vessels and ships HK\$'000	Motor vehicles HK\$'000	Leasehold improvements HK\$'000	Assets under construction HK\$'000	Total HK\$'000
Cost or valuation										
At 1 January 2004	13,319	1,531,750	377,742	1,015,803	426,362	1,865,107	43,924	15,351	669,914	5,959,272
Exchange adjustments	23	22	695	1,925	510	9,944	36	4	1,258	14,417
Additions	—	—	—	5,288	18,951	2,455	4,706	390	1,415,300	1,447,090
Acquisition of subsidiaries	—	12,315	1,105,700	—	9,453	—	962	310	—	1,128,740
Disposals	—	(4,713)	—	(547)	(4,398)	—	(742)	—	—	(10,400)
Reclassification	—	(16,190)	246,769	110,972	242,045	—	(51)	(1,011)	(592,519)	(9,985)
Disposal of subsidiaries	—	—	—	—	—	(1,847,875)	—	—	—	(1,847,875)
At 31 December 2004	13,342	1,523,184	1,730,906	1,133,441	692,923	29,631	48,835	15,044	1,493,953	6,681,259
Accumulated depreciation and impairment loss										
At 1 January 2004	—	414,564	8,011	48,101	154,500	752,975	25,888	9,961	—	1,414,000
Exchange adjustments	—	10	—	106	76	4,847	8	1	—	5,048
Charge for the year	—	27,842	34,709	32,272	50,681	73,435	4,731	2,432	—	226,102
Acquisition of subsidiaries	—	267	—	—	6,881	—	471	148	—	7,767
Disposals	—	(2,542)	—	—	(3,796)	—	(592)	—	—	(6,930)
Reclassification	—	(5,551)	64,337	(62,820)	(88)	—	(342)	(996)	—	(5,460)
Disposal of subsidiaries	—	—	—	—	—	(813,235)	—	—	—	(813,235)
At 31 December 2004	—	434,590	107,057	17,659	208,254	18,022	30,164	11,546	—	827,292
Net book value										
At 31 December 2004	13,342	1,088,594	1,623,849	1,115,782	484,669	11,609	18,671	3,498	1,493,953	5,853,967
At 31 December 2003	13,319	1,117,186	369,731	967,702	271,862	1,112,132	18,036	5,390	669,914	4,545,272

15 Property, plant and equipment - Continued

(a) The analysis of the cost or valuation of the above assets at 31 December 2003 and 2004 is as follows:

	Group									
	Investment property	Land and buildings	Land use rights	Harbour works and buildings and dockyard	Plant, machinery, and furniture equipment	Vessels and ships	Motor vehicles	Leasehold improvements	Assets under construction	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At cost	—	1,523,184	1,730,906	1,133,441	692,923	29,631	48,835	15,044	1,493,953	6,667,917
At 2004 valuation	13,342	—	—	—	—	—	—	—	—	13,342
At 31 December 2004	13,342	1,523,184	1,730,906	1,133,441	692,923	29,631	48,835	15,044	1,493,953	6,681,259
At cost	—	1,531,750	377,742	1,015,803	426,362	1,865,107	43,924	15,351	669,914	5,945,953
At 2003 valuation	13,319	—	—	—	—	—	—	—	—	13,319
At 31 December 2003	13,319	1,531,750	377,742	1,015,803	426,362	1,865,107	43,924	15,351	669,914	5,959,272

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

	Group							
	Investment property		Land and buildings		Land use rights		Harbour works and buildings and dockyard	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Leasehold land and buildings in Hong Kong, held on leases of between 10 to 50 years	—	—	1,040,229	1,064,032	—	—	—	—
Freehold land and building outside Hong Kong and Mainland China	—	—	12,048	—	—	—	—	—
Land use rights and buildings in Mainland China, held on:								
leases of between 10 to 50 years	13,342	13,319	31,259	48,472	1,623,849	369,731	1,115,782	967,702
leases of less than 10 years	—	—	5,058	4,682	—	—	—	—
	13,342	13,319	1,088,594	1,117,186	1,623,849	369,731	1,115,782	967,702

(c) The investment property at 31 December 2004 was revalued by Shenzhen Gongpinghen Appraisal Co., Ltd., a registered asset valuer in the PRC, on an open market value basis.

15 Property, plant and equipment - Continued

- (d) Certain properties included in leasehold land and buildings are leased to China Merchants Holdings (Hong Kong) Company Limited and its wholly-owned subsidiaries. The cost, accumulated depreciation and accumulated impairment loss of these properties as at 31 December 2004 were HK\$1,201,316,000 (2003: HK\$1,201,316,000), HK\$160,477,000 (2003: HK\$140,340,000) and HK\$200,000,000 (2003: HK\$200,000,000) respectively.
- (e) At 31 December 2004, land and building of approximately HK\$12,048,000 (2003: Nil) has been pledged as security for the Group's bank facilities of HK\$106,593,000.
- (f) Included in assets under construction is interest capitalised of approximately HK\$8,297,000 (2003: Nil).

	Company			Total HK\$'000
	Plant, machinery, furniture and equipment HK\$'000	Motor vehicles HK\$'000	Leasehold improve- ments HK\$'000	
Cost				
At 1 January 2004	2,552	2,956	27	5,535
Additions	225	1,280	316	1,821
At 31 December 2004	<u>2,777</u>	<u>4,236</u>	<u>343</u>	<u>7,356</u>
Accumulated depreciation				
At 1 January 2004	1,962	2,956	24	4,942
Charge for the year	382	249	6	637
At 31 December 2004	<u>2,344</u>	<u>3,205</u>	<u>30</u>	<u>5,579</u>
Net book value				
At 31 December 2004	<u>433</u>	<u>1,031</u>	<u>313</u>	<u>1,777</u>
At 31 December 2003	<u>590</u>	<u>—</u>	<u>3</u>	<u>593</u>

16 Interests in subsidiaries

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	3,010,324	2,438,552
Amounts due from subsidiaries	10,323,222	13,092,212
	13,333,546	15,530,764
Amounts due to subsidiaries	2,456,259	4,105,529

Particulars of the Company's principal subsidiaries at 31 December 2004 are set out in note 39 to the financial statements.

The amount due from and due to subsidiaries are unsecured and interest free, have no fixed terms of repayment except for an amount of HK\$93,005,000 (2003: Nil) which is repayable by July 2007 and bears interest at 5.022% per annum and an amount of HK\$24,855,000 (2003: HK\$27,496,000) which bears interest at the Hong Kong Interbank Offered Rate per annum.

In the opinion of the Directors, the amounts will not be repaid in the next twelve months from the balance sheet date and accordingly, the amounts are shown as non-current.

17 Interests in associates

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Listed shares, at cost				
Shares listed in the PRC	—	—	181,327	163,743
Share of net assets of:				
Listed associates	1,586,266	1,224,118	—	—
Unlisted associates	2,049,371	2,119,742	—	—
	3,635,637	3,343,860	181,327	163,743
Goodwill/(negative goodwill) on acquisition of associates less amortisation and impairment loss:				
Listed associates	8,391	(7,576)	—	—
Unlisted associates	236,809	102,719	—	—
	245,200	95,143	—	—
Amounts due from associates	100,743	100,916	—	—
	3,981,580	3,539,919	181,327	163,743
Market value of listed shares	900,087	629,569	900,087	550,786

Particulars of the Group's principal associates at 31 December 2004 are set out in note 40 to the financial statements.

As at 31 December 2004, the Group held a total of 226,644,612 (2003: 140,698,576) shares in a PRC listed associate, of which 163,701,456 (2003: 102,313,410) shares were founder shares which were not transferable, and therefore, in the opinion of the Directors, it is not meaningful to present the value of such founder shares based on the market trading value of the listed shares. The share of net assets attributable to these founder shares amounted to approximately HK\$1,145,732,000 (2003: HK\$590,096,000).

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

18 Interests in jointly controlled entities

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Unlisted investment, at cost	—	—	2,949	2,949
Share of net assets of jointly controlled entities	2,844,876	2,255,423	—	—
Loans to jointly controlled entities	1,244,396	819,553	—	—
Less: Provision for impairment loss	(100,000)	(100,000)	—	—
	3,989,272	2,974,976	2,949	2,949

Particulars of the Company's and the Group's jointly controlled entities at 31 December 2004 are set out in note 41 to the financial statements.

Loans to jointly controlled entities are unsecured, interest free and have no fixed terms of repayments except for an amount of HK\$64,180,000 (2003: Nil) and an amount of HK\$225,629,000 (2003: Nil) which bear interest at 4.94% and 5.49% per annum respectively. In the opinion of the Directors, the loans are part of the investments in the jointly controlled entities and accordingly, the amounts are shown as non-current.

19 Investments in infrastructure joint ventures

	Group	
	2004 HK\$'000	2003 HK\$'000
Unlisted investments, at cost	66,707	66,707
Loans to infrastructure joint ventures	51,482	51,482
	118,189	118,189
Less:		
Accumulated capital receipts from infrastructure joint ventures	(23,252)	(20,920)
Accumulated amortisation	(13,666)	(4,379)
Provision for impairment loss	(15,225)	(15,225)
	66,046	77,665

19 Investments in infrastructure joint ventures - Continued

Particulars of the Group's infrastructure joint ventures at 31 December 2004 are as follows:

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

Notes:

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

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

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

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

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

20 Investment securities

	Group	
	2004 HK\$'000	2003 HK\$'000
Investment securities:		
Unlisted shares, at cost	147,509	32,029
Listed shares in the PRC, at cost	30,004	30,004
Loans to an investee (note)	380,657	393,668
	<u>558,170</u>	<u>455,701</u>
Market value of listed shares	<u>40,240</u>	<u>31,031</u>

Note:

The loans to an investee are unsecured, bearing interest at a rate of 1% (2003: 1%) per annum and have no fixed terms of repayment. In the opinion of the Directors, the loans will not be repayable in the next twelve months from the balance sheet date and accordingly the amounts are shown as non-current.

21 Other non-current assets

	Group	
	2004 HK\$'000	2003 HK\$'000
Payment on accounts (note a)	—	500,000
Others (note b)	3,227	—
	<u>3,227</u>	<u>500,000</u>

Notes:

- (a) As at 31 December 2003, the balance of HK\$500,000,000 represented a deposit for the acquisition of a piece of land located at Shekou Industrial Zone, Shenzhen, the PRC for the future operations of berths No. 5, 6 and 7 of Shekou Container Terminals (Phase III) Company Limited, a wholly owned subsidiary of the Group. The total consideration of acquisition of the land amounted to HK\$950,000,000 and the remaining balance was paid during the year. The land use right is included in property, plant and equipment.
- (b) The balance included mortgage advances of HK\$1,943,000 related to financing extended to home-buyers of residential houses constructed and sold by a subsidiary of the Group. These advances were secured by mortgages over the residential properties of third parties and bear interest at an effective interest rate of 10.75% per annum at the balance sheet date. The interest rate is renewable within one year.

22 Inventories

	Group	
	2004 HK\$'000	2003 HK\$'000
Raw materials	101,927	87,202
Work in progress	—	1,128
Finished goods	86,413	54,767
Spare parts and consumables	7,197	8,016
	<u>195,537</u>	<u>151,113</u>

At 31 December 2004, the carrying amount of inventories that are carried at net realisable value amounted to HK\$1,381,000 (2003: HK\$4,717,000).

23 Properties for sale

	2004	2003
	HK\$'000	HK\$'000
Cost of land	358,688	—
Development costs	55,844	—
	<u>414,532</u>	—
Progress billings received	(2,305)	—
	<u>412,227</u>	—
Properties under development for sale	15,435	—
Completed properties for sale	<u>427,662</u>	—

The Group's interests in properties for sale at their net book values are analysed as follows:

	2004	2003
	HK\$'000	HK\$'000
Freehold properties outside Hong Kong and Mainland China	423,556	—
Land use rights and properties in Mainland China, held on leases of between 10 to 50 years	4,106	—
	<u>427,662</u>	—

24 Debtors, deposits and prepayments

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Trade debtors (note a)	395,125	397,819	—	—
Other debtors, deposits and prepayments	134,661	158,142	19,370	14,734
Amounts due from immediate holding company and fellow subsidiaries	4,421	48,922	1,272	28,855
Amounts due from associates (note b)	269,797	152,183	—	—
	804,004	757,066	20,642	43,589

Notes:

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

	2004 HK\$'000	2003 HK\$'000
0 - 30 days	207,735	159,168
31 - 60 days	67,516	93,700
61 - 120 days	86,423	75,744
Over 120 days	33,451	69,207
	395,125	397,819

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

25 Other investments

	Group	
	2004 HK\$'000	2003 HK\$'000
Listed shares in the PRC, at market value	28,521	20,532
Listed shares in overseas, at market value	12,401	—
Unlisted investments, at cost	4,433	65,445
	45,355	85,977

26 Bank balances and cash

As at 31 December 2004, included in the bank balances and cash of the Group were deposits denominated in Renminbi and placed with banks in the PRC of HK\$158,052,000 (2003: HK\$661,498,000), the repatriations of which is subject to foreign exchange control regulations of the PRC.

27 Creditors and accruals

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Trade creditors (note a)	318,521	220,607	—	—
Other payables and accruals	328,308	267,121	7,167	5,971
Amounts due to an intermediate holding company and fellow subsidiaries (note b)	15,165	22,264	—	—
Amounts due to associates (note b)	4,671	1,048	—	—
Amounts due to minority shareholders of subsidiaries (note b)	43,118	—	—	—
	709,783	511,040	7,167	5,971

27 Creditors and accruals - Continued

Notes:

- (a) The ageing analysis of the trade creditors balance is as follows:

	2004	2003
	HK\$'000	HK\$'000
0 - 30 days	261,835	90,021
31 - 60 days	18,685	105,222
61 - 120 days	3,969	18,134
Over 120 days	34,032	7,230
	318,521	220,607

- (b) The amounts are trading balances and are unsecured, interest free and repayable in accordance with the relevant trade terms, except for amounts due from minority shareholders of subsidiaries, which bear interest at prevailing market rate.

28 Bank borrowings

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Short-term bank loan				
- unsecured	213,203	40,000	—	—
Long-term bank loans, wholly repayable within five years				
- unsecured	1,448,220	—	—	—
- secured (note)	106,593	—	—	—
	1,768,016	40,000	—	—

28 Bank borrowings - Continued

The bank borrowings are repayable as follows:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
On demand or within one year	253,770	40,000	—	—
In the second year	66,026	—	—	—
In the third to fifth year	1,448,220	—	—	—
	1,768,016	40,000	—	—
Less: Amounts due within one year included under current liabilities	(253,770)	(40,000)	—	—
	1,514,246	—	—	—

Note:

The secured long-term bank loans were secured by mortgage debenture over all assets of a subsidiary with aggregated carrying value of HK\$448,438,000 (2003: Nil). The pledged assets mainly included the freehold land and buildings with net book value of HK\$12,048,000 (2003: Nil) (note 15(e)), properties for sale of HK\$423,556,000 (2003: Nil), deposits and prepayments of HK\$5,024,000 (2003: Nil) and bank balances and cash of HK\$1,619,000 (2003: Nil).

29 Other loans

	Group	
	2004 HK\$'000	2003 HK\$'000
Interest bearing loans (note b)	131,616	93,835
Non-interest bearing loans	195,863	191,298
	327,479	285,133
Less: Amounts due within one year included under current liabilities	(94,011)	—
	233,468	285,133

Notes:

- (a) Other loans are obtained from minority shareholders of subsidiaries. The minority shareholders have confirmed that they do not intend to demand repayment within the next twelve months from the balance sheet date. Accordingly, the loans are shown as non-current. Except for the balance as set out in note (b) below, all the balance are unsecured, interest free and have no fixed terms of repayment.
- (b) The loans bear interest at 6.138% (2003: 5.841%) per annum.

30 Deferred taxation

Deferred taxation are calculated in full on temporary differences under the liability method using tax rate substantially enacted by the balance sheet date.

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
At 1 January	(8,779)	—
Exchange adjustments	(45)	—
Acquisition of subsidiaries	154,133	—
Reclassification of subsidiaries	(3,558)	—
Deferred taxation credited to consolidated income statement (note 10)	(805)	(8,779)
At 31 December	140,946	(8,779)

Deferred income tax assets are recognised for tax losses carry forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. At 31 December 2004, the Group had unrecognised tax losses of HK\$75,458,000 (2003: HK\$19,356,000) to carry forward against future taxable income. The unrecognised tax losses of HK\$67,541,000 (2003: HK\$14,383,000) can be carried forward indefinitely. The remaining amount of HK\$7,917,000 (2003: HK\$4,973,000) will expire in the following years:

	Group	
	2004	2003
	HK\$'000	HK\$'000
2008	4,662	4,973
2009	3,255	—
	7,917	4,973

30 Deferred taxation - Continued

The movement in deferred tax assets and liabilities during the year is as follows:

Deferred tax liabilities	Group	
	2004 HK\$'000	2003 HK\$'000
At 1 January	7,622	—
(Credited)/charged to consolidated income statement	(3,344)	7,622
Acquisition of subsidiaries (note 34(c))	155,700	—
Reclassification of subsidiaries (note 34(d))	(3,558)	—
At 31 December	156,420	7,622

Deferred tax assets	Group							
	Provisions for doubtful debts and inventories		Impairment of assets		Tax losses		Total	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
At 1 January	9,268	—	5,484	—	1,649	—	16,401	—
Exchange adjustments	—	—	45	—	—	—	45	—
Credited/(charged) to consolidated income statement	2,745	9,268	(3,673)	5,484	(1,611)	1,649	(2,539)	16,401
Acquisition of subsidiaries (note 34(c))	—	—	1,567	—	—	—	1,567	—
At 31 December	12,013	9,268	3,423	5,484	38	1,649	15,474	16,401

31 Other non-current liabilities

The balance represents consideration payable for acquisition of land for property development purpose and is due in December 2006. The total consideration payable amounted to HK\$55,954,000, of which HK\$27,977,000 is included in trade creditors under current liabilities.

32 Share capital

	Company			
	Number of shares		Share capital	
	2004	2003	2004 HK\$'000	2003 HK\$'000
Ordinary shares of HK\$0.1 each				
Authorised:	<u>3,000,000,000</u>	<u>3,000,000,000</u>	<u>300,000</u>	<u>300,000</u>
Issued and fully paid:				
At 1 January	2,140,142,974	2,056,585,388	214,014	205,658
Issue of shares on exercise of share options (note a)	2,050,000	21,560,000	205	2,156
Share issued on conversion of convertible bonds	—	61,997,586	—	6,200
At 31 December	<u>2,142,192,974</u>	<u>2,140,142,974</u>	<u>214,219</u>	<u>214,014</u>

Notes:

- (a) 2,050,000 (2003: 21,560,000) new ordinary shares of HK\$0.1 each in the Company were issued at exercise prices ranging from HK\$4.985 to HK\$5.63 per share on the exercise of share options by Directors and employees, yielding the following proceeds after transaction costs of HK\$37,000 (2003: HK\$267,000):

	2004 HK\$'000	2003 HK\$'000
Ordinary share capital - at par	205	2,156
Share premium	<u>10,077</u>	<u>105,649</u>
Proceeds, net of issue expenses	<u>10,282</u>	<u>107,805</u>

32 Share capital - Continued

(a) Continued

Fair value of shares issued at exercise date of:

Exercise date	Exercise price per share	Number of share options	Market value per share at exercise date (note)
	HK\$		HK\$
7 January 2004	4.985	100,000	11.20
15 January 2004	4.985	50,000	11.05
3 February 2004	4.985	100,000	11.05
13 February 2004	4.985	100,000	11.20
4 March 2004	4.985	300,000	11.30
17 March 2004	4.985	100,000	11.20
30 March 2004	4.985	50,000	10.70
13 April 2004	5.054	50,000	11.60
21 July 2004	4.985	100,000	10.70
22 July 2004	5.630	100,000	10.75
22 July 2004	5.615	50,000	10.75
2 September 2004	4.985	100,000	12.05
29 October 2004	4.985	400,000	11.50
19 November 2004	4.985	50,000	12.15
2 December 2004	4.985	200,000	13.15
7 December 2004	4.985	200,000	13.30
		<u>2,050,000</u>	

Note:

Market value represents the closing price of the share in Hong Kong on the exercise date or the trading day immediately before the exercise date (if it is a non-trading day).

32 Share capital - Continued

- (b) Details of share options granted by the Company pursuant to the share option schemes of the Company adopted on 26 June 1992 and 20 December 2001 and the share options outstanding at 31 December 2004 are as follows:

Date of grant	Note	Subscription price per share HK\$	At 1 January 2004	Share options granted during the year	Share options exercised during the year	Share options cancelled during the year	Other changes during the year (Note iii)	At 31 December 2004
Directors								
1 March 2000	(i)	5.054	2,600,000	—	—	—	—	2,600,000
19 September 2000	(i)	5.615	350,000	—	—	—	(350,000)	—
11 October 2002	(ii)	4.985	3,250,000	—	—	—	—	3,250,000
27 October 2004	(ii)	11.08	—	5,300,000	—	—	—	5,300,000
			6,200,000	5,300,000	—	—	(350,000)	11,150,000
Employees								
1 March 2000	(i)	5.054	2,050,000	—	(50,000)	—	—	2,000,000
19 September 2000	(i)	5.615	750,000	—	(50,000)	—	350,000	1,050,000
24 May 2001	(i)	5.630	100,000	—	(100,000)	—	—	—
6 July 2001	(i)	5.610	700,000	—	—	—	—	700,000
11 October 2002	(ii)	4.985	6,400,000	—	(1,850,000)	—	—	4,550,000
27 October 2004	(ii)	11.08	—	20,760,000	—	—	—	20,760,000
			10,000,000	20,760,000	(2,050,000)	—	350,000	29,060,000
			16,200,000	26,060,000	(2,050,000)	—	—	40,210,000

Notes:

- (i) The outstanding share options can be exercised at any time during a period of 6 years commencing on the date of grant of the options.
- (ii) The outstanding share options can be exercised at any time during a period of 10 years commencing on the date of grant of the options.
- (iii) These options are held by Mr. Zhou Qifang who resigned as Director on 29 June 2004 and remains as an employee of China Merchants Holdings (Hong Kong) Company Limited, being the immediate company of the Company.

33 Reserves

	Group							Total HK\$'000
	Share premium HK\$'000	Assets revaluation reserves HK\$'000	Capital reserves (Goodwill) HK\$'000	Capital redemption reserve HK\$'000	Translation reserve HK\$'000	Statutory reserves HK\$'000	Retained earnings HK\$'000	
At 1 January 2004	8,475,300	422	(141,762)	70	6,286	192,082	4,061,942	12,594,340
Issue of shares on exercise of share options, net of share issue expenses	10,077	—	—	—	—	—	—	10,077
Realisation of reserves upon disposal of subsidiaries and associates	—	—	(1,933)	—	(9,677)	—	—	(11,610)
Exchange adjustments	—	—	—	—	22,000	—	—	22,000
Transfer to reserves	—	—	—	—	—	456,408	(456,408)	—
Profit for the year	—	—	—	—	—	—	2,057,459	2,057,459
2003 final dividend paid	—	—	—	—	—	—	(620,888)	(620,888)
2004 interim dividend paid	—	—	—	—	—	—	(321,201)	(321,201)
At 31 December 2004	<u>8,485,377</u>	<u>422</u>	<u>(143,695)</u>	<u>70</u>	<u>18,609</u>	<u>648,490</u>	<u>4,720,904</u>	<u>13,730,177</u>
Represented by:								
Reserves	8,485,377	422	(143,695)	70	18,609	648,490	4,078,246	13,087,519
Proposed final dividend	—	—	—	—	—	—	642,658	642,658
	<u>8,485,377</u>	<u>422</u>	<u>(143,695)</u>	<u>70</u>	<u>18,609</u>	<u>648,490</u>	<u>4,720,904</u>	<u>13,730,177</u>
Analysed by:								
Company and subsidiaries	8,485,377	422	(117,856)	70	6,118	92,429	2,432,374	10,898,934
Associates	—	—	(25,839)	—	479	537,214	1,540,430	2,052,284
Jointly controlled entities	—	—	—	—	12,012	18,847	748,100	778,959
At 31 December 2004	<u>8,485,377</u>	<u>422</u>	<u>(143,695)</u>	<u>70</u>	<u>18,609</u>	<u>648,490</u>	<u>4,720,904</u>	<u>13,730,177</u>

33 Reserves - Continued

	Group							Total
	Share premium	Assets revaluation reserves	Capital reserves (Goodwill)	Capital redemption reserve	Translation reserve	Statutory reserves	Retained earnings	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2003	8,058,421	—	(197,635)	70	(4,477)	158,839	3,220,742	11,235,960
Share of reserves of associates	—	422	—	—	—	—	—	422
Issue of shares on exercise of share options, net of share issue expenses	105,649	—	—	—	—	—	—	105,649
Issue of shares on conversion of convertible bonds	311,230	—	—	—	—	—	—	311,230
Realisation of reserves upon disposal of interests in associates	—	—	55,873	—	257	(18,933)	18,933	56,130
Exchange adjustments	—	—	—	—	10,506	—	—	10,506
Transfer to reserves	—	—	—	—	—	52,176	(52,176)	—
Profit for the year	—	—	—	—	—	—	1,465,616	1,465,616
2002 final dividend paid	—	—	—	—	—	—	(209,333)	(209,333)
2002 special dividend paid	—	—	—	—	—	—	(104,667)	(104,667)
2003 interim dividend paid	—	—	—	—	—	—	(277,173)	(277,173)
At 31 December 2003	<u>8,475,300</u>	<u>422</u>	<u>(141,762)</u>	<u>70</u>	<u>6,286</u>	<u>192,082</u>	<u>4,061,942</u>	<u>12,594,340</u>
Represented by:								
Reserves	8,475,300	422	(141,762)	70	6,286	192,082	3,441,301	11,973,699
Proposed final dividend	—	—	—	—	—	—	620,641	620,641
	<u>8,475,300</u>	<u>422</u>	<u>(141,762)</u>	<u>70</u>	<u>6,286</u>	<u>192,082</u>	<u>4,061,942</u>	<u>12,594,340</u>
Analysed by:								
Company and subsidiaries	8,475,300	—	(115,923)	70	(15,230)	86,059	2,244,364	10,674,640
Associates	—	422	(25,839)	—	21,027	90,438	1,326,100	1,412,148
Jointly controlled entities	—	—	—	—	489	15,585	491,478	507,552
At 31 December 2003	<u>8,475,300</u>	<u>422</u>	<u>(141,762)</u>	<u>70</u>	<u>6,286</u>	<u>192,082</u>	<u>4,061,942</u>	<u>12,594,340</u>

33 Reserves - Continued

	Company				
	Share premium HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2004	8,475,300	2,339,985	70	737,740	11,553,095
Issue of shares on exercise of share options, net of share issue expenses	10,077	—	—	—	10,077
Profit for the year (note 11)	—	—	—	1,711,575	1,711,575
2003 final dividend paid	—	—	—	(620,888)	(620,888)
2004 interim dividend paid	—	—	—	(321,201)	(321,201)
At 31 December 2004	8,485,377	2,339,985	70	1,507,226	12,332,658
Represented by:					
Reserves	8,485,377	2,339,985	70	864,568	11,690,000
Proposed final dividend	—	—	—	642,658	642,658
	8,485,377	2,339,985	70	1,507,226	12,332,658
At 1 January 2003	8,058,421	2,339,985	70	581,474	10,979,950
Issue of shares on exercise of share options, net of share issue expenses	105,649	—	—	—	105,649
Issue of shares on conversion of convertible bonds	311,230	—	—	—	311,230
Profit for the year (note 11)	—	—	—	747,439	747,439
2002 final dividend paid	—	—	—	(209,333)	(209,333)
2002 special dividend paid	—	—	—	(104,667)	(104,667)
2003 interim dividend paid	—	—	—	(277,173)	(277,173)
At 31 December 2003	8,475,300	2,339,985	70	737,740	11,553,095
Represented by:					
Reserves	8,475,300	2,339,985	70	117,099	10,932,454
Proposed final dividend	—	—	—	620,641	620,641
	8,475,300	2,339,985	70	737,740	11,553,095

- (a) The Company's capital reserve, which arose in 1998 upon reduction of share premium as confirmed by the Order of the High Court of the Hong Kong Special Administrative Region, is not a realised profit and is a non-distributable reserve.
- (b) The statutory reserves are reserves required under PRC laws and regulations.

34 Consolidated cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operations:

	2004 HK\$'000	2003 HK\$'000
Operating profit	606,710	557,993
Depreciation and amortisation	231,580	186,177
Provision for loan to a jointly controlled entity	—	9,292
Gain on deemed disposal of interests in an associate	—	(160,559)
Gain on disposal of interests in an associate	292	(43,566)
(Gain)/loss on disposal of property, plant and equipment	(13,551)	936
Interest income	(20,002)	(21,754)
Income received from infrastructure joint ventures	(13,410)	(7,089)
Net unrealised gain on listed other investments	(4,424)	(9,180)
Dividend income from listed other investments	(1,845)	(762)
Gain on disposal of discontinued operation	(273,590)	—
	<hr/>	<hr/>
Operating profit before working capital changes	511,760	511,488
Increase in inventories	(44,424)	(22,273)
Increase in debtors, deposits and prepayments	(29,433)	(24,665)
Increase in other investments	(3,568)	(2,207)
Net decrease/(increase) in amounts due from and to intermediate holding company and fellow subsidiaries	28,377	(21,267)
Net (increase)/decrease in amounts due from and to associates	(73,033)	5,983
Increase in creditors and accruals	98,098	39,236
	<hr/>	<hr/>
Net cash inflow from operations	487,777	486,295

34 Consolidated cash flow statement - Continued

(b) Analysis of changes in financing during the year

	Share capital and share premium HK\$'000	Bank loans and borrowings HK\$'000	Convertible bonds HK\$'000	Minority interests HK\$'000	Other loans HK\$'000
At 1 January 2004	8,689,314	40,000	—	866,366	285,133
Cash items:					
Issue of shares on exercise of share options, net of issue expenses	10,282	—	—	—	—
Repayment of loans	—	(12,000)	—	—	—
New loans borrowed	—	1,633,423	—	—	—
Net loans received from minority shareholders	—	—	—	—	79,615
Dividend paid to minority shareholders	—	—	—	(30,600)	—
Non-cash items:					
Exchange difference	—	—	—	465	276
Share of profit for the year by minority shareholders	—	—	—	63,329	—
Purchase of subsidiaries	—	106,593	—	85,958	—
Reclassification of subsidiaries	—	—	—	(64,210)	(37,545)
Partial disposal of interests in subsidiaries	—	—	—	309,290	—
At 31 December 2004	<u>8,699,596</u>	<u>1,768,016</u>	<u>—</u>	<u>1,230,598</u>	<u>327,479</u>
At 1 January 2003	8,264,079	144,611	314,311	180,107	160,440
Cash items:					
Issue of shares on exercise of share options, net of issue expenses	107,805	—	—	—	—
Capital contribution from minority shareholders of subsidiaries	—	—	—	182,841	—
Repayment of loans	—	(142,145)	—	—	—
Net loans received from minority shareholders of subsidiaries	—	—	—	—	89,405
Dividend paid to minority shareholders of subsidiaries	—	—	—	(24,583)	—
Non-cash items:					
Exchange difference	—	—	—	609	—
Capital contribution from minority shareholders of subsidiaries	—	—	—	226,408	—
Conversion during the year	317,430	—	(311,187)	—	—
Amortisation of convertible bond issue expenses	—	—	(3,124)	—	—
Share of profit for the year by minority shareholders	—	—	—	81,504	—
Purchase of subsidiaries	—	37,534	—	246,829	52,611
Acquisition of additional interest in a subsidiary	—	—	—	(27,349)	(17,323)
At 31 December 2003	<u>8,689,314</u>	<u>40,000</u>	<u>—</u>	<u>866,366</u>	<u>285,133</u>

34 Consolidated cash flow statement - Continued

(c) Purchase of subsidiaries

	2004 HK\$'000	2003 HK\$'000
Net assets acquired		
Property, plant and equipment	1,120,973	827,233
Interests in associates	120,841	—
Other non-current assets	2,319	—
Deferred tax assets	1,567	—
Inventories and properties for sale	423,556	961
Debtors, deposits and prepayments	4,988	21,078
Other investments	16,831	—
Bank balances and cash	180,803	74,953
Creditors and accruals and taxation payable	(117,236)	(25,979)
Amounts due to immediate holding company	—	(51,449)
Amounts due to intermediate holding company	—	(140,753)
Bank borrowings	(106,593)	(37,534)
Other non-current liabilities	(27,977)	—
Deferred tax liabilities	(155,700)	—
Minority interest	(85,958)	(246,829)
Other loans	—	(52,611)
	<u>1,378,414</u>	<u>369,070</u>
Interest in an associate previously accounted for	(120,674)	—
Interest in jointly controlled entities previously accounted for	—	(304,923)
	<u>1,257,740</u>	<u>64,147</u>
Goodwill included in interests in associates (Negative goodwill)/goodwill	140,240 (102,695)	— 10,921
	<u>1,295,285</u>	<u>75,068</u>
Satisfied by		
Net assets of subsidiaries disposed	328,331	—
Deposit paid	500,000	—
Cash	466,954	75,068
	<u>1,295,285</u>	<u>75,068</u>

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

	2004 HK\$'000	2003 HK\$'000
Cash consideration paid	466,954	75,068
Bank balances and cash in hand acquired	(180,803)	(74,953)
	<u>286,151</u>	<u>115</u>

34 Consolidated cash flow statement - Continued

(c) Purchase of subsidiaries - Continued

The subsidiaries acquired during the year utilised HK\$215,063,000 (2003: HK\$54,918,000) for investing activities and contributed neither to the Group's net operating cash flows (2003: HK\$6,625,000) nor financing activities (2003: HK\$38,141,000).

(d) Disposal/reclassification of subsidiaries

	2004 HK\$'000	2003 HK\$'000
Net assets disposed/reclassified of:		
Toll road operating right	311,740	—
Property, plant and equipment	1,035,061	—
Debtors, deposits and prepayments	78,727	—
Amount due from fellow subsidiaries	9,025	—
Bank balances and cash	107,482	—
Creditors and accruals	(47,476)	—
Deferred tax liabilities	(3,558)	—
Minority interests	(64,210)	—
Other loans	(37,545)	—
	<u>1,389,246</u>	<u>—</u>
Reclassification to interests		
in jointly controlled entities	(221,160)	—
Reversal of negative goodwill	(123,293)	—
Realisation of translation reserve	(8,383)	—
Gain on disposal	273,590	—
	<u>1,310,000</u>	<u>—</u>
Satisfied by:		
Cash consideration	1,310,000	—

34 Consolidated cash flow statement - Continued

(d) Disposal/reclassification of subsidiaries - Continued

Analysis of the net cash inflow in respect of the disposal/reclassification of subsidiaries:

	2004 HK\$'000	2003 HK\$'000
Cash consideration	1,310,000	—
Bank balances and cash disposed of/reclassified	(107,482)	—
	<u>1,202,518</u>	<u>—</u>

Pursuant to the refinement of the Group's classification of jointly controlled entities and subsidiaries, certain presentation of the financial statements have been changed.

35 Commitments

(a) Capital commitments for property, plant and equipment

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Authorised but not contracted for	2,712,946	1,764,545	—	—
Contracted but not provided for	1,583,614	193,555	—	—
	<u>4,296,560</u>	<u>1,958,100</u>	<u>—</u>	<u>—</u>

35 Commitments - Continued

(b) Other capital commitments

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Contracted but not provided for				
Investments (note)	5,364,902	128,982	—	—
Port projects	330,314	545,023	—	—
	5,695,216	674,005	—	—

Note:

The Group's committed investments as at 31 December 2004 primarily included acquisition of Shanghai International Port Group Co Ltd ("SIPG"). On 29 December 2004, the Group, State-owned Assets Supervision and Administration Commission of Shanghai Municipal Government, SIPG, Shanghai Dasheng Holdings Limited and Shanghai State-owned Assets Operation Co Ltd entered into a promoters' agreement under which the parties have agreed to establish SIPG as a joint stock limited company and to subscribe for shares in SIPG. Under the promoters' agreement, the Group will subscribe for a 30% interest in SIPG for a cash consideration of RMB5,570,695,000 (approximately HK\$5,255,373,000). As part of the acquisition, the parties have also entered into a shareholders' agreement and articles of association.

As of the date of this report, the completion of the transaction is still subject to approval of each of the promoters' agreement, shareholders' agreement and articles of association by the Ministry of Commerce having been obtained.

The Group's committed investments as at 31 December 2004 also included the contributions to Ningbo Daxie China Merchants International Terminals Company Limited and Ningbo Daxie China Merchants International Containers Stevedoring Company Limited, both are jointly controlled entities of the Group, of approximately HK\$46,911,000 and HK\$62,618,000 respectively.

35 Commitments - Continued

(c) Commitments under operating leases

At 31 December 2004, the Group had future aggregate minimum lease payments under non-cancellable operating leases for land and buildings as follows:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	63,734	61,296	—	—
In the second to fifth year inclusive	36,333	72,142	—	—
	100,067	133,438	—	—

(d) Future operating lease receivables

At 31 December 2004, the Group had future aggregate lease receivables under non-cancellable operating leases as follows:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Vessels				
Within one year	—	159,149	—	—
In the second to fifth year inclusive	—	25,517	—	—
	—	184,666	—	—
Land and buildings				
Within one year	27,132	4,742	—	—
In the second to fifth year inclusive	2,798	7,413	—	—
After the fifth year	—	14,716	—	—
	29,930	26,871	—	—
	29,930	211,537	—	—

36 Contingent liabilities

At 31 December 2004, there were contingent liabilities in respect of the following:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Guarantees for bank loans and overdrafts of subsidiaries	—	—	1,217,920	25,600
Guarantees for bank loans of associates	3,389	49,545	3,389	49,545
Guarantees for bank loans of an investee	6,630	6,630	6,630	6,630
	10,019	56,175	1,227,939	81,775

37 Related party transactions

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

Name of party	Nature of transaction	Note	Income/(expenses)	
			2004 HK\$'000	2003 HK\$'000
<i>Holding companies:</i>				
China Merchants Holdings (Hong Kong) Company Limited ("CMHK")	Rentals of office premises charged by the Group	(i)	16,058	16,058
<i>Fellow subsidiaries:</i>				
Associated Maritime Company (Hong Kong) Limited ("AMC")	Management fee paid by the Group	(ii)	(9,836)	(11,582)
China Merchants Godown Wharf and Transportation Company Limited ("CMGW")	Rental of use of nine vessels charged to the Group	(iii)	(3,024)	(3,024)
China Merchants Property Development Co. Ltd ("CMPD")	Rental of properties and plants and equipment charged to the Group	(iv)	(10,009)	(11,307)

37 Related party transactions - Continued

(a) Continued

Name of party	Nature of transaction	Note	Income/(expenses)	
			2004 HK\$'000	2003 HK\$'000
<i>Fellow subsidiaries</i>				
<i>(continued)</i>				
Euroasia Dockyard Enterprise and Development Limited ("Euroasia")	Rentals of properties at Tsing Yi Terminal charged to the Group	(v)	(20,285)	(20,285)
Hoi Tung Marine Machinery Suppliers Limited ("Hoi Tung")	Rentals of the office premises charged by the Group	(i)	2,754	2,754
	Rentals of warehouse charged to the Group	(vi)	(4,618)	(4,598)
	Transportation service fee charged to the Group	(vi)	(1,423)	(1,261)
Hong Kong Ming Wah Shipping Company Limited ("Ming Wah")	Rental of office premises charged by the Group	(i)	5,580	5,580
	Fees for cargo handling, loading, unloading and warehousing services charged by the Group	(vii)	666	6,527
Yiu Lian Dockyards Limited ("Yiu Lian")	Rentals of properties at Tsing Yi Terminal charged to the Group	(viii)	(5,589)	(5,589)
	Rentals of warehouse charged to the Group	(ix)	(530)	(3,420)
	Ship berthing services charged to the Group	(x)	(3,408)	(3,280)

37 Related party transactions - Continued

(a) Continued

Name of party	Nature of transaction	Note	Income/(expenses)	
			2004 HK\$'000	2003 HK\$'000
<i>Jointly Controlled Entities:</i>				
Ningbo Daxie China Merchants International Teiminals Company Limited	Interest charged by the Group	(xi)	1,294	—
Ningbo Daxie China Merchants International Containers Stevedoring Company Limited	Interest charged by the Group	(xii)	1,501	—
<i>Associates:</i>				
China International Marine Containers (Group) Co., Ltd.	Sales of container paints by the Group	(vii)	484,661	393,290
Valspar Hai Hong Coatings (Shenzhen) Company Limited	Rentals of premises charged by the Group	(ix)	428	428
China Merchants Bank ("CMB")	Interest earned by the Group	(xiii)	2,021	4,568

Notes:

- (i) On 2 April 2004, three tenancy agreements were entered into between the Group and CMHK, Ming Wah and Hoi Tung respectively, for lease of certain office premises with an area of 51,468 square feet, 25,835 square feet and 12,752 square feet at monthly rentals of HK\$1,338,168, HK\$465,030 and HK\$229,536 respectively. The tenancy agreements with CMHK and Ming Wah are for a term of two years commencing 1 February 2004. The tenancy agreement with Hoi Tung is for a term of two years commencing 1 March 2004.

37 Related party transactions - Continued

(a) Continued

Notes: (Continued)

- (ii) Ming Wah (Universal) Shipping Inc. (“Ming Wah Shipping”) and its subsidiaries entered into various vessel management agreements, commercial services agreements and corporate service agreements with AMC, a subsidiary of CMG, in 1994, under which AMC agreed to provide commercial, operational, ship repair and maintenance, insurance and accounting services to Ming Wah Universal (Bermuda) Company Limited and its subsidiaries (“Ming Wah Bermuda”). Ming Wah Bermuda is the immediate holding company of Ming Wah Shipping, which used to be the holding company for the Group’s interests in oil tanker business. AMC’s provision of management services to the Group enables the Group to operate its oil tanker business without making expensive investments in management and operational infrastructure. The management fee paid by Ming Wah Bermuda has been conducted based on two components : a fixed amount for corporate services and vessel servicing and a variable amount based on a percentage of the turnover of each vessel’s freight charter.

As set out in Note 5 to the financial statements, the entire interests in the oil tanker business was disposed of on 18 October 2004. Since then the provision of management services by AMC to Ming Wah Bermuda has ceased to be a related party transaction of the Group.

- (iii) The Group entered into various ship leasing agreements with CMGW, a subsidiary of CMG, on 1 November 2004 for a term of one year commencing on 1 November 2004. Pursuant to these agreements, CMGW agreed to lease to the Group the use of several vessels. The rental paid by the Group was based on the depreciation charges of the vessels.
- (iv) The Group entered into an agreement with CMPD on 1 November 2004 in relation to the lease by the Group from CMPD of certain properties and plants and equipment for the operation of the port of Shekou, Shenzhen. The agreement is for a term of fourteen months commencing on 1 November 2004 and ending on 31 December 2005. CMG is a significant shareholder of CMPD. The rental paid by the Group was based on the market value of the properties and depreciation charges of the plants and equipment.
- (v) The Group entered into a rental agreement with Euroasia, a wholly owned subsidiary of CMG, on 1 November 2001 for the use of certain properties owned by Euroasia in connection with the operation of the business of the Group at Tsing Yi Terminal. Pursuant to a supplemental agreement entered into on 1 November 2004, the rental agreement was amended to have a term of two years commencing on 1 November 2004 at annual rental of HK\$20,285,000.
- (vi) The Group entered into a rental and service agreement with Hoi Tung on 1 November 2004 for the rental of warehouse space from Hoi Tung and the provision of cargo management and paint shipping services by Hoi Tung. The agreement is for a term of one year commencing on 1 November 2004. The rental paid by the Group was conducted at terms set out in the agreement.
- (vii) Sales of goods and fees for cargo handling, loading, unloading and warehouse services were charged at negotiated prices by reference to market rates.
- (viii) The Group entered into a rental agreement with Yiu Lian, a wholly-owned subsidiary of CMG, on 8 November 2001 for the use by the Group of certain properties owned by Yiu Lian in connection with the operation of the business of the Group at Tsing Yi Terminal. Pursuant to a supplemental agreement entered into on 1 November 2004, the rental agreement has been amended to have a term of two years commencing on 1 November 2004 at rental charge of HK\$5,589,000 per annum.

37 Related party transactions - Continued

(a) Continued

Notes: (Continued)

- (ix) Rentals charged to the Group were in accordance with the tenancy agreements.
- (x) The Group entered into a ship berthing services agreement with Yiu Lian on 1 November 2004 pursuant to which Yiu Lian provided barges to bring ships into a port. The agreement is for a term of one year commencing 1 November 2004. The ship berthing services charged were by reference to market rates.
- (xi) Interest was charged by the Group at a rate of 5.49% per annum.
- (xii) Interest was charged by the Group at a rate of 4.94% per annum.
- (xiii) Interest was calculated by reference to prevailing market rates.

(b) Balances with related parties

	2004	2003
	HK\$'000	HK\$'000
CMB	52,252	304,742
Deposits placed with CMB	<u>52,252</u>	<u>304,742</u>

- (c) On 29 June 2004, the Group entered into an agreement with a subsidiary of CMG in respect of acquisition of the land use rights within the Zhangzhou Development Zone, Zhangzhou Municipal, Fujian Province for the construction of berths number 7, 8, 9 and 10 as well as a new port storage logistics centre. Pursuant to the agreement, the Group will pay to the subsidiary of CMG consideration of the land amounting to HK\$150,783,000. As at 31 December 2004, the Group paid HK\$54,669,000. The remaining balance will be paid by 15 December 2005.
- (d) On 25 August 2004, the Group entered into a sale and purchase agreement with China Merchants Group Limited, its ultimate holding company, to dispose the 100% equity interest in Ming Wah Universal Bermuda which engaged in the oil tanker business for an aggregate consideration of HK\$1,310,000,000.
- (e) On 24 September 2004, the Company entered into a sale and purchase agreement with China Merchants Holdings (Pacific) Limited ("CMHP") to restructure its toll road interests in the PRC. Under the agreement, the Company agreed to sell to CMHP, and CMHP agreed to acquire (i) the Company's 100% equity interest in Successful Road Corporation ("SRC"), the intermediate holding company of the toll road business and, (ii) the shareholder's loan owing by SRC to the Company as at 30 June 2004 (the "Shareholder's Loan"). The total consideration for the transaction was HK\$2.6 billion, which was satisfied by (i) an issue to the Group of 282,195,000 new CMHP shares at an issue price of S\$0.66 each (ii) an issue to the Group of redeemable convertible preference shares of CMHP, each with a par value of S\$0.50, at an issue price of S\$0.761 each in the capital of CMHP and, (iii) the transfer to the Group of CMHP's 33% equity interest in Shenzhen Haixing Harbour Development Co. Ltd ("SHHD"). The principal activities of SHHD are the development and management of the operations of a port located at Mawan in the Shenzhen Special Economic Zone, the PRC.

38 Subsequent events

On 8 March 2005, the Group issued US\$500,000,000 principal amount of 5.375% Guaranteed Notes due in 2015, the net proceeds of which will be used for general corporate purposes by the Group (including the repayment of existing indebtedness and the financing of potential investment opportunity in the PRC).

39 Particulars of principal subsidiaries

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

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

Name of subsidiary	Place of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of issued capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Bitto Limited	BVI	US\$1	100%	—	Provision of financial services to group companies
China Merchants Container Services Limited ¹	Hong Kong	HK\$500,000	—	100%	Provision of container terminal services and port transportation
China Merchants Holdings (Pacific) Limited ("CMHP") (interest was increased from 24% to 72.2% in 2004) ¹	Singapore	S\$425,885,000	—	72.2%	Investment holding
China Merchants International Terminals (Ningbo) Limited	BVI	US\$1	100%	—	Investment holding
CMH International (China) Investment Company Limited [#]	PRC	US\$30,000,000	100%	—	Investment holding

39 Particulars of principal subsidiaries - Continued

Name of subsidiary	Place of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of issued capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
China Merchants International Terminal (Qingdao) Limited ^	PRC	US\$12,000,000	—	90.1%	Port, container terminal and logistic business
China Merchants Port Services (Shenzhen) Company Limited ¹ #	PRC	RMB100,000,000	—	100%	Provision of terminal services and port transportation
Fair Oaks Development Limited	Hong Kong	HK\$2	100%	—	Investment holding and securities trading
Fully Profit Property Limited	Hong Kong	HK\$2	100%	—	Property investment
Hai Hong Industry (Shenzhen) Co Ltd #	PRC	HK\$30,700,000	—	100%	Manufacture and sales of paint products
Hempel-Hai Hong (China) Limited	Hong Kong	HK\$106,000,000	—	64%	Sales of paint products
Hempel-Hai Hong (Kunshan) Limited #	PRC	HK\$40,000,000	—	64%	Manufacture and sales of paint products
Hempel-Hai Hong Coatings (Shenzhen) Company Limited #	PRC	HK\$40,000,000	—	64%	Manufacture and sales of paint products
Hempel-Hai Hong (Yan Tai) Company Limited #	PRC	HK\$20,000,000	—	64%	Manufacture and sales of paint products
Hempel-Coatings (Shenzhen) Company Limited #	PRC	HK\$20,000,000	—	64%	Manufacture and sales of paint products
Shenzhen Mawan Port Service Co., Ltd. ^	PRC	RMB200,000,000	—	30%	Operation of berths No. 5 and No. 6 in Mawan, Shenzhen, PRC

39 Particulars of principal subsidiaries - Continued

Name of subsidiary	Place of incorporation/ registration and operation	Issued share capital/ registered capital	Proportion of issued capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Shenzhen Mawan Wharf Co., Ltd. [^]	PRC	RMB200,000,000	—	30%	Operation of berth No. 0 in Mawan, Shenzhen, PRC
Shenzhen Mawan Terminals Co., Ltd. [^]	PRC	RMB200,000,000	—	30%	Operation of berths No.6 and No. 7 in Mawan, Shenzhen, PRC
Universal Sheen Investment Limited	Hong Kong	HK\$100	100%	—	Property holding
Zhangzhou China Merchants Port Company Limited [^]	PRC	RMB660,000,000	—	60%	Operation of berths No. 3 to No. 6 in the Zhongzhou Economic Development Zone, Fujian Province PRC
Shekou Container Terminals (Phase III) Company Limited [#]	PRC	US\$12,000,000	—	100%	Operation of berths No. 5 to No. 7 in Shekou, PRC

¹ The financial statements of these subsidiaries were not audited by PricewaterhouseCoopers.

[#] Foreign investment enterprises

[^] Sino-foreign joint ventures

40 Particulars of principal associates

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

Name of associate	Place of incorporation / registration and operation	Proportion of issued capital / registered capital held by the Company		Principal activities
		Directly	Indirectly	
Asia Airfreight Terminal Company Limited ("AAT")	Hong Kong	—	20%	Airfreight
China International Marine Containers (Group) Ltd. ("CIMC") (B shares listed in Mainland China)	PRC	6.23%	16.23%	Design, manufacture and sales of dry freight containers and refrigerated containers
China Nanshan Development (Group) Incorporation ("CND")	PRC	—	37%	Ports transportation, petroleum services, property development, food and oil processing, building materials and other engineering services
Modern Terminals Limited ("MTL")	Hong Kong	—	22.1%	Provides container terminal services and warehouse services
PPG Coatings (Tianjin) Company Limited	PRC	—	30%	Manufacture and sales of automotive coatings
Chiwan Container Terminal Co. Ltd ("CCT")	PRC	—	20%	Port and container terminal business
Shenzhen Haixing Harbour Development Co., Ltd ("SHHD")	PRC	—	33%	Port and container terminal business
Valspar Hai Hong Coatings (Shenzhen) Company Limited	PRC	—	40%	Manufacture and sales of packaging coating

The results and assets and liabilities of CIMC, a significant associate of the Group, are shown on page 147.

40 Particulars of principal associates - Continued

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

	2004	2003
	HK\$'000	HK\$'000
Turnover	<u>7,447,920</u>	<u>6,207,292</u>
Profit for the year	<u>2,724,812</u>	<u>2,380,645</u>
Non-current assets	14,072,077	11,530,932
Current assets	3,390,088	8,776,071
Current liabilities	(3,988,097)	(2,548,533)
Non-current liabilities	<u>(5,804,252)</u>	<u>(4,149,223)</u>
Net assets	<u>7,669,816</u>	<u>13,609,247</u>

The above financial information also includes the financial information of AAT, CMHP, CND, CCT, MTL and SHHD. MTL is regarded as a significant associate of the Group. In accordance with SSAP 10 paragraph 37, detailed information including income, profit or losses, non-current assets, current assets, current liabilities, non-current liabilities and contingent liabilities of MTL should be disclosed. However, it has been mutually agreed among all shareholders of MTL that the financial information of MTL cannot be disclosed to parties other than the shareholders. In the circumstances, the information pertaining to MTL cannot be given separately in these financial statements. Nevertheless, in the opinion of the Directors, information given above is sufficient enough for shareholders to obtain a comparable information on MTL and the non-disclosure of the information on MTL alone would not prevent these financial statements from giving a true and fair view of the Group's results and state of affairs as a whole.

41 Particulars of principal jointly controlled entities

Name of jointly controlled entity	Issued capital/ registered capital	Proportion of issued capital/ registered capital held indirectly by the Company	Principal activities
(i) Joint ventures which hold the operating rights of the Ningzhenluo Expressway in Ningbo, PRC			
Ningbo Changzhen Highway Co., Ltd.	US\$7,730,640	60%	Operation of toll road
Ningbo Zhenluo Highway Co., Ltd.	US\$6,329,440	60%	Operation of toll road
(ii) Joint ventures which hold the operating rights of the Guilu Expressway in Guangxi, PRC (the "Guiliu JVs")			
Guangxi Fushan Infrastructure Facilities Co., Ltd.	HK\$55,317,800	40%	Operation of toll road
Guangxi Guida Infrastructure Co., Ltd.	HK\$90,737,370	40%	Operation of toll road
Guangxi Liugui Highway Co., Ltd.	HK\$92,563,400	40%	Operation of toll road
Guangxi Liuqing Highway Co., Ltd.	HK\$84,661,600	40%	Operation of toll road
Guangxi Luqing Highway Construction Co., Ltd.	HK\$89,692,600	40%	Operation of toll road
廣西新村公路管理有限責任公司	HK\$84,126,200	40%	Operation of toll road
Guangxi Rongzhu Highway Construction Co., Ltd.	HK\$83,443,000	40%	Operation of toll road
廣西黃里路面管理有限責任公司	HK\$67,552,000	40%	Operation of toll road
Guangxi Wanli Highway Engineering Co., Ltd.	HK\$92,453,900	40%	Operation of toll road

41 Particulars of principal jointly controlled entities - Continued

Name of jointly controlled entity	Issued capital/ registered capital	Proportion of issued capital/ registered capital held indirectly by the Company	Principal activities
(ii) Joint ventures which hold the operating rights of the Guilu Expressway in Guangxi, PRC (the "Guilu JVs") (Continued)			
Guangxi Wushi Highway Co., Ltd.	HK\$66,732,800	40%	Operation of toll road
Guangxi Xinya Engineering Co., Ltd.	HK\$73,232,200	40%	Operation of toll road
Guangxi Zhenxing Infrastructure Co., Ltd.	HK\$49,317,000	40%	Operation of toll road
(iii) Joint ventures which hold the operating rights of the Guihuang Highway in Guizhou, PRC (the "Guihuang JVs")			
Guizhou Jinguan Highway Co., Ltd.	US\$11,761,300	60%	Operation of toll road
Guizhou Jinhua Highway Co., Ltd.	US\$11,372,100	60%	Operation of toll road
Guizhou Pantao Highway Co., Ltd.	US\$10,204,320	60%	Operation of toll road
Guizhou Yunguan Highway Co., Ltd.	US\$10,201,600	60%	Operation of toll road
(iv) Joint ventures which hold the operating rights of the Yuyao Highway in Ningbo, PRC (the "Yuyao JVs")			
Ningbo Baoshun Infrastructure Development Co. Ltd.	RMB54,304,000	60%	Operation of toll road
Ningbo Deshun Transportation Management Co. Ltd.	RMB79,696,000	60%	Operation of toll road
Ningbo Gangshun Communications Development Co. Ltd.	RMB65,624,000	60%	Operation of toll road

41 Particulars of principal jointly controlled entities - Continued

Name of jointly controlled entity	Issued capital/ registered capital	Proportion of issued capital/ registered capital held indirectly by the Company	Principal activities
Ningbo Longshun Roads Development Co. Ltd.	RMB64,376,000	60%	Operation of toll road
Ningbo Yashun Roads & Bridges Co. Ltd.	RMB26,345,000	60%	Operation of toll road
Ningbo Yishun Roads Engineering Co. Ltd.	RMB98,924,000	60%	Operation of toll road
(v) Others:			
Shekou Container Terminals Limited	HK\$618,201,150	32.5%	Port and container terminal business
Shekou Container Terminals (Phase II) Company Limited	RMB608,549,000	51%	Port and container terminal business
Ningbo Daxie China Merchants International Terminals Company Limited	US\$29,800,000	45%	Port and container terminal business
Ningbo Daxie China Merchants International Container Stevedoring Co. Ltd.	US\$12,000,000	45%	Port and container terminal business
Shenzhen Cyber-Harbour Network Co. Limited	RMB5,000,000	62.5%	Provision of computer network services

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

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

41 Particulars of principal jointly controlled entities - Continued

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

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

	2004 HK\$'000	2003 HK\$'000
Turnover	<u>147,105</u>	<u>131,640</u>
Profit for the year	<u>55,566</u>	<u>37,538</u>
Non-current assets	2,405,838	2,450,908
Current assets	134,440	122,223
Current liabilities	(123,704)	(14,761)
Non-current liabilities	<u>(862,626)</u>	<u>(1,046,758)</u>
Net assets	<u>1,553,948</u>	<u>1,511,612</u>

42 Ultimate holding company

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

43 Approval of financial statements

The financial statements were approved by the Board of Directors on 22 March 2005.