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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Dr. Fu Yuning (Chairman)

Mr. Zhou Qifang

Mr. Zhao Huxiang (Vice-Chairman)

Mr. Li Yi (Managing Director)

Mr. To Wing Sing

Mr. Li Yinquan

Mr. Meng Xi

Mr. Yu Liming

Independent non-executive Directors

Mr. Tsang Kam Lan

Mr. Kut Ying Hay

Mr. Koo Kou Hwa

Mr. Lee Yip Wah Peter

REGISTERED OFFICE

38th Floor East, China Merchants Tower

Shun Tak Centre

168-200 Connaught Road Central

Hong Kong

COMPANY SECRETARY

Mr. Leung Chong Shun, Practising Solicitor

PRINCIPAL BANKERS

China Merchants Bank

Bank of China

Hang Seng Bank Limited

The Hongkong and Shanghai Banking

Corporation Limited

Industrial and Commercial Bank of

China (Asia) Limited

AUDITORS

PricewaterhouseCoopers

LEGAL ADVISER

Linklaters

THE STOCK EXCHANGE OF

HONG KONG LIMITED

Stock Code: 0144

SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

17th Floor, Hopewell Centre

183 Queen's Road East

Hong Kong

WEBSITE

http://www.cmhico.com

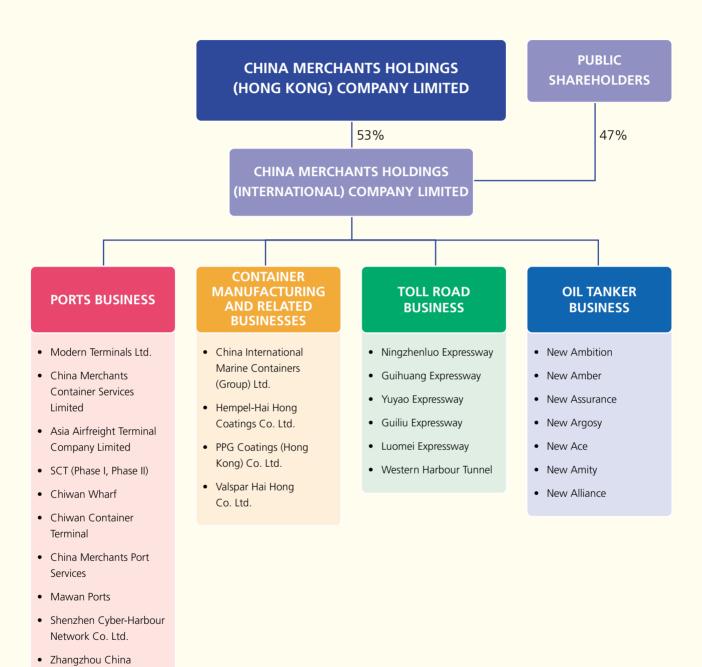
Company Profile

China Merchants Holdings (International) Company Limited (the "Company") is a conglomerate focusing or the investment in and operation of transportation and infrastructure industries with ports as its core business. The Company was floated on the Stock Exchange of Hong Kong in 1992 and was the first Chinese-affiliated enterprise listed in Hong Kong.

The Company operates its transportation and infrastructure businesses on the strength of its very solid and comprehensive resources. Currently, the Company has invested in and is operating eight companies of terminals and service facilities, which handle an aggregate of 7,500,000 TEU of container throughput per year. The Company has also invested in and is operating five toll roads and one tunnel, totalling 332 kilometres in length, in Guangxi, Zhejiang, Guizhou, Guangdong and Hong Kong. Furthermore, the Company owns 7 "Aframax" tankers with a total capacity of 660,000 tons and engages in container and paint manufacturing air cargo transportation and strategic investments.

The Company is committed "to be the leading operator in ports, transportation and infrastructure businesses in China, and to maximise our shareholders' value".





Merchants Port

Summary of Results

(for the year 2002)

	2002 HK\$ million	2001 HK\$ million
Turnover	1,689.1	1,206.1
Profit attributable to shareholders (before provision)	1,082.5	939.8
Profit attributable to shareholders (after provision)	882.5	800.2
Total assets	12,683	12,289
nterest-bearing loans	458.9	871.0
Shareholders' equity	11,442	10,873
Earnings per share (before provision) (HK cents)	52.66	45.78
Earnings per share (after provision) (HK cents)	42.93	38.98
Dividend per share (HK cents) (including Special Dividend HK 5 cents per share)	22.0	16.0
Dividend payout rate	51.2%	41.0%
Net assets per share (HK\$)	5.56	5.29
Return on shareholders' equity (before provision)		8.6%
Return on shareholders' equity (after provision)	7.9%	7.3%
Assets to liabilities ratio	8.4%	10.4%
Gearing ratio	4.0%	8.0%
Current ratio	3.3	4.1
Hapag-Lic,		

Major Events

(for the year 2002)

January 4	Completed the acquisition of the entire interest in China Merchants Container Services Limited
April 1	Completed the acquisition of the entire interest in China Merchants Port Services (Shenzhen) Co. Limited
April 26	Sold the interest in Zhangxia Expressway and Zhangzhou 324 National Highway
July 16	Entered into a shareholders' agreement for the development of Shekou Container Terminals (Phase II), a project in which the Group has 51% interest
July 22	Completed the acquisition of the entire interest in Silverflow Company Limited, thereby increasing the indirect shareholding in China Nanshan Development (Group) Incorporation by 0.496%
Mid-August	Commenced the construction of berth No.12 of China Merchant Port Services, a multi-purpose pier of over 50,000 tons, thereby fulfilling the objective of obtaining approvals and commencing construction within the same year of the application
August 28	Obtained State Council approval for the SCT Project (Phase II) proposal, which was the first port project approved by the State Council with a foreign investor as its majority shareholder
Early September	Completed the capital increase of Zhangzhou China Merchants Port Company Limited
September 30	Entered into project agreement and shareholders' agreement with Shenzhen Nanyou (Group) Company Limited for joint development of Mawan Port, Shenzhen and its outer anchorage
Mid-October	Reported the incorporation of "Shenzhen Municipal China Merchants Shipping Logistics Co. Ltd." established jointly by China Merchants Holdings (International) Company Limited and Shenzhen Chiwan Wharf Holdings Ltd.
October 28	Entered into a letter of intention with Ningbo Port Administration and Citic Daxie for the joint development of a container port situated in Daxie Island, Ningbo, a project in which the Group has 45% interest
November 20	Special Preparatory Office for SCT Project (Phase III) obtained approval from the Shenzhen Municipal Transportation Bureau for establishing SCT, and intended to construct 3 special berthing places of 50,000 tons each
Mid-December	The motor vessel to U.S. West Coast, the main vessel of grand alliance, berthed at SCT, representing a milestone in the development of the U.S. market by the operators in western Shenzhen
December 28	Conducted a successful trial operation of berth No. 0 of Mawan, Shenzhen
Docombox 21	

The container throughput handled by Chiwan Container Terminal exceeded 1 million TEU



At this I0th anniversary of the listing of China Merchants Holdings (International) Company Limited, on behalf of all my colleagues, I would like to express my gratitude to all members of the public who care about the Company.





- The net assets of the Company and its subsidiaries have increased 67 times since listing, from HK\$172,000,000 in 1992 to HK\$11,400,000,000 as at the end of 2002.
- The profit attributable to shareholders also increased 16.5 times from HK\$53,482,000 to HK\$882,487,000 as at the end of 2002.

- Turnover increased to HK\$1,689,000,000, representing an increase of 40%
- Profit attributable to shareholders increased to HK\$1,082,490,000 (before provision for impairment on land and buildings of HK\$200,000,000), representing an increase of 15.2%
- Earnings per share amounted to HK\$0.4293, representing an increase of 10.1%

I am pleased to present the 2002 Annual Report and the audited accounts for the year ended 31 December 2002 of China Merchants Holdings (International) Company Limited and its subsidiaries.

RESULTS OF THE YEAR

The Group recorded double-digit growth in their major performance indices for the Current Year.

Turnover of the Group increased by 40% to HK\$1,689,000,000 as compared to that of HK\$1,206,100,000 in 2001. Consolidated profit after tax and minority interests amounted to HK\$882,490,000, net of a provision for impairment on land and buildings of HK\$200,000,000, representing an increase of 10.3% over HK\$800,210,000 in 2001. Excluding the non-cash provisions in both years, profit attributable to shareholders for the Current Year was HK\$1,082,490,000, representing an increase of 15.2% over HK\$939,770,000 in 2001.

More than 50% of the operating profit arose from ports and port-related businesses, amounting to HK\$521,700,000, which was 31.6% higher than HK\$396,400,000 in 2001.

Earnings per share for the Current Year amounted to HK\$0.4293, representing an increase of 10.1% over HK\$0.3898 in 2001.

PROPOSED FINAL AND SPECIAL DIVIDENDS

The Board has recommended a final dividend of HK 10 cents per share for 2002 (2001: HK 9 cents). For the tenth anniversary of the Company's listing, the Board has also recommended a special dividend of HK 5 cents per share (2001: HK nil cent). The final dividend and special dividend together with the interim dividend of HK 7 cents will make a total dividend of HK 22 cents per share for the Current Year, which was HK 6 cents higher than in 2001. The dividend payout ratio was 51.2% representing an increase of 10.2% as compared to the corresponding figure after provisions last year. Subject to shareholders' approval at the forthcoming Annual General Meeting, the final and special dividends will be payable on 18 July 2003 to the shareholders whose names appear on the Register of Members of the Company on 6 June 2003.

Results of the year				
	2002	2001		
Turnover (HK\$ million)	1,689	1,206		
Consolidated profit (HK\$ million)				
 Pre-provision 	1,083	940		
 Post-provision 	883	800		
EPS (HK cents)				
• Basic	42.9	39.0		
Fully diluted	42.6	38.9		

Dividends			
	2002 HK cents	2001 HK cents	
Interim Dividend		7	
Final Dividend		9	
Special Dividend		nil	
Total	22	16	

The Board is confident of the prospects of the Company and considers that the Company has a solid financial position. The Company has steady and frequent cash inflow and profit growth, and funds for future investments of the Company are ensured. Therefore, the Company is capable of achieving higher returns for shareholders.

REVIEW OF THE YEAR

The outstanding performance of the PRC economy in 2002 has brought about an impressive 8% growth in the country's GDP. Given the strong growth in foreign trade, the Company's ports business fared particularly well. The throughput of the container terminals and the bulk and general cargos terminals in the western Shenzhen ports went up by 46% and 26% respectively and the throughput of Modern Terminal Limited in Hong Kong has also recorded growth. Other businesses of the Company also achieved relatively satisfactory returns.

I am pleased to see that the Group has been pro-active in establishing and strengthening their leading positions in the ports business in the PRC.

PROSPECTS AND OUTLOOK

The growth in the PRC economy and foreign trade is expected to continue in 2003. Therefore, the ports, container manufacturing business and other related businesses of the Company will yield even higher returns. All other businesses will also continue to benefit from this favourable business condition.

The Company will continue to focus on its transportation and infrastructure businesses as its future strategy, with ports business being its core. The Company will further strengthen its operation management and use of capital in both its existing businesses and new businesses so as to enhance its competitiveness in capturing market share and operation efficiency, thereby maximising values for its shareholders.

CORPORATE GOVERNANCE

Integrity is extremely important for listed companies. It forms the cornerstone of investors' faith in the company. Given the Enron incident and other corporate accounting scandals, and coupled with the recent findings of fraud, non-disclosure and disclosure of misleading information in some Hong Konglisted companies, investors are naturally very concerned about the governance of listed companies. The Company has been in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") since its listing in 1992. The Company also has stringent internal control, supervisory measures and accounting policies and procedures so as to enable that there be no unauthorised use or misappropriation of the Company's assets. Transactions shall not be executed without instructions from the management, while accounting records shall be updated and accurately prepared. The Board pledges to act in accordance with the strictest Statement of Standard Accounting Practices and to embody the highest standard of commercial ethics in respect of financial reporting and compliance with local laws and regulations, the Listing Rules and accounting requirements. The Board also insists on having direct control over the Company's business strategies, financial, organisational and compliance matters, and will diligently supervise the delegates to ensure that they will carry out their duties in accordance with relevant policies.

In order to prevent any incident which may be detrimental or misleading to investors, the Company will continue to strengthen its corporate governance, enhance its transparency, and comply with the relevant laws and business ethics in a strict manner.

SHARE CAPITAL AND CONVERTIBLE BONDS

Other than the new shares issued pursuant to the Company's share option scheme, the Company has not issued any new shares in 2002. As at the end of 2002, the outstanding balance of the convertible bonds issued by the Company in April 1999 with a maturity date of April 2004 was USD\$40,960,000 (approximately HK\$317,000,000). No conversion of such bonds took place during the Current Year. The Company believes that given its current healthy financial position, it will redeem such bonds pursuant to their terms and conditions as it thinks fit so as to enhance shareholders' interests.

ACKNOWLEDGEMENT

I am very pleased with the outstanding results achieved by the Company and its subsidiaries in 2002. I am very confident in facing the challenges ahead. My colleagues and I shall continue to strive to the success of business development and the maximisation of shareholders' values.

I would like to express my most sincere gratitude to all shareholders and members of the public for their support in the past 10 years, and to the Board and the staff for their excellent performance in the past year.

Dr. Fu Yuning

Chairman

Hong Kong, 10 April 2003





To be the leading operator in ports, transportation and infrastructure businesses in China, and to maximise our shareholders' value.



OPERATIONS REVIEW

China Merchants Holdings (International) Company Limited is presently positioned as a transportation and infrastructure enterprise engaging in ports business, container manufacturing and related businesses, toll road business, and oil tanker business, with ports business as its core business.

China Merchants Holdings (International) Company Limited's major result indices for the Current Year recorded substantial increases and reached record high.

The Company and its subsidiaries recorded double-digit growth in their major performance indices for 2002. The Company's consolidated profit after tax and minority interests amounted to HK\$882,490,000, net of a provision for impairment on land and buildings of HK\$200,000,000, representing an increase of 10.3% over HK\$800,210,000 in 2001. Excluding the non-cash provisions in both years, profit attributable to shareholders was HK\$1,082,490,000, representing an increase of 15.2% over HK\$939,770,000 in 2001. The turnover of the Company for the Current Year was HK\$1,689,000,000, representing an increase of 40.0% from HK\$1,206,100,000 in 2001.

Ports business, the core business of the Company, benefited from the rapid growth in the PRC's foreign trade and profit, was up by 31.6% over the previous year. The container manufacturing and related businesses also achieved good results with a 16.3% increase in profit over the previous year. Performance of the five toll roads was better in the Current Year. Furthermore, the disposal of three highway projects in the Current Year realised a gain of approximately HK\$88,000,000. As a result, profit arising from the toll road business increased significantly in the Current Year. Due to market conditions, profit from the oil tanker business was lower than that of 2001.



PORTS BUSINESS

Operating condition and performance of the Company for the Current Year are as follows:

PORTS BUSINESS

Investment Project	Percentage of Shareholding		Note	
	2001	2002		
Modern Terminals Limited	22.1%	22.1%	Second largest shareholder	
China Merchants Container Services Limited	-	100.0%	Wholly-owned, acquired on 4 January 2002	
Asia Airfreight Terminal Company Limited	20.0%	20.0%	Third largest shareholder	
Shekou Container Terminals Limited	32.5%	32.5%	Largest shareholder	
Shekou Container Terminals (Phase II) Company Limited	-	51.0%	Largest shareholder	
Shenzhen Mawan Port Project	-	60.0%	Control through a joint venture company	
China Nanshan Development (Group) Inc (with shareholdings in Chiwan Wharf and Chiwan Container Terminal)	36.5%	37.0%	Largest shareholder	
China Merchants Port Services (Shenzhen) Co. Limited	-	100.0%	Wholly-owned, acquired on 1 April 2002	
China Merchants Holdings (Pacific) Limited (holding Shenzhen Haixing Harbour Development Co. Ltd.)	23.9%	24.0%	Largest shareholder	
Shenzhen Cyber-Habour Network Co. Ltd	62.5%	62.5%	Joint investment with an associated company	
Zhangzhou China Merchants Port Co. Ltd.	49.0%	49.0%	Under the Company's management	

Ports business is a major investment focus of the Company. Profit contribution from this segment soared substantially in the Current Year to a higher ratio in the overall profit of the Company. The result was indeed encouraging.

In the Current Year, consolidated profit after tax and minority interests of the Company's ports business was HK\$521,700,000, representing an increase of 31.6% over HK\$396,400,000 in 2001. Profit from ports business amounted to over 50% of the Company's recurrent profit. Turnover for the Current Year was HK\$384,000,000, representing an integrated amount of turnover of China Merchants Port Services (Shenzhen) Co. Limited and China Merchants Container Services Limited.

Operations Review

In 2002, the overall import and export value in PRC foreign trade recorded an increase of 21.8% over last year. Consequently, the volume of containers handled at various PRC ports also increased. Under such advantageous environment, the Company enhanced the quality of its assets by means of improving the components of its assets and strengthening its operation management. Externally, the Company actively sought to expand its asset base, such as investing in Phase II of the Shekou Container Terminals and Mawan Port Project, acquiring the entire interest in China Merchants Port Services and China Merchants Container Services, increasing its shareholding in China Nanshan Development, increasing the capital contribution to Zhangzhou CM Port. There are also plans to invest in the development of container terminal projects in Ningbo, Tianjin, Qingdao and other places. The throughput, profit level and returns on the assets of the ports in which the Company had invested were significantly higher in the Current Year. These have laid a solid foundation for the Company's development in the coming years.



During the Current Year, the total container throughput of the ports in which the Company had invested amounted to over 7,500,000 TEU, representing an increase of 24% over that of 2001. The ports in western Shenzhen, located in the Pearl River Delta Estuary, recorded a throughput of 3,250,000 TEU in 2002, representing 42.7% of the total container throughput handled by the ports in Shenzhen. Comparing with the 2,230,000 TEU handled in 2001, this represented an increase of 45.7%. It is also approximately 11% higher than the 34.6% year-to-year growth of the average throughput of all the ports in the PRC. The Company's container ports in Hong Kong handled 4,300,000 TEU for the Current Year, representing an increase of 6.4% over that in 2001.

Modern Terminals Limited: MTL is located in Kwai Chung, Hong Kong and operates berths Nos. 1, 2 and 5 and pier No. 8 (the west side). Its main business is container handling services. In 2002, MTL handled 3,610,000 TEU of container throughput, which was 2.6% higher than the 3,520,000 TEU in 2001. The throughput handled by MTL in the Current Year amounted to about 30% of the total throughput of the Kwai Chung container terminals.



China Merchants Container Services Limited: CMCS is located on Tsing Yi Island, Hong Kong. It provides mid-stream container handling operation and related services. In 2002, CMCS handled 690,000 TEU of containers, an increase of 32.7% over 520,000 TEU in 2001. The growth of mid-stream operation in Hong Kong during the period was only 10.5%. CMCS's market share rose from 17% in 2001 to 21% in the Current Year, representing a 4% increase.

Asia Airfreight Terminal Company Limited: AAT is the second largest exclusive air freight licensee in cargo terminal services at the Hong Kong International Airport. AAT provides carriers with services including custom management and clearance, physical goods handling, preparation of documentation, and special handling of cargos. In 2002, AAT handled 430,000 tons of cargos, 17.2% more than the 367,000 tons in 2001, and represented 20% of the total market share in Hong Kong.

Shekou Container Terminals Limited: SCT is situated in the Shekou port area in western Shenzhen, operating berths No. 1 and No. 2. SCT's business includes loading and unloading of containers, freight forwarding, container land haulage, barges and feeder services. SCT handled a record high of container throughput of 880,000 TEU in the Current Year. Comparing with the 750,000 TEU in 2001, it represented an increase of 17.3%. The two existing berths have reached their full handling capacity. Berths No. 3 and No. 4 in Phase II of Shekou Container Terminals, in which the Company has invested, will be completed and gradually operational in the second half of 2003. The container's handling capacity is expected to double by then.

Mawan Port Project: The Mawan Port Project is situated in the Mawan port area in western Shenzhen. The project is a joint investment by the Company, Chiwan Wharf, an associate of the Company, and Shenzhen Nanyou (Group) Company Limited, and is under the management of the Company. Mawan berth No. 0, new berths No. 5, No. 6 and No. 7 are multi-purpose berths will be engaged in services such as container loading and unloading and related port services. Mawan Berth No. 0 has been completed and will become operational in mid-2003. Construction works for new Berths No. 5, No. 6 and No. 7 will commence in 2003 and will be completed before 2007.

China Nanshan Development (Group) Inc: CND is a controlling shareholder of Chiwan Wharf and Chiwan Container Terminal. Chiwan Wharf and Chiwan Container Terminal operated terminals in the Chiwan port area in western Shenzhen. Chiwan Wharf's business includes port loading and unloading of container, warehousing, transportation for bulk and general cargos and containers. Chiwan Container Terminal's business includes loading and unloading containers in relation to ports, warehousing, and transportation. The two companies together handled a

container throughput of 1,540,000 TEU for the Current Year, representing an increase of 71% over that of 900,000 TEU in 2001. The volume the bulk and general cargo handled was 7,270,000 tons, representing a 30% increase over the 5,590,000 tons in 2001. Chiwan Container Terminal also achieved a milestone in breaking the one million TEU mark, reaching 1,140,000 TEU or a growth of 77%.

China Merchants Port Services (Shenzhen) Co. Limited: CMPS is situated in the Shekou port area in western Shenzhen, and is engaged in loading and unloading of containers, freight forwarding, containers land haulage, barge and feeder services. In 2002, CMPS handled a throughput of 600,000 TEU, representing a 39.5% increase over the 430,000 TEU in 2001. It also handled a throughput of 10,330,000 tons of bulk and general cargo, representing a 2.48% increase from 10,080,000 tons in 2001.

China Merchants Holdings (Pacific) Limited: The Company is the single largest shareholder of China Merchants Pacific, a public company listed on the Singapore Exchange Limited. China Merchants Pacific held 33% interest in Shenzhen Haixing Harbour Development Co. Ltd. Haixing port is situated in Mawan area in western Shenzhen and is engaged in the operation of berths Nos. 1, 2, 3 and 4 and port loading and unloading, freight forwarding, containers land haulage, barge and feeder services. Haixing port handled a throughput of 230,000 TEU in the Current Year, representing a 53% growth over 150,000 TEU in 2001. The throughput of the bulk and general cargo handle was 6,880,000 tons, representing an increase of 36% over 5,060,000 tons in 2001.

Shenzhen Cyber-Habour Network Co. Ltd.: Shenzhen Cyber-Habour is mainly engaged in the development and establishment of operation platforms for electronic data exchange systems to meet the requirements of ports, shipping enterprises and the government in electronic data exchange. At present, they mainly serve the Company's ports in western Shenzhen, thereby improving considerably the efficiency of custom clearances at these ports.

Zhangzhou China Merchants Port Co. Ltd.: Zhangzhou CM Port is situated in the Zhangzhou Economic Development Zone, Fujian. The terminal in Zhangzhou Port is under construction and the Company is responsible for the development, construction, operation and management of the port. Since Zhangzhou is a port for direct sail in the context of the "three exchanges" with Taiwan approved by the PRC Government, it has an important strategic significance with tremendous economic potential for trading with Taiwan. For the Current Year, berth No. 3 operated by the Company handled a cargo throughput of 1,620,000 tons, representing a remarkable growth of 52% from 2001. The construction of berths No. 4 and No. 5 will be completed for operation in mid 2003 whilst the construction of berths No. 1 and No. 2 are expected to commence in 2003.



CONTAINER MANUFACTURING AND RELATED BUSINESSES

CONTAINER MANUFACTURING AND RELATED BUSINESSES

Investment Project	Percentage of Shareholding	Note
China International Marine Containers (Group) Ltd.	27.3%	Largest shareholder
Hempel-Hai Hong Coatings Co. Ltd.	64.0%	Controlling shareholder
PPG Coatings (Hong Kong) Co. Ltd.	30.0%	Second largest shareholder
Valspar Hai Hong Co. Ltd.	40.0%	Second largest shareholder

The Company's container manufacturing and related businesses, including container manufacturing and paint manufacturing businesses, also achieved impressive results in the Current Year, and their market share was further enlarged.

Consolidated profit after tax and minority interests of the Company's container manufacturing and related businesses for the Current Year was HK\$223,100,000, representing an increase of 16.3% over HK\$191,900,000 in 2001. In 2002, turnover of container manufacturing and related businesses was HK\$872,800,000, which was the turnover of Hempel-Hai Hong, representing a 29.4% increase from HK\$674,500,000 in 2001.

In 2002, the Company took an active role in the operation and marketing of the container manufacturing and related businesses and made strategic decisions in respect of Hempel-Hai Hong. It has also joined force with the foreign shareholder of Valspar Hai Hong to strengthen its management, and as a result, it managed to turn around the successive losses sustained for years and began to generate profit during the Current Year.

The Company is the largest shareholder of CIMC. CIMC is the largest container manufacturer in the world and has, for seven consecutive years, obtained the largest global market share in the dry cargo container sector. For the Current Year, CIMC has ranked number one in the world in the reefer sector. During the Current Year, CIMC sold a total of 670,000 TEU dry cargo containers, representing a 71.8% increase over the 390,000 TEU sold in 2001. The number of reefers sold in the Current Year reached 57,000 TEU, representing an increase of 58% over the 36,000 TEU sold in the previous year. In mid-2002, CIMC's global market share of dry cargo containers was 46%, and its global market share of reefers was 50%.

Hempel-Hai Hong, a subsidiary of the Company, mainly manufactures port-related paints for containers and ships, and is presently the largest manufacturer of container paints and marine paints in the PRC. In the Current Year, Hempel-Hai Hong sold a total of 55,000,000 litres of different kinds of paints, representing an increase of 45% from 38,000,000 litres in 2001. The growth in the turnover was mainly attributed to the increase in the sales of container paints. Hempel-Hai Hong had a 35% and 30% market share in the respective PRC container paints and marine paints markets as at the end of 2002.



TOLL ROAD BUSINESS

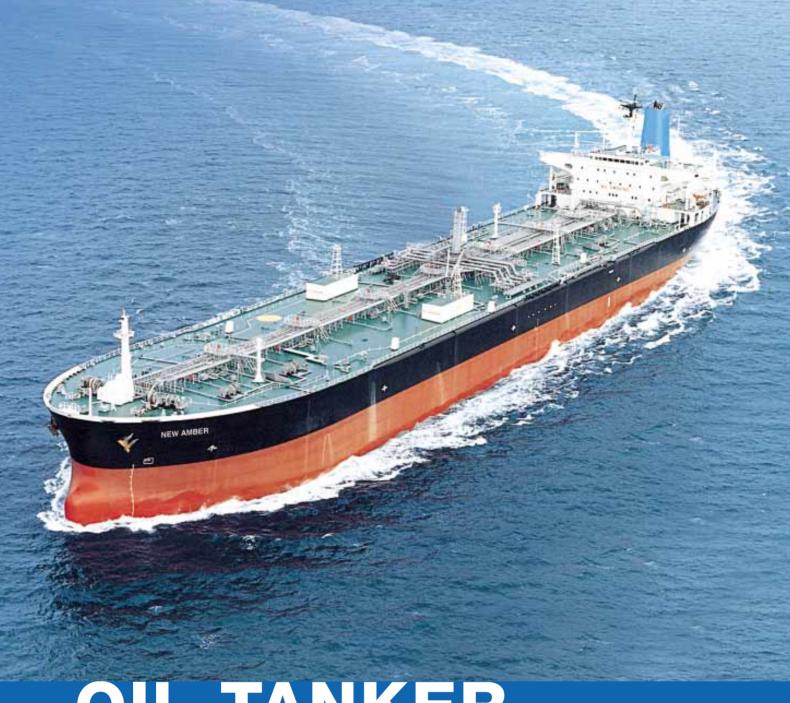
TOLL ROAD BUSINESS

Investment Project	Percentage of Shareholding		Distribution Ratio	
	2001	2002		
Ningzhenluo Expressway (寧鎮駱公路)	60.0%	60.0%	60.0%	
Guihuang Expressway (貴黃公路)	60.0%	60.0%	100.0%	
Yuyao Expressway (余姚公路)	60.0%	60.0%	77.5%	
Guiliu Expressway (桂柳公路)	40.0%	40.0%	90.0%	
Luomei Expressway (羅梅公路)	33.3%	33.3%	100.0%	
Western Harbour Tunnel in Hong Kong	13.0%	13.0%	13.0%	
Zhangxia Expressway (漳廈高速公路)	40.0%	_	Disposed on 26 April 2002	
Zhangzhou 324 National Highway (漳州324國道)	16.8%	_	Disposed on 26 April 2002	
Shanghai Yixian Road (上海逸仙路)	30.0%	-	Disposed on 30 June 2002	

Consolidated profit after tax and minority interests for the Company's toll road business was HK\$239,200,000 for the Current Year, representing an increase of 56.0% over the HK\$153,300,000 before provision in 2001. Turnover of road operation business included the turnover of Ningzhenluo Expressway which amounted to HK\$23,300,000, representing a 20.2% decrease from HK\$29,200,000 in 2001 as a result of the abolition of the centralised payment system by Ningzhenluo Expressway. Consolidated profit after tax and minority interests for the Current Year was substantially higher than that of last year for two reasons: 1) Guihuang Expressway, Yuyao Expressway, and Guiliu Expressway, in which the Company had invested, recorded higher profit growth in the Current Year; and 2) the Company disposed of two toll roads in Zhangzhou and the Shanghai Yixian Road during the Current Year and realised a disposal gain of HK\$88,000,000.

The Company has been active in implementing the international management standard of ISO9000 in its toll road business and achieved satisfactory results. The Company restructured its highway assets, sold Zhangxia Expressway and Zhangzhou 324 National Highway, and thereby resolved the long-time issue with respect to the provision of guaranteed returns. The Company recovered its investment capital and received a fairly satisfactory compensation in selling Shanghai Yixian Road.

At present, the Company has five toll roads and one toll tunnel. The toll roads totalled 332 kilometers. The traffic volumes of the five highways totalled 25,350,000 vehicles in 2002, representing an increase of 16% as compared with the same period last year. The traffic volume of the Western Harbour Tunnel in Hong Kong was 14,600,000 vehicles in the Current Year, representing a minor increase of 0.76% over the same period last year.



OIL TANKER BUSINESS

OIL TANKER BUSINESS

Consolidated profit after tax and minority interests for the oil tanker business was HK\$125,200,000 for the Current Year, representing a decline of 26.6% as compared with the figure of last year which was HK\$170,500,000 (not including the adjusted profit of HK\$27,160,000 from change in accounting policies). Turnover was HK\$384,300,000 in 2002, as compared to the HK\$474,800,000 in 2001, representing a decrease of 19.1%.

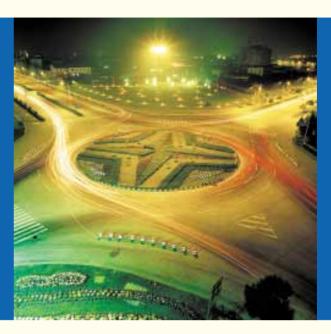
The Company's international oil tanker business is operated by Ming Wah Bermuda in which the Company holds 100% interest. Ming Wah Bermuda operates seven Aframax oil tankers with a total tonnage of 660,000 tons.

Under the impact of the weak global oil tanker market, the price index of Aframax oil tankers declined by nearly 38% in 2002 as compared to its peak in 2000 and 2001. The Company's oil tanker business also suffered, but the rate of decline was lower than the global average. This was due to the fact that the Company's time charter equivalent of the oil tankers in 2002 was higher than the market charter rate. In addition, the time charter equivalent of the time charter and spot rate of the seven Aframax oil tankers was close to 100%. On the whole, the operation performance was satisfactory.



OUTLOOK AND PROSPECTS





Looking ahead, the economy in the PRC will continue to maintain its growth momentum. The economic links between Hong Kong and mainland China will become closer. Despite uncertainties in the global economy, the shipping and ports business in Hong Kong will benefit from the rapid development of the mainland economy. It is anticipated that the PRC's foreign trade will maintain a remarkable growth, and thus will bring favourable development opportunities to the Company's ports business and container manufacturing and related businesses in the PRC as well as in Hong Kong. The Company will capitalise on these opportunities to further increase its penetration into the ports business in the PRC, strengthen its operation and management, optimise its assets structure and consolidate its leading role in the ports business in the PRC.

Ports business, in particular the western Shenzhen ports, will remain the Company's investment focus. The Company will increase investments in these ports, optimise its asset structure, consolidate market resources and enhance its comprehensive profitability. The two designated container berths at Phase Two of the Shekou Container Terminals and one berth at Chiwan Container Terminal, together with Berth No. 0 in Mawan, will be completed and their operation will commence in 2003 as scheduled. New berths Nos. 5-7 of Mawan Port, one berth at Chiwan Container Terminal and the three container berths at Phase Three of the Shekou Container Terminals are expected to be completed between 2004 and 2007. In the coming five years, 12 berths will be added to the Company's investment portfolio in western Shenzhen ports, resulting in an additional 5,000,000 TEU container handling capacity. All these will enhance the Company's strength in the ports business. In recent years, the annual growth rate of the PRC's foreign trade has remained stable at about 20%. With its cargo containerisation rate much lower than that of the developed countries, there is much scope for development. The cargo throughput handled by the Shenzhen ports in the next five years is expected to remain at a relatively high level. The Company's newly constructed ports will bring in considerable income for its shareholders.

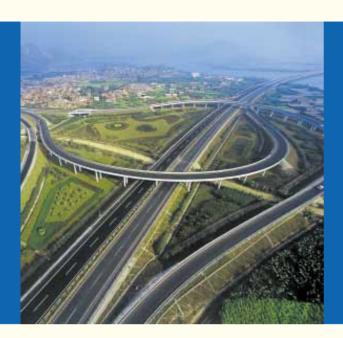
Operations Review



In addition to increasing investments in western Shenzhen ports, the Company plans to increase its shareholding in Zhangzhou Ports to 60% in 2003. Moreover, the Company plans to invest in ports located in Tianjin, Shanghai, Ningbo and Tsingdao as part of the Company's strategic approach to be the main hub in the PRC and to consolidate the Company's position as a leader in the PRC's ports facilities.

The Company is fully aware of the importance of providing value-added services such as terminal ancillary services. In developing its ports business, the Company will launch value-added services such as marine logistics and CFS services so as to enhance its core competitiveness by providing multi-dimensional and comprehensive port services to its customers. Being the core business of the Company, ports business will gradually establish a nation-wide port network business in the next few years.

In respect of the container manufacturing business, while CIMC continues to consolidate its present favorable position, it is also actively developing the container handling service with the vision that it will become the world leader in the sector within the next five years. Given the development of the container manufacturing business and the Company's technological advantage, the Company's paint manufacturing business, particularly in relation to paints for containers and ships, will continue to consolidate its leading position in the market.





As for the toll road business, after the successful disposal of Zhangxia Expressway, Zhangzhou 324 National Highway and Shanghai Yixian Road project, the Company retains toll roads that are free from the risk of guaranteed returns. This is favourable to the Company's development of the toll road business. It is expected that with the continuous growth of the economy in the PRC and the PRC Government's increase in highway infrastructure investment, both cargo logistics and passenger traffic will further expand. Since only 20% of the traffic flow capacity of the five toll roads of the Company is currently being used and the tolls are below the industry's average, there is much potential for growth. The Company will further improve the toll road business structure, strengthen the management of the highways, and continue to increase the returns of the business.

Management and all staff members of the Company will continue to put in their best effort to leverage on the Company's solid foundation and its strong associations in Hong Kong, the PRC, and overseas. With a well-defined focus, the Company will enhance its overall management by establishing a strategic management system and employing effective management tools. The Company will actively optimise its assets, explore new business opportunities and strive to achieve better returns for its shareholders.

Management Discussion and Analysis

Consolidated Profit and Loss Account				
		2002 HK\$ million	2001 HK\$ million	
	Turnover			
	Port	384.0	-	
	Container manufacturing			
	and related business	872.8	674.5	
	Toll road	23.3	29.2	
	Oil tanker	384.3	474.7	
	Others	24.7	27.7	
1	Total turnover	1,689.1	1,206.1	
	Cost of sales	(1,138.7)	(748.8)	
2	Gross profit	550.4	457.3	
3	Other income	81.1	102.3	
4	Distribution costs	(141.1)	(117.9)	
5	Administrative expenses	(147.5)	(127.5)	
6	Profits from disposal of			
	investments in infrastructure			
	joint ventures/interests in			
	associates	22.1	5.2	
7	Provisions	(200.0)	(139.6)	
	Write-back of dry-docking provision		27.2	
8	Operating profit	165.0	207.0	
9	Finance costs	(39.7)	(66.6)	
10	Share of profit of associates/			
	jointly controlled entities	959.1	834.7	
	Profit before taxation	1,804.4	975.1	
	Taxation	(137.2)	(115.0)	
	Minority interests	(64.7)	(59.9)	
1	Profit attributable to shareholders	882.5	800.2	

- The Group recorded an increased turnover of HK\$480 million over the previous year, which is largely attributable to: (1) acquisition of two port services subsidiaries during the year generated a turnover of HK\$380 million; (2) paint sales recorded an increase of HK\$200 million over the previous year; and (3) a decrease of HK\$90 million in the turnover of oil tanker business over the previous year, owing to the falling charter rate in the oil tanker charter market.
- There was an increase of HK\$93 million in gross profit over the previous year which was largely attributable to a gross profit of HK\$101 million contributed by two newly-acquired port services subsidiaries, whilst an increase of HK\$70 million in the paint business was set-off by a decline of HK\$70 million in the oil tanker business.
- There was a decrease of HK\$21,000,000 in other income from previous year, largely attributable to a decrease of interest income.
- The distribution costs recorded an increase of HK\$23,000,000 over the previous year, which is mainly attributable to the increased transportation expenses and patent licence fee as a result of the growth in paint sales during the year.
- The administrative expenses increased by HK\$20,000,000 over the previous year, which is mainly attributable to the consolidation of the HK\$42,000,000 administrative expenses of the two newly-acquired port services projects during the year. Without taking into account such administrative expenses, the administrative expenses recorded a decrease of HK\$22,000,000 compared with the previous year.
- During the year, Zhangzhou 324 National Highway and Zhangxia Expressway were sold and such disposals generated a disposal income of HK\$22,000,000.
- A provision of HK\$200,000,000 was made for the Company's property, China Merchants Tower, during the year, while a provision of HK\$140,000,000 was made for the Company's highway projects during the previous year.
- Without taking into account the above provisions, the operating profit for the year achieved a 5.3% increase over the previous year. The profit decrease in oil tanker business was partially off-set by the profit growth in ports business.
- The finance costs decreased by HK\$27,000,000 as a result of the repayment of bank borrowings in a total of HK\$410,000,000.
- During the year, the share of profit of the associates and jointly controlled entities represented an increase of HK\$124,000,000 over the previous year, largely attributable to the substantial increase in the Group's profit from its port projects, container manufacturing and related businesses such as paint manufacturing. And disposal gain was made from sales of Yixian Road through a jointly controlled entity.
- For detailed analysis, see the paragraph headed "Profit Analysis by Industries" below.

Consolidated Balance Sheet			
		2002 HK\$ million	2001 HK\$ million
	Non-current assets	10,921.5	10,188.5
12	Fixed asset	2,923.1	2,705.7
13	Toll road operating right	319.7	326.3
14	Goodwill/(Negative goodwill)	149.0	(158.8)
15	Interests in associates		
	and jointly controlled entities	6,800.6	6,488.7
16	Other non-current assets	729.1	826.6
	Net current assets	1,228.4	1,590.8
17	Bank balance and cash	822.8	1,491.9
18	Other net current assets	405.6	98.9
	Total assets less current liabilities	12,149.9	11,779.3
	Non-current liabilities	367.8	605.0
19	Bank borrowings – due after 1 year	53.5	293.1
	Convertible bonds	314.3	311.9
	Minority interests	340.5	301.4
	Shareholders' equity	11,441.6	10,872.9
	Share capital	205.7	205.3
	Share premium	8,058.4	8,043.0
	Other reserves	(43.2)	(77.5)
20	Retained earnings	3,220.7	2,702.1
	including: proposed dividend	308.5	184.8
	Non-current liabilities and		
	shareholders' equity	12,149.9	11,779.3

- There was an increase of HK\$217,000,000 in fixed assets as compared to the previous year, largely attributable to the increase in fixed assets of HK\$530,000,000 from the two newly-acquired port subsidiaries and the decrease in provision of HK\$200,000,000 fixed assets for China Merchants Tower, during the year, as well as the depreciation and other additions made during the Current Year.
- The toll road operating right was held by Ningzhenluo Highway Company, a subsidiary of the Group. Other highway projects were jointly controlled entities or infrastructure joint venture of the Group.
- Negative goodwill amounted to HK\$159,000,000 in 2001, largely attributable to the privatisation of Ming Wah Universal (Bermuda) Co. Ltd., a Singaporelisted subsidiary of the Company. The two port services projects newly-acquired by the Company during the year generated a goodwill of HK\$308,000,000.
- The interests in associates and jointly controlled entities increased by HK\$310,000,000, largely attributable to a HK\$860,000,000 share of the profits after tax of associates and jointly controlled entities and a HK\$230,000,000 increase in the investments made in such associates and jointly controlled entities. During the year, dividend of HK\$470,000,000 from associates and jointly controlled entities and a shareholders' loan repayment of HK\$310,000,000 from jointly controlled entities were received.
- Two return-guaranteed highway projects, namely Zhangzhou 324 National Highway and Zhangxia Expressway were sold during the year and resulted in a HK\$368,000,000 decrease in interests, whilst the advances for the construction works of SCT (Phase II), SCT (Phase III) and Mawan project resulted in a HK\$220,000,000 increase in interests.
- The decrease of cash was mainly due to increased investments in ports (including HK\$830,000,000 net cash paid for the acquisition of two port projects), bank loan repayment of HK\$410,000,000 and dividend payment of HK\$330,000,000. For details, see the cash flow analysis.
- There was a significant increase in other net current assets, mainly due to: (1) a net increase of HK\$100,000,000 in accounts receivable and accounts payable as a result of an increase of paint sales during the year; (2) a loan of HK\$94,000,000 in favour of Nanyou; and (3) repayment of HK\$170,000,000 bank borrowings which were repayable within a year during the year.
- Repayment of HK\$240,000,000 long term bank loan was made during the year.
- Retained earnings increased by HK\$518,000,000, which is attributable to (1) earnings for the year is HK\$882,000,000; and (2) dividend payment to the Company's shareholders and transfer of distributable reserve totalling HK\$364,000,000.

Consolidated Cash Flow Statement				
		2002 HK\$ million	2001 HK\$ million	
	Net cash inflow from			
	operating activities	291.6	435.9	
21	Net cash flow from operations	314.4	451.2	
	Taxation	(22.8)	(15.3)	
	Net cash flow from			
	investing activities	(170.6)	320.0	
	Dividend from associates and			
	jointly controlled entities and			
	returns on other investment	508.3	474.4	
22	Loan repayment by jointly			
	controlled entities	311.6	148.1	
	Proceeds from disposal of			
	subsidiaries (sold in 2000)		349.6	
23	Disposal of infrastructure joint			
	ventures/associates	390.0	9.0	
24	Investments in associates			
	and jointly controlled entities	(388.5)	(462.8)	
25	Purchase for subsidiaries	(831.2)	(221.5)	
26	Loans to related companies	(145.3)	(82.6)	
27	Purchase of fixed assets	(40.9)	(6.0)	
	Net cash inflow from other			
	investing activities	25.4	111.8	
	Net cash inflow from			
	financing activities	(790.6)	(768.6)	
	Proceeds from exercise of			
	share option	15.7	21.0	
28	Bank loan repayment	(414.5)	(385.3)	
	Interest payment	(37.3)	(64.2)	
	Dividend payment	(346.0)	(330.0)	
	Cash inflow from other			
	financing activities	(8.5)	(10.0)	
	Decrease of cash, net	(669.6)	(12.7)	
	Cash balance, beginning			
	of the year	1,491.9	1,506.6	
	Effect of changes in			
	exchange rate	0.5	(2.0)	
	Cash balance, end of the year	822.8	1,491.9	

- There was a decrease of HK\$137,000,000 in cash flow from operations, mainly attributable to: (1) income from oil tanker business decreased by HK\$90,000,000 over the previous year; (2) increased sales of the paint business resulting in an increase of account receivables which, after setting off the increase of the account payable, resulted in an increase of HK\$100,000,000 over the previous year.
- An increase of HK\$160,000,000 in shareholders' loan repayment by the jointly controlled entity over the previous year was largely attributable to the receipt of proceeds of HK\$180,000,000 from the sale of Shanghai Yixian Road project during the year, which set off the project's shareholders' loan due to the Group.
- 23 It represented the sales of the projects of Zhangzhou 324 National Highway and Zhangxia Expressway.
- It mainly consisted of the investment of HK\$190,000,000 in Zhangzhou Terminal and the construction cost of HK\$160,000,000 for SCT Phase II and Phase III.
- A net payment of HK\$830,000,000 made for the purchase of subsidiaries, including (1) HK\$760,000,000 for the acquisition of China Merchants Port Services; (2) HK\$100,000,000 for the acquisition of China Merchants Container Services; (3) less: the existing funds of the companies which were acquired.
- Loans to related companies mainly include:
 (1) HK\$45,000,000 to Hong Kong Western
 Harbour Crossing; (2) HK\$94,000,000 to
 Nanyou Group, the Group's cooperative
 partner.
- The cash paid for the purchase of fixed assets was mainly from the port construction cost of China Merchants Port Services, the Group's subsidiary.
- The bank loans repaid during the year included: (1) HK\$190,000,000 repaid by China Merchants International; (2) HK\$6,000,000 repaid from the paint business; (3) HK\$220,000,000 repaid from the oil tanker business.

Profit Analysis by Industries				
	2002 HK\$ million	2001 HK\$ million		
Ports Business	521.7	396.4		
Container-related services	223.1	191.9		
Toll road business	239.2	13.8		
Oil tanker business	125.2	197.7		

PROFIT ANALYSIS BY INDUSTRIES

The profit of ports business increased by 31.6% to HK\$125,000,000, largely attributable to an increase in ports business turnover following a rapid increase of import and export foreign trade of the PRC (representing an increase of 21.8% for Current Year). The container throughput handled by various ports of the Group in western Shenzhen increased by 46% for Current Year.

The profit of the container-related business increased by 16.3% to HK\$31,000,000. This was largely attributable to the profit increase of the paint manufacturing business. During the Current Year, the increased domestic production of containers and vehicles had caused an increase in the sales of paint.

During the previous year, the Group wrote-off a sum of HK\$140,000,000 for investments in three highway projects. Before the write-off, the highways recorded a profit of HK\$153,000,000 in the previous year. The profit of highways business increased by HK\$86,000,000 or 55.9% as compared to the previous year for two reasons: 1) although the Current Year's number of highway projects was reduced by three as compared to that of last year, Guihuang Expressway, Yuyao Expressway and Guiliu Expressway recorded a higher profit growth over last year; and 2) Zhangzhou Highway project and Shanghai Yixian Road project was disposed of during the year and a disposal gain of HK\$88,000,000 was realised.

Management Discussion and Analysis

Of the profit from the oil tanker business in the previous year, HK\$27,000,000 arose from adjustment of accounting policy. Otherwise, the profit for the previous year would be HK\$170,000,000. This year, a 26% fall in profit was recorded for the reason that a price volatility of the oil tanker market as shown in the over 30% fall of the "Aframax" price index, thus leading to a decrease of the Group's income from its oil tanker business. However, the average daily freight of the Group's oil tankers was still higher than the average market price.

In addition, the average operating rate of the time and current charter of the Group's seven oil tankers was almost 100%. The performance of oil tanker business was normal.

LIQUIDITY AND TREASURY POLICIES

As at 31 December 2002, the Company held more than HK\$800,000,000 in cash, 6% of which was denominated in Hong Kong dollars, 26% in U.S. dollars and 68% in Renminbi.

The funds of the Group mainly come from the returns on the operation of its associates and co-operative companies. Besides, the disposal of three highways during the Current Year generated a cash inflow of HK\$580,000,000. As the Group invested more than HK\$1,200,000,000 in new projects, repaid HK\$410,000,000 of bank loans and paid a dividend of HK\$330,000,000, the cash in hand at the end of the Current Year was less than that in the previous year.

Given the stable source of income and the very low gearing ratio, the Group maintained a sound financial position to meet its daily operating needs and for timely repayment of bank loans.

SHARE CAPITAL AND FINANCIAL RESOURCES

As at 31 December 2002, the Company had a total of 2,056,585,388 issued shares. During the Current Year, an aggregate of 3,113,000 shares were issued upon the exercise of options and HK\$16,000,000 was received in return.

As at 31 December 2002, the Group had total outstanding loans of HK\$145,000,000, of which HK\$91,000,000 were short-term loan facilities and bank loans repayable within one year. The bank loans decreased by HK\$410,000,000 as compared to the end of 2001 since some of the loans were repaid during the year in order to reduce the interest expense. The remaining bank loans were unsecured.

The balance of convertible bonds was HK\$317,000,000, remaining at the same level as in the previous year. The convertible bonds will expire in 2004 and their interest rate was fixed at 7%. There was no conversion of convertible bonds in the Current Year.

The interest rate of convertible bonds was fixed, whilst those of the bank loans were floating.

As at 31 December 2002, the Group's gearing ratio (dividing interest-bearing liabilities by net assets) was 4%, representing a further decrease from 8% of the previous year.

All bank loans and convertible bonds were denominated either in U.S. dollars or HK dollars. As such, the Company did not have any financial instruments to hedge against these loans and bonds.

The Group held its assets mainly in HK dollars, U.S. dollars and Renminbi. The Board was of the view that, given the pegged exchange rate between HK and US dollars and the limited possibility for Renminbi to depreciate in the future, it was not necessary to arrange for hedging of the foreign currency investments.

CHARGE ON ASSETS

As at 31 December 2002, the Group did not have any charge on its assets.

CONTINGENT LIABILITIES

As at 31 December 2002, the amount of bank guarantees given by the Company in respect of its subsidiaries, associates, joint venture companies, companies in which the Company had made investments, as well as those granted in respect of convertible bonds, totalled HK\$520,000,000.

EMPLOYEES AND REMUNERATION

As at 31 December 2002, the Group employed 1,850 full-time staff, of whom 230 worked in Hong Kong and the remaining 1,620 worked in the PRC. The remuneration expenses for the Current Year amounted to HK\$167,000,000, representing 12% of the total operating expenses of the Group. The Group reviews its remuneration policy every year and makes adjustments to staff's remuneration according to the conditions of the human resources market and the economy.

The Group also provides internal training to its staff to enable them to achieve self-improvement and enhance their job-related skills. Moreover, the Group gives yearend bonus as an award to the staff for their effort and contribution. The Group also operates a share option scheme under which qualified staff may exercise their options at an agreed price.

Five-year Financial Summary

Five-year Financial Summary

	2002 HK'000	2001 HK'000	2000 HK'000	1999 <i>HK'000</i>	1998 <i>HK'000</i>
RESULTS					
Turnover	1,689,136	1,206,105	1,381,860	1,348,499	1,496,770
Profit before taxation	1,084,480	975,099	1,081,178	816,120	827,702
Taxation	(137,201)	(115,037)	(102,734)	(80,104)	(57,318)
Profit after taxation	947,279	860,062	978,444	736,016	770,384
Minority interests	(64,792)	(59,852)	(100,376)	(31,541)	17,245
Profit for the year	882,487	800,210	878,068	704,475	787,629
Earnings per share					
Basic	42.93 cents	38.98 cents	42.94 cents	35.81 cents	42.30 cents
Fully diluted	42.64 cents	38.88 cents	42.71 cents	-	-
ASSETS AND LIABILITIES					
Non-current assets	10,921,569	10,188,455	10,054,164	9,930,478	9,749,419
Net current assets	1,228,434	1,590,818	1,774,102	1,533,161	1,099,688
	12,150,003	11,779,273	11,828,266	11,463,639	10,849,107
Non-current liabilities	(528,278)	(773,963)	(982,569)	(1,405,265)	(1,371,389)
Minority interests	(180,107)	(132,374)	(481,057)	(653,289)	(630,738)
Net assets	11,441,618	10,872,936	10,364,640	9,405,085	8,846,980

Directors and Senior Management

EXECUTIVE DIRECTORS

Dr. Fu Yuning, aged 46, is the Chairman of the Company and is also a Director and the President of the China Merchants Group. He graduated from Dalian Institute of Technology in the PRC with a Bachelor Degree in Port and Waterway Engineering. He also obtained a Doctorate Degree in Offshore Engineering from Brunel University, United Kingdom and worked as a Post-Doctorate research fellow thereafter. He is the Chairman of a Hong Kong listed company named China Merchants China Direct Investment Ltd. and also the Chairman of Shenzhen Chiwan Petroleum Supply Base Co., Ltd., the shares of which are listed on the Shenzhen Stock Exchange. He was appointed to the Board of Directors on 8 January 1999 and was appointed as the Chairman of the Company on 1 February 2000.

Zhou Qifang, aged 59, is a Director and the Vice President of the China Merchants Group. He graduated from the Marine Engineering Department of Dalian Maritime University in the PRC and holds the professional title of senior engineer. He once served in COSCO (Guangzhou) and COSCO, and has been the Vice President of the COSCO Group. In 1997, he joined the China Merchants Group as the Vice President and also as the Managing Director of China Merchants Shekou Industrial Zone Co., Ltd. (1997-2000). He was appointed to the Board on 2 August 2000.

Zhao Huxiang, aged 48, is the Vice-Chairman of the Company and also a Director and the Vice President of the China Merchants Group. He graduated from Dalian Maritime University in the PRC with a Bachelor Degree in Electronic Engineering and holds a Master's Degree in Business Administration from the University of Louisville, USA. Prior to joining the China Merchants Group in 1985, he was responsible for technical management of marine and shipping equipment in a bureau under the Ministry of Communications, the PRC. For the last 17 years, he has been involved in trading, strategic investment and management of industrial enterprises. He was appointed to the Board on 7 July 1994 and as the Vice-Chairman of the Company on 1 November 2001.

Li Yi, aged 41, is the Managing Director of the Company. He graduated from the Wharton School of Business at the University of Pennsylvania with a MBA. After the school, he worked for Citicorp in New York. He had gained eight years extensive Wall Street experience in securities trading, direct investment and investment banking. Mr. Li was also the Chairman of the China Finance Society in New York from 1995 to 1996. At the end of 1999, Mr. Li returned to China and was appointed as the Executive Vice President of the China Communications Securities. In 1980s, he graduated from Beijing University of Physical Education and the China University of Political Science & Law. During this period, he was also the Vice Chairman of the National Student Federation of China and the Deputy Secretary-General of the Beijing Student Federation in Beijing. He was a professional soccer player in Shaanxi province for four year in the late 1970s. He was appointed to the Board on 1 November 2001.

EXECUTIVE DIRECTORS – Continued

To Wing Sing, aged 53, is the Deputy Managing Director of the Company. Being a qualified marine engineer in the United Kingdom, he joined the China Merchants Group in 1971. During his 32 years with the China Merchants Group, he has been actively involved in the transportation business. He is a Director of Asia Airfreight Terminal Company Limited and Modern Terminals Limited. He was appointed to the Board on 7 July 1994.

Li Yinquan, aged 48, is the Chief Financial Officer of the China Merchants Group. He graduated from the Shaanxi Institute of Finance and Economics with a Bachelor of Economics, and holds a Master in Economics from The People's Bank of China Graduate School in Beijing. He also holds a Master in Banking and Finance from the Finafrica Institute in Milan, Italy. Prior to joining the China Merchants Group in 2000, Mr Li worked in the Agricultural Bank of China from 1985 to 1999 where his last position was Deputy General Manager of the Hong Kong branch. He was appointed to the Board on 20 June 2001.

Meng Xi, aged 47, is the Assistant President of the China Merchants Group and the General Manager of Strategic Planning Department of China Merchants Group. He graduated from the Beijing Construction Engineering College and was awarded "Senior Engineer" in the PRC. He joined the China Merchants Group in 1983 and was formally the Deputy General Manager of China Merchants Shekou Industrial Zone Company Limited, Deputy General Manager of Enterprises and Projects Division and General Manager of Management Information Division of the China Merchants Group. He has extensive experience in the field of strategic investment, management of enterprises, MIS and strategic planning. He was appointed to the Board on 20 June 2001.

Yu Liming, aged 40, is the General Manager of Business Development Department of the China Merchants Group. He graduated from the South China University of Science and Technology in 1982. He holds a Master Degree and is also a doctoral candidate at the Business School of Fudan University, the PRC. He studied in The International Institute of Infrastructural Hydraulic and Environmental Engineering (IHE), Delft University of Holland and Port of Rotterdam from 1987 to 1988. He joined the China Merchants Group in 1984 and has extensive experience in the field of construction, port management, strategic planning and mergers and acquisitions. He was appointed to the Board on 8 January 1999.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Tsang Kam Lan, aged 71. He was formerly the Managing Director of Bank of China Group Insurance Company Limited, BOC Group Life Assurance Company Limited and Sun Chung Estate Co., Ltd. and the Deputy Managing Director of Kiu Kwong Investment Corporation Ltd., the Chairman of Bank of China Group Investment Ltd., Bank of China Group Securities Limited and Hopewell Power (China) Limited, the General Manager of The China & South Sea Bank Limited, Hong Kong branch, the Deputy General Manager of The Kwangtung Provincial Bank Hong Kong Branch, and the Deputy Chief Executive of Bank of China Hong Kong & Macau Regional Office. He was appointed to the Board on 6 June 1992.

INDEPENDENT NON-EXECUTIVE DIRECTORS – Continued

Kut Ying Hay, aged 48, is a practising solicitor and notary public in Hong Kong and the sole proprietor of Messrs. Kut & Co. He is also a solicitor of the Supreme Court of England and Wales, the Supreme Court of Victoria, Australia and the Supreme Court of Singapore, and is an associate member of the Institute of Chartered Arbitrators and the Institute of Arbitrators, Australia, He was appointed by the Hong Kong Government as a member of the Board of Review for the period from 1995 to 1998. He has also been appointed by the Ministry of Justice of the PRC as a China Appointed Attesting Officer. He was appointed to the Board on 6 June 1992.

Koo Kou Hwa, aged 76, is the Chairman of Tai Chong Cheang Steamship Co. (H.K.) Ltd. He studied in the Faculty of Ocean Shipping, University of Pennsylvania, Philadelphia, U.S.A. and the Faculty of Maritime Law and Chartering & Ship Brokerage, School of World Trade, New York, U.S.A. He has over 40 years' experience in shipping business. He is the Council Member of the "American Bureau of Shipping & Affiliated Companies", the Council Member of the "Bureau Veritas" and the Chairman of the Hong Kong Shipowners Association. He is also a Council Member and the Vice Chairman of the Executive Committee of The International Association of Independent Tanker Owners since 1993 and 2000 respectively. Also the Chairman of Asian Regional Panel of The International Association of Independent Tanker Owners since 1997. He was appointed to the Board on 23 November 1994.

Lee Yip Wah, Peter, aged 60, is a practising solicitor, a partner of Messrs. Woo, Kwan, Lee & Lo, Solicitors & Notaries and a China Appointed Attesting Officer. He is also a non-executive director of a number of public listed companies including Cosco Pacific Limited, Shenzhen Investment Limited, Elec & Eltek International Holdings Limited and Tern Properties Company Limited. He was appointed to the Board on 20 June 2001.

SENIOR MANAGEMENT

Fan Jianxiong, aged 47, is a Deputy General Manager of the Company. He graduated from Hubei University and had undergone training in Australia and the United Kingdom. He also obtained a Master's Degree in Business Administration from Maastricht School of Management, The Netherlands. He joined the Group in June 2001. Prior to joining the Group, he had over 20 years of experience in shipping, cargo handling and transportation and was the Deputy General Manager of China Merchants Transportation Holdings Co. Ltd.

Jiang Yanfei, aged 43, is a Deputy General Manager of the Company. His undergraduate degree was from Chongqing Technical College in the PRC and he also obtained a MBA from the University of Murdock, Australia. He joined the Group in June 2001. He has extensive experience in the development of toll roads and transportation systems including investment management technology, communication... etc. in the PRC and has been acting as senior management of the Shandong Provincial Infrastructure Company, a listed company in the PRC. Prior to joining the Group, he was the Deputy General Manager of China Merchants Shekou Holdings Co. Ltd.

Report of the Directors

The Board has pleasure in presenting the annual report together with the audited financial statements for the year ended 31 December 2002.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The Company is an investment holding company. The principal activities of its subsidiaries, associates and jointly controlled entities are set out in notes 34, 35 and 36 to the financial statements, respectively.

An analysis of the Group's performance for the Current Year by business and geographical segments is set out in note 3 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 61.

The Board had declared an interim dividend of HK7 cents per share, totalling HK\$143,933,000, which was paid on 16 October 2002.

The Board recommends the payment of a final dividend of HK 10 cents per share and a special dividend of HK 5 cents per share, totalling HK\$308,488,000.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 29 to the financial statements.

FIXED ASSETS

Details of the movements in fixed assets of the Group and the Company are set out in note 12 to the financial statements.

INVESTMENT PROPERTY

Details of the investment property of the Group are set out on page 122.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 28 to the financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 December 2002, calculated under section 79B of the Hong Kong Companies Ordinance, amounted to HK\$581,474,000 (2001: HK\$281,812,000).

Report of the Directors

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 38.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the Current Year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS

The directors in the Current Year were:

Executive Directors:

Dr. Fu Yuning (Chairman)

Mr. Zhou Qifang

Mr. Zhao Huxiang (Vice Chairman)

Mr. Li Yi (Managing Director)

Mr. To Wing Sing

Mr. Li Yinquan

Mr. Meng Xi

Mr. Yu Liming

Independent non-executive Directors:

Mr. Tsang Kam Lan

Mr. Kut Ying Hay

Mr. Koo Kou Hwa

Mr. Lee Yip Wah Peter

In accordance with Articles 91 and 97 of the Company's Articles of Association, Dr. Fu Yuning, Mr. To Wing Sing, Mr. Tsang Kam Lan and Mr. Kut Ying Hay will retire from the Board by rotation at the forthcoming annual general meeting but, being eligible, will offer themselves for re-election.

The term of office of each independent non-executive director is the period up to his retirement by rotation in accordance with the Company's Articles of Association.

DIRECTORS' SERVICE CONTRACTS

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its holding companies, its fellow subsidiaries or its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the Current Year or at any time during the Current Year.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2002, the interests of the directors in the shares of the Company and its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance were as follows:

			Number of
			shares in
		Number of	the Company
		shares in	subject to share
Name of Director	Nature of interest	the Company	options granted*
Dr. Fu Yuning	Personal interest	-	2,950,000
Mr. Zhou Qifang	Personal interest	-	1,050,000
Mr. Zhao Huxiang	Personal interest	-	2,120,000
Mr. Li Yi	Personal interest	-	1,200,000
Mr. To Wing Sing	Personal interest	-	800,000
Mr. Li Yinquan	Personal interest	-	700,000
Mr. Meng Xi	Personal interest	-	700,000
Mr. Yu Liming	Personal interest	-	1,050,000
Mr. Lee Yip Wah Peter	Personal interest	60,000	_
		60,000	10,570,000

^{*} Included share options granted under the Terminated Scheme and Existing Scheme.

DIRECTORS' INTERESTS IN SECURITIES - Continued

Save as disclosed above, as at 31 December 2002, none of the directors (including their spouse and children under 18 years age) had any interests in, or any rights to subscribe for, any securities of the Company or any of its associated corporations, within the meaning of the SDI Ordinance, as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company.

Apart from the share option schemes disclosed below, at no time during the Current Year was any of the Company, its subsidiaries, its fellow subsidiaries or its holding companies a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SHARE OPTION SCHEMES

(a) Terminated Scheme

Under the share option scheme of the Company adopted on 26 June 1992 (the "Terminated Scheme"), the Directors of the Company may, at their discretion, grant options to any director or employee of the Company or any of its subsidiaries to subscribe for shares in the Company at a price equal to the higher of the nominal value of the shares or not less than 80% of the average of the closing prices of the shares of the Company for the five trading days immediately preceding the date of offer of the options. The maximum number of shares in respect of which options may be granted may not exceed 10% of the issued share capital of the Company at the time of granting of the options. Under the terms of the Terminated Scheme, a director or employee may only exercise share options granted after he or she has completed two years service with the Group.

The Terminated Scheme was terminated on 20 December 2001 ("Termination Date") without prejudice to the rights and benefits of and attached to those options granted thereunder which were outstanding as at that date. No further grants were made after the Termination Date. Following the termination, the provisions of the Terminated Scheme remain in force and effect to the extent necessary to give effect to the exercise of any option granted prior to the Termination Date.

The share options granted are not recognised in the financial statements until they are exercised. As at 31 December 2002, the total number of shares which might be issued pursuant to exercise of options granted under the Terminated Scheme was 8,386,000 shares, which represented approximately 0.4% of the total issued share capital of the Company as at 31 December 2002.

SHARE OPTION SCHEMES – Continued

(a) Terminated Scheme - Continued

Details of the share options outstanding at 31 December 2002 which have been granted under the Terminated Scheme are as follows:

			Options	Options	Options	Options
			held at	exercised	cancelled	held at
		Exercise	1 January	during	during	31 December
Name	Date of grant	price	2002	the year	the year	2002
		HK\$		Note		
Director						
Dr. Fu Yuning	1 March 2000	5.054	2,000,000	250,000	-	1,750,000
Mr. Zhou Qifang	19 September 2000	5.615	350,000	-	-	350,000
Mr. Zhao Huxiang	1 March 2000	5.054	1,470,000	250,000	-	1,220,000
Mr. To Wing Sing	1 March 2000	5.054	320,000	320,000	-	_
Mr. Yu Liming	1 March 2000	5.054	350,000	_	-	350,000
			4,490,000	820,000		3,670,000
Continuous contract employees	5					
(1)	1 March 2000	5.054	4,269,000	1,955,000	-	2,314,000
(II)	19 September 2000	5.615	1,002,000	-	_	1,002,000
(III)	24 May 2001	5.630	738,000	38,000	_	700,000
(IV)	6 July 2001	5.610	700,000	-	-	700,000
			6,709,000	1,993,000		4,716,000
			11,199,000	2,813,000	_	8,386,000

The above outstanding share options may be exercised at any time during a period of 6 years commencing on the date of grant of the options.

Note: The weighted average closing market price per share immediately before the dates on which the share options were exercised was HK\$6.10.

SHARE OPTION SCHEMES - Continued

(b) Existing Scheme

Under the share option scheme (the "Existing Scheme") approved by the shareholders of the Company at an Extraordinary General Meeting of the Company held on 20 December 2001 ("Adoption Date"), the Board may, at their discretion, invite any director or employee of the Company or any of its subsidiaries or associates ("Eligible Person"), to take up options to subscribe for fully paid ordinary shares ("Shares") in the Company subject to the terms and conditions stipulated therein.

In view of the on-going support given to the Company by the CMHK Group (representing China Merchants Holdings (Hong Kong) Company Limited, an intermediate holding company of the Company, together with its subsidiaries (excluding the Group) and associated companies), the Board considered that it is in the best interest of the Company to extend the Existing Scheme to directors and employees of members of the CMHK Group. A resolution was passed at the Extraordinary General Meeting held on 27 August 2002 to amend the Existing Scheme to effect such extension of Eligible Persons.

Details of the Existing Scheme are as follows:

(i) Purpose

The purpose of the Existing Scheme is to provide the Company with a flexible means of incentivising, rewarding, remunerating, compensating and/or providing benefits to Eligible Persons.

(ii) Qualifying participants

Any Eligible Person.

(iii) Maximum number of shares

(1) 10% limit

Subject to (iii) (2) and (iii) (3) below, the total number of Shares which may be issued upon exercise of all options to be granted under the Existing Scheme and any options granted under the Terminated Scheme must not in aggregate exceed 10% of the Shares in issue as at the Adoption Date. Options lapsed in accordance with the terms of the Existing Scheme and the Terminated Scheme will not be counted for the purpose of calculating the 10% limit.

SHARE OPTION SCHEMES – Continued

(b) Existing Scheme - Continued

- (iii) Maximum number of shares Continued
 - (2) Refreshing the 10% limit

Subject to (iii) (5) below if applicable, the Board may, with the approval of the shareholders in general meeting "refresh" the 10% limit under (iii) (1) above (and may further "refresh" such limit once refreshed in accordance with the provisions of this rule), provided that the total number of Shares which may be issued upon the exercise of all options to be granted under the Existing Scheme and options granted under the Terminated Scheme is below the limit as "refresh" shall not exceed 10% of the Shares in issue at the date on which the shareholders approve the "refreshed" limit. Options previously granted under the Existing Scheme and the Terminated Scheme (including those outstanding, cancelled, lapsed or exercised in accordance with the terms of the relevant schemes) will not be counted for the purpose of calculating the limit as "refreshed".

(3) Exceeding the 10% limit

The Board may grant option to any Eligible Person or Eligible Persons specifically identified by them which would cause the limit under (iii) (1) above (including, for the avoidance of doubt, any such limit as "refreshed" under (iii) (2) above) to be exceeded, but only with the approval of the shareholders of the Company in general meeting, and subject always to (iii) (5) below.

(4) Individual limit

- (a) Subject to (iii) 4 (b) below (and subject always to (iii) (5) below), the Board shall not grant any option (the "Relevant Options") to any Eligible Person which, if exercised, would result in such Eligible Person becoming entitled to subscribe for such number of Shares as, when aggregated with the total number of Shares already issued or to be issued to him under all options granted to him in the 12 month period up to and including the offer date of the relevant options, exceed 1% of the Shares in issue at such date.
- (b) Notwithstanding (iii) 4 (a) above, the Board may grant options to any Eligible Person or Eligible Persons causing the limit under (iii) 4 (a) above in relation to such Eligible Person to be exceeded, but only with the approval of the shareholders of the Company in general meeting (with such Eligible Person and his associates abstaining from voting), and subject always to (iii) (5) below.

SHARE OPTION SCHEMES - Continued

(b) Existing Scheme - Continued

- (iii) Maximum number of shares Continued
 - (5) 30% maximum limit

The limit on the number of Shares which may by issued upon the exercise of all outstanding options granted and not yet exercised under the Existing Scheme and the Terminated Scheme to Eligible Persons must not exceed 30% of the Shares in issue from time to time.

(iv) Option period

Subject to certain provisions, an option under the Existing Scheme which is vested and has not lapsed may be exercised at any time up to the expiry of 10 years (or less, as the case may be) from the date of grant of the option. The exercise of the options may be subject to any conditions imposed by the Board at the time of offer. The rules of the Existing Scheme do not contain specific provisions for the minimum period which an option must be held before exercise or performance targets applicable to the options.

(v) Payment on acceptance of option offer

Option-holders are not required to pay for the grant of an option.

(vi) Exercise price

The subscription price for the shares in respect of which options are granted shall not be less than the higher of the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the offer date, the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date and the nominal value of the shares.

(vii) The remaining life of the Existing Scheme

The life of the Existing Scheme is 10 years commencing on the Adoption Date and will end on 19 December 2011.

(viii) Shares available for issue under the Existing Scheme

As at 31 December 2002, the total number of shares available for issue under the Existing Scheme was 29,900,000 shares, which represented approximately 1.5% of the total issued share capital of the Company.

SHARE OPTION SCHEMES – Continued

(b) Existing Scheme - Continued

(viii) Shares available for issue under the Existing Scheme – Continued

Details of the share options outstanding at 31 December 2002 which have been granted under the Existing Scheme are as follows:

			Options	Options	Options	Options
			held at	granted	exercised	held at
	Date of	Exercise	1 January	during	during	31 December
Name	grant	price	2002	the year ¹	the year²	2002
		HK\$				
Director						
Dr. Fu Yuning	11 October 2002	4.985	-	1,200,000	-	1,200,000
Mr. Zhou Qifang	11 October 2002	4.985	-	700,000	_	700,000
Mr. Zhao Huxiang	11 October 2002	4.985	-	900,000	_	900,000
Mr. Li Yi	11 October 2002	4.985	-	1,200,000	_	1,200,000
Mr. To Wing Sing	11 October 2002	4.985	-	800,000	_	800,000
Mr. Li Yinquan	11 October 2002	4.985	-	700,000	_	700,000
Mr. Meng Xi	11 October 2002	4.985	-	700,000	_	700,000
Mr. Yu Liming	11 October 2002	4.985		700,000	-	700,000
				6,900,000		6,900,000
Continuous contract en	nployees					
(I) The Group	11 October 2002	4.985	-	13,200,000	-	13,200,000
(II) CMHK Group	11 October 2002	4.985		10,100,000	300,000	9,800,000
				23,300,000	300,000	23,000,000
			_	30,200,000	300,000	29,900,000

The above outstanding share options may be exercised at any time during a period of 10 years commencing from the date of grant of the options.

SHARE OPTION SCHEMES - Continued

(b) Existing Scheme - Continued

(viii) Shares available for issue under the Existing Scheme – Continued Notes:

- 1. The closing market price per share at the date preceding the date on which the share options were granted was HK\$4.825.
- 2. The closing market price per share immediately before the date of which the share options were exercised was HK\$5.50.
- 3. Value of options

The value of the options that were granted under the Existing Scheme as of 11 October 2002 is reasonably stated by the amount of HK\$2.32. The valuation of each option is based on the closing price of the shares of the Company as at the date of grant of the option or the following trading day if the date of grant falls on either a Saturday or a Sunday.

The methodology applied in valuing each option is the Black-Scholes option pricing model. As the Black-Scholes option pricing model applies to stocks that do not pay dividends, a popular approach was suggested to approximate the option value of dividend-paying stock, that is adjusting the stock price downward by the present value of any dividends that are to be paid before the exercise of option.

In the calculation of the value of an option to be granted under the Existing Scheme, we have made the following assumptions:

- (a) the Eligible Person has the right to exercise the option at any time within the 10-year period from the date of grant to the expiration date of the option ("Option Period");
- (b) in the event the option is not exercised within the Option Period, the Eligible Person will hold the option until the expiration date of the option;
- (c) if the option is exercised within the Option Period and before the last day of the Option Period, the exercise will happen on the day immediately before any of the ex-dividend dates;
- (d) dividends will be distributed to the Shareholders twice a year. The ex-dividend dates will be on 31 May and 15 October, or the following trading day if 31 May or 15 October falls on either a Saturday or a Sunday;
- (e) the growth rate of the future dividends of the Company will follow the growth rate of earnings per share that are assumed in the Bloomberg Professional service; and
- (f) number of trading days per year is 250.

Given the above assumptions and the inherent limitations of the Black-Scholes option pricing model, shareholders and other investors are hereby warned of the subjectivity and uncertainty of the aforementioned values of the options.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that as at 31 December 2002, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital:

	Number of	
	ordinary shares	Percentage of
	of the Company	total issued
Name of shareholder	beneficially held	share capital
Cheer Far Development Limited	510,513,584	24.82%
China Merchants Holdings (Hong Kong) Company Limited (note 1)	1,053,333,584	51.22%
China Merchants Steam Navigation Company, Limited (note 2)	1,053,333,584	51.22%
China Merchants Group Limited (note 3)	1,099,493,351	53.46%

Notes:

- 1. The 1,053,333,584 shares beneficially held by China Merchants Holdings (Hong Kong) Company Limited ("CMHK") represent the aggregate of 510,513,584 shares held by Cheer Far Development Limited ("Cheer Far"), 149,286,410 shares held by China Merchants Union (BVI) Limited ("CMU"), 173,533,590 shares held by Blue Sky International Investments Limited ("Blue Sky"), 120,000,000 shares held by Shining Hope Limited ("Shining Hope"), and 100,000,000 shares held by Bluewater International Investments Limited ("Bluewater"). Cheer Far, CMU, Blue Sky, Shining Hope and Bluewater are wholly-owned subsidiaries of CMHK. By virtue of the SDI Ordinance, CMHK was deemed to be interested in 1,053,333,584 shares of the Company.
- 2. CMHK is the wholly-owned subsidiary of China Merchants Steam Navigation Company, Limited ("CMSN"). By virtue of the SDI Ordinance, CMSN was deemed to be interested in 1,053,333,584 shares of the Company.
- 3. The 1,099,493,351 shares beneficially held by China Merchants Group Limited ("CMG") represent the aggregate of 1,053,333,584 shares beneficially held by CMSN and 46,159,767 shares held by Orienture Holdings Company Limited ("Orienture"). CMSN and Orienture are both wholly-owned subsidiaries of CMG. By virtue of the SDI Ordinance, CMG was deemed to be interested in 1,099,493,351 shares of the Company.

CONNECTED TRANSACTIONS

During the year ended 31 December 2002, the Group entered into the following transactions, which constituted connected transactions under the Listing Rules, and are required to be disclosed in accordance with Chapter 14 of the Listing Rules:

(a) I.C.H. Industrial & Commercial Holdings ApS ("ICH") is a substantial shareholder of a non wholly-owned subsidiary of the Group and the following transactions were entered into with ICH during the year:

			Income/ (expenses)
Name of party	Nature of transaction	Note	HK\$'000
ICH and its fellow subsidiaries	Royalties charged to the Group	(i)	(28,915)
	Sales of paints by the Group	(i)	72,000
ICH	Interest charged to the Group	(ii)	(691)

- (i) Royalties and sales were charged at negotiated prices by reference to market rates.
- (ii) Interest was charged at 0.5% above the Hong Kong Interbank Offer Rate per annum on the principal amounts of the respective loans.
- (b) Throughout the year, the Group had several bank loan facilities which were secured by corporate guarantees and an undertaking by CMG, the ultimate holding company. Pursuant to the undertaking from CMG, it has agreed to maintain directly or indirectly more than 35% of the issued voting share capital or remain as the largest single shareholder of the Company. At 31 December 2002, there were bank loans of HK\$89,211,000 which were covered by the undertaking of CMG.
- (c) On 4 April 2002, the Group entered into two Tenancy Agreements for a term of two years commencing on 1 February 2002 with CMHK and Hong Kong Ming Wah Shipping Co. Ltd. ("Ming Wah") respectively, in respect of the lease of the 37/F, 39/F and 40/F, China Merchants Tower at monthly rental of HK\$1,338,168 and HK\$465,030, respectively. The Group also entered into a tenancy agreement for a term of two years commencing on 1 March 2002 with Hoi Tung Marine Machinery Suppliers Limited ("Hoi Tung") in respect of the lease of a portion of 38/F, China Merchants Tower at monthly rental of HK\$229,536.

By virtue of the fact that the Company is a 53.46% indirectly owned subsidiary of CMG which in turn owns 100% of CMHK, Ming Wah and Hoi Tung, the tenancy agreements constitute connected transactions for the Company. Details of the transactions are contained in a press announcement of the Company dated 8 April 2002.

CONNECTED TRANSACTIONS – Continued

(d) On 16 July 2002, the Group entered into the Shareholders' Agreement and Articles of Association with Achieve Ridge Holdings Limited ("ARH") in relation to the establishment of Shekou Container Terminals (Phase II) Company Limited ("SCT2"), a wholly foreign-owned enterprise company in the PRC. ARH is a joint venture company incorporated in the British Virgin Islands and is owned as to 39.45% by MTL Shekou Holdings Limited ("MTL Shekou"), as to 40.82% by P&O Overseas Holdings Limited and as to 19.73% by Swire Pacific Limited.

The total investment of SCT2 is RMB1,738,505,000 (approximately HK\$1,640,099,000). The registered capital of SCT2 is RMB608,475,000 (approximately HK\$574,033,000) and is to be contributed by the Group and ARH in 2003 according to their equity interest of 51% and 49% respectively.

SCT2 is to develop and operate a container terminal at Shekou Industrial Zone, Shenzhen, the PRC. SCT2 will, upon its establishment in 2003, acquire from China Merchants Shekou Industrial Zone Company Limited ("SIZ") for a consideration of HK\$500 million in cash and a separate amount of RMB17.5 million (approximately HK\$16.5 million) in cash the land use rights in relation to the land located at Jetty Three, Shekou Industrial Zone, Shenzhen over which the two berths and other facilities of SCT2 are expected to be built.

In addition, pursuant to the SCT (Overseas) Further Supplemental Shareholders' Agreement entered into between the Group, SIZ, MTL Shekou, P&O Australia Ports Pty. Limited, Swire Pacific Limited and SCT (Overseas) Limited, SCT2 will acquire from the Group the preliminary studies and advanced construction works for the development of the berths.

To the extent that such works are not acquired by SCT2, each of MTL Shekou, P&O Australia Ports Pty. Limited and Swire Pacific Limited has agreed to indemnify the Group against, inter alia, 49% of the value of the works. As at 31 December 2002, the preliminary studies and advanced construction works incurred by the Group amounted to HK\$196,186,000.

The Company is a 53.46% indirectly-owned subsidiary of CMH. SIZ is an indirect wholly-owned subsidiary of CMG. ARH is an associate of MTL Shekou as it is approximately 39% owned by MTL Shekou, which is a wholly-owned subsidiary of Modern Terminals Limited, a substantial shareholder of a subsidiary of the Company, MTL Chiwan Holdings Limited. Accordingly, SIZ, ARH and MTL Shekou are connected persons of the Company.

Details of the above transactions are contained in a circular of the Company dated 5 August 2002. The above transactions were approved by the shareholders of the Company on 27 August 2002.

CONNECTED TRANSACTIONS – Continued

(e) On 16 July 2002, the Company entered into the Silverflow Sale and Purchase Agreement with China Merchants Development Company Limited ("CMD") and International China Merchants Investments Limited ("ICMI") for the purchase of the entired issued share capital of Silverflow Company Limited ("Silverflow") and all outstanding shareholder's loans advanced by CMD to Silverflow for a cash consideration of HK\$3,735,000.

Silverflow holds a 0.496% interest in China Nanshan Development (Group) Incorporation which is mainly engaged in port operation, warehousing and transportation, petroleum services and property development in the PRC.

By virtue of the fact that each of CMD and ICMI is an indirect wholly-owned subsidiary of CMG, accordingly, the transaction constitutes a connected party transaction for the Company. Details of the transaction are contained in a press announcement of the Company dated 16 July 2002.

(f) On 30 September 2002, the Company entered into the Shareholder's Agreement with Shenzhen Chiwan Wharf Holdings Limited ("SCWH") whereby the Company and SCWH will each have a 50% interest in Media Port Investments Ltd. ("Media Port"). Gang Hang International Company Limited, a joint venture in which SCWH and the Company hold directly or indirectly a 51% and 49% interest respectively, will then transfer its interest in Berth No. 8 at Mawan Port, Mawan, Shenzhen at a cost of RMB99,508,000 to the JV Companies (as defined below).

The Company has also entered into the Co-operation Agreement with Shenzhen Nanyou (Group) Company Limited ("Nanyou"). Pursuant to the Co-operation Agreement, Media Port and Nanyou will hold equity interests of 60% and 40% respectively in the sino-foreign equity joint venture companies to be established ("JV Companies") for the development of Berths No. 0, 5, 6, 7 and 8 and a land site with an area of 160,000 square metres located at Mawan Port in Mawan, Shenzhen.

Nanyou shall transfer certain assets estimated to be valued at RMB655 million to the JV Companies partly by way of sale at RMB415 million and partly by way of contribution to registered capital at RMB240 million.

Media Port will then advance loans of up to RMB480 million to Nanyou ("Nanyou Loans") comprising three equal instalments of RMB100 million each within 45 days, 90 days and 360 days from the date of the Cooperation Agreement, and an additional loan of not more than RMB180 million in aggregate. The RMB180 million loan will be given to finance the shareholder's loans to be advanced by Nanyou to the JV Companies after the JV Companies are established.

CONNECTED TRANSACTIONS - Continued

(f) - Continued

As at 31 December 2002, a loan of RMB200 million was made to Nanyou, of these RMB100 million was attributable to the Group. Shenzhen Investment Management Company Limited, the holding company of Nanyou, has provided a guarantee in full in RMB in relation to the Nanyou Loans.

The total potential investment of Media Port in the JV Companies (including the Nanyou Loans) is RMB1,827 million.

SCWH is a connected person of the Company as it is indirectly a 16.7% substantial shareholder of Hidoney Developments Limited ("Hidoney"), an indirect subsidiary of the Company. The transactions constitute connected party transactions for the Company. Details of the above transactions are contained in a circular of the Company dated 18 October 2002. The Company has obtained a conditional waiver from the requirement to obtain shareholders' approval in a general meeting from the Stock Exchange on the condition, among other things, that CMG, the ultimate holding company which holds approximately 53.46% of the issued shares of the Company, will issue a written approval of the above mentioned transactions.

(g) Details of other disclosable connected transactions for the year, which also constitute related party transactions, are included in note 33(a), (b) and (c) to the financial statements.

The independent non-executive Directors have reviewed the connected transactions set out in paragraph (a) of this section and the related party transactions set out in note 33(a), (b) and (c) to the financial statements, in their opinion, these transactions were:

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms;
- (iii) in accordance with the terms of the agreement governing each such transactions or (where there is no such agreement) on terms no less favourable than terms available from/to independent third parties;
- (iv) fair and reasonable so far as the shareholders are concerned; and
- (v) the total value of the management fee receivable, as set out in note 33(a)(vi) to the financial statements, did not exceed the higher of either HK\$10,000,000 or 3% of the audited book value of the net tangible assets of the Group.

CONNECTED TRANSACTIONS – Continued

- (h) Subsequent to the year end and up to the latest practicable date, the following connected transactions were entered into by the Group:
 - (i) On 20 February 2003, the Company entered into the Articles of Association pursuant to which Hai Hong Industry (Shenzhen) Co., Ltd. ("Hai Hong"), an indirect wholly-owned subsidiary of the Company, and SCWH agreed to establish Shenzhen Municipal China Merchants Shipping Logistics Co., Ltd. ("CM Logistics"), a PRC limited liability company.

CM Logistics will be owned as to 60% by Hai Hong and 40% by SCWH. The registered capital of CM Logistics will be RMB10 million (approximately HK\$9,433,962) and will be contributed by Hai Hong and SCWH in accordance with their respective equity interest. The business scope of CM Logistics include warehousing, order processing and distribution, container land transportation, land-sea transportation, ports operation, freight forwarding agent, custom declaration and insurance services.

By virtue of the fact that SCWH is an indirect 16.7% substantial shareholder of Hidoney, an indirect subsidiary of the Company, the transaction constitutes a connected transaction for the Company. Details of the transaction are contained in a press announcement of the Company dated 20 February 2003.

(ii) On 26 February 2003, the Company entered into a Sale and Purchase Agreement with SCWH for the transfer of SCWH's entire 16.7% interest in Hidoney (a subsidiary of the Company) as well as the shareholders' loans to MTL Chiwan Holdings Limited, a subsidiary of the Company. The Company also entered into a PRC equity interest transfer agreement for the transfer of 4% of Hidoney's equity interest in Chiwan Container Terminal Company Limited ("CCT"), a PRC sino-foreign joint venture enterprise company, as well as shareholders' loans to SCWH. The consideration for each of the two transfers will be HK\$53 million.

By virtue of the fact that SCWH is a substantial shareholder of Hidoney, which is also a subsidiary of the Company, the transaction constitutes a connected transaction of the Company. Details of the transaction are contained in a press announcement of the Company dated 26 February 2003.

PRACTICE NOTE 19 TO THE LISTING RULES

The Group has certain bank loan facilities, throughout the continuance of these, CMG, the controlling shareholder of the Company, which held 53.46% of the issued share capital of the Company as at 31 December 2002, is required to maintain directly or indirectly a particular percentage of the issued voting share capital of the Company. Details of the bank loan facilities utilised at 31 December 2002 and the performance obligation of CMG disclosed in accordance with paragraph 3.9 of Practice Note 19 to the Listing Rules are as follows:

Percentage of the issued voting
share capital of the Company
Bank loan facility required to be held by CMG

US\$110,000,000 undrawn amount

At least 35%

US\$11,437,500 repayable by 5 equal semi-annual instalments with the final repayment date on or before 8 June 2005

Largest single shareholder

Save as disclosed above, there are no other disclosures required to be made by the Company pursuant to Practice Note 19 to the Listing Rules.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company had been entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate amount of sales and purchases attributable to the Group's five largest customers and suppliers represented less than 30% of the Group's total sales and purchases in 2002 respectively.

At no time during the Current Year had the directors, their associates or any shareholder (who to the knowledge of the directors own(s) more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

Report of the Directors

CORPORATE GOVERNANCE

The Company has complied throughout the Current Year with the Code of Best Practice as set out in Appendix 14 to

the Listing Rules, except for paragraph 7 of Appendix 14, which requires that non-executive directors should be

appointed for a specific term. The non-executive directors of the Company are subject to retirement by rotation at the

annual general meeting in accordance with the Articles of Association of the Company.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and

adapted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society

of Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters falling

within the scope of the Group's audit. It also reviews the effectiveness of both the external and internal audit and of

internal controls and risk evaluation. The Committee comprises four independent non-executive directors, namely Mr.

Tsang Kam Lan, Mr. Kut Ying Hay, Mr. Koo Kou Hwa and Mr. Lee Yip Wah, Peter. Two meetings were held during the

current financial year.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves

for re-appointment at the forthcoming annual general meeting.

Deloitte Touche Tohmatsu were auditors of the Company for the three financial years ended 31 December 2000.

On behalf of the Board

Dr. Fu Yuning

Chairman

Hong Kong, 10 April 2003

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Auditors' Report



羅兵咸永道會計師事務所

PricewaterhouseCoopers 22nd Floor Prince's Building Central Hong Kong

Telephone (852) 2289 8888 Facsimile (852) 2810 9888

AUDITORS' REPORT TO THE SHAREHOLDERS OF

CHINA MERCHANTS HOLDINGS (INTERNATIONAL) COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 61 to 121 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Hong Kong Companies Ordinance requires the Directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 10 April 2003

Consolidated Profit and Loss Account

For the Year Ended 31 December 2002

		2002	2001
	Note	HK\$'000	HK\$'000
Turnover	3	1,689,136	1,206,105
Cost of sales	J	(1,138,738)	(748,814)
COST OF Sales		(1,130,730)	(746,614)
Gross profit		550,398	457,291
Other revenues	3	81,138	102,306
Distribution costs		(141,133)	(117,933)
Administrative expenses		(147,491)	(127,495)
Gain on disposal of investments in infrastructure			
joint ventures/interests in associates		22,147	5,165
Write-back of dry-docking provision		_	27,166
Provision for impairment on			
Land and buildings		(200,000)	_
Interests in jointly controlled entities		-	(100,000)
Investments in infrastructure joint ventures			(39,559)
Operating profit	4	165,059	206,941
Finance costs	5	(39,707)	(66,561)
Share of profits less losses of			
Associates		794,903	703,257
Jointly controlled entities		164,225	131,462
Profit before taxation		1,084,480	975,099
Taxation	8	(137,201)	(115,037)
Profit after taxation		947,279	860,062
Minority interests		(64,792)	(59,852)
Profit for the year	9	882,487	800,210
Dividends	10	452,421	328,888
Earnings per share	11		
Basic	1 1	42.93 cents	38.98 cents
Datie		42.55 (0116)	30.30 (Citts
Fully diluted		42.64 cents	38.88 cents

Consolidated Balance Sheet

As at 31 December 2002

		2002	2001
	Note	HK\$'000	HK\$'000
ASSETS			
733213			
Non-current assets			
Fixed assets	12	2,923,089	2,705,660
Toll highway operating rights	13	319,722	326,353
Goodwill/(negative goodwill)	14	149,024	(158,817)
Interests in associates	16	3,438,793	3,166,361
Interests in jointly controlled entities	17	3,361,802	3,322,334
Investments in infrastructure joint ventures	18	84,384	454,575
Investment securities	19	421,801	371,989
Other non-current assets	20	222,954	
		10,921,569	10,188,455
Current assets			
Inventories	21	127,879	105,007
Amounts due from an intermediate holding			
company and fellow subsidiaries	22	36,245	23,842
Amounts due from associates	22	157,118	70,107
Debtors, deposits and prepayments	23	608,349	399,502
Other investments	19	9,145	10,443
Bank balances and cash		822,784	1,491,919
		1,761,520	2,100,820
Common A. P. al-Plate			
Current liabilities	24	406 641	241 002
Creditors and accruals Amounts due to an intermediate holding	24	406,641	241,903
company and fellow subsidiaries	22	25,744	_
Taxation payable	22	9,617	2,121
Short term bank loans – unsecured	25	55,400	62,000
Bank borrowings – due within one year	25	35,684	203,978
,		533,086	510,002
Net current assets		1,228,434	1,590,818
Total assets less current liabilities		12,150,003	11,779,273
Non-current liabilities			
Bank borrowings – due after one year	25	53,527	293,094
Convertible bonds	26	314,311	311,910
Loans from minority shareholders	27	160,440	168,959
		528,278	773,963
Minority interests		180,107	132,374
Net assets		11,441,618	10,872,936

Consolidated Balance Sheet

As at 31 December 2002

CAPITAL AND RESERVES	Note	2002 HK\$'000	2001 HK\$'000
Share capital Reserves Proposed dividends	28 29 29	205,658 10,927,472 308,488	205,347 10,482,776 184,813
Shareholders' funds		11,441,618	10,872,936

Mr. Li Yi *Director*

Mr. Li Yinquan *Director*

Balance Sheet

As at 31 December 2002

	Note	2002 HK\$'000	2001 HK\$'000
ASSETS			
Non-current assets			
Fixed assets	12	312	490
Interests in subsidiaries	15	14,326,813	12,398,511
Interests in associates	16	153,174	153,174
Interests in a jointly controlled entity	17	2,949	
		14,483,248	12,552,175
Current assets			
Amounts due from an intermediate holding company			
and fellow subsidiaries	22	23,294	18,105
Debtors, deposits and prepayments	23	8,416	6,302
Bank balances and cash		167,206	1,282,467
		198,916	1,306,874
Current liabilities			
Creditors and accruals	24	5,711	3,655
Bank borrowings – due within one year	25		155,950
		5,711	159,605
Net current assets		193,205	1,147,269
Total assets less current liabilities		14,676,453	13,699,444
Non-current liabilities			
Amounts due to subsidiaries	15	3,490,845 	2,829,197
Net assets		11,185,608	10,870,247
CAPITAL AND RESERVES			
Share capital	28	205,658	205,347
Reserves	29	10,671,462	10,480,087
Proposed dividends	29	308,488	184,813
Shareholders' funds		11,185,608	10,870,247

Mr. Li Yi Director **Mr. Li Yinquan** *Director*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2002

	Note	2002 HK\$'000	2001 HK\$'000
Total equity as at 1 January		10,872,936	10,364,640
Exchange differences arising on translation of subsidiaries, associates and jointly controlled entities not recognised in the consolidated profit and loss account	29	(552)	(1,631)
Profit for the year		882,487	800,210
Issue of shares on exercise of share options, net of share issue expenses	28	15,699	20,987
Shares repurchased	28	-	(70)
Premium on shares repurchased	29	-	(3,123)
Dividends	29	(328,952)	(308,077)
Total equity as at 31 December		11,441,618	10,872,936

Consolidated Cash Flow Statement

For the year ended 31 December 2002

			As restated
			(note 1)
		2002	2001
	Note	HK\$'000	HK\$'000
Net cash inflow from operations	30(a)	314,424	451,254
Hong Kong profits tax paid		(4,561)	(5,233)
PRC Enterprise Income Tax paid		(18,238)	(10,096)
Net cash inflow from operating activities		291,625	435,925
Investing activities			
Dividends received from associates		438,547	431,036
Dividends received from jointly controlled entities		26,196	36,382
Dividends received from listed other investments		556	961
Income received from infrastructure joint ventures		43,583	6,000
Interest received		21,167	49,475
Proceeds from disposal of fixed assets		103	179
Net cash inflow from disposal of a subsidiary	30(d)	1,207	_
Proceeds received from disposal of subsidiaries in 2000		_	349,619
Proceeds from disposal of interests in an associate		-	9,018
Proceeds from disposal of investments in infrastructure			
joint ventures		390,000	_
Proceeds from sale of listed other investments		_	57,175
Loans repaid by jointly controlled entities		311,587	148,114
Capital receipts from infrastructure joint ventures		2,338	4,875
Purchase of fixed assets		(40,886)	(5,927)
Acquisition of subsidiaries, net of cash acquired	<i>30(c)</i>	(831,234)	_
Acquisition of interests in associates		(14,399)	(342,354)
Investments in jointly controlled entities and an			
infrastructure joint venture		(215,673)	(120,429)
Payment for advanced construction works for port projects		(158,405)	_
Loans to associates		(5,600)	(3,953)
Loans to jointly controlled entities		-	(46,154)
Loan to a joint venture partner included under loan receivable		(94,233)	_
Loans to an investee under investment securities		(45,500)	(32,500)
Privatisation of Ming Wah Universal Bermuda Co., Ltd.			(221,548)
Net cash (outflow)/inflow from investing activities		(170,646)	319,969
Net cash inflow before financing		120,979	755,894

Consolidated Cash Flow Statement

For the year ended 31 December 2002

			As restated
			(note 1)
		2002	2001
	Note	HK\$'000	HK\$'000
Financing	30(b)		
Dividends paid		(328,952)	(308,077)
Dividends paid to minority shareholders		(17,030)	(21,930)
Interest paid		(37,306)	(64,160)
Net proceeds from exercise of share options		15,699	20,987
Repayment of bank loans		(414,537)	(385,281)
Loans repaid to minority shareholders		(8,524)	(6,942)
Repurchase of shares			(3,193)
Net cash outflow from financing		(790,650)	(768,596)
Decrease in cash and cash equivalents		(669,671)	(12,702)
Cash and cash equivalents at 1 January		1,491,919	1,506,555
Effect of foreign exchange rate changes		536	(1,934)
Cash and cash equivalents at 31 December		822,784	1,491,919
Analysis of the balances of cash and cash equivalents Bank balances and cash		822,784	1,491,919

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 Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, investment property and other investments are stated at fair value.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised) : Presentation of financial statements

SSAP 11 (revised) : Foreign currency translation SSAP 15 (revised) : Cash flow statements SSAP 33 : Discontinuing operations

SSAP 34 (revised) : Employee benefits

The adoption of these revised SSAPs has no significant effect to the financial statements of the Group except for the presentational changes of the presentation of consolidated statement of changes in equity and consolidated cash flow statement.

2. PRINCIPAL ACCOUNTING POLICIES

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

(a) Consolidation

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

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

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

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES - Continued

(b) Jointly controlled entities

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

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

The consolidated profit and loss account includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and goodwill/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 profit and loss account to reduce the carrying value of the individual investment to its recoverable amount.

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

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

(c) Infrastructure joint ventures

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

2. PRINCIPAL ACCOUNTING POLICIES - Continued

(d) Associates

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

The consolidated profit and loss account 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.

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

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

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

(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 profit and loss account.

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

(f) Fixed assets

(i) Investment properties

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

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

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

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

(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 of 2.5 to 20 years on a straight-line basis.

Vessel repairs and annual survey costs are charged to the profit and loss account when incurred.

(f) Fixed assets - Continued

(iii) Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation and impairment losses.

Leasehold land is depreciated over the period of the lease while other fixed assets 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 building 10 to 50 years

Dockyard 15 years

Plant and machinery 10 to 20 years

Furniture and equipment 2 to 10 years

Motor vehicles 2.5 to 10 years

Leasehold improvements 5 to 20 years

Improvements are capitalised and depreciated over their expected useful lives to the Group.

(iv) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets 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 profit and loss account.

The gain or loss on disposal of a fixed asset 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 profit and loss account.

(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 profit and loss account on a straight-line basis over the lease periods.

(h) Intangible assets

(i) Goodwill/negative goodwill

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

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

Negative goodwill on acquisitions occurred on or after 1 January 2001 is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of the future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss account 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 profit and loss account 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 profit and loss account 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 profit and loss account.

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 pre-1 January 2001 acquisitions, the related goodwill/negative goodwill written-off against/taken to reserves to the extent that it has not previously been realised in the profit and loss account.

(ii) Toll highway operating rights

Toll highway operating rights are stated at cost, being its acquisition price, less accumulated amortisation and impairment losses. Amortisation is provided to write-off the cost less accumulated impairment losses of the toll highway operating rights on a units-of-usage basis, calculated based on the proportion of actual traffic volume for a particular period to the projected total traffic volume over the periods for which the Group is granted the rights to operate the toll highway.

(iii) Impairment of intangible assets

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

(i) Investments in securities

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

(i) Investment securities

Investment securities 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 profit and loss account. This impairment loss is writtenback to the profit and loss account when the circumstances and events that led to the writedowns 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 profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(j) Inventories

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

(k) Accounts receivable

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

(I) 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 and bank overdrafts, if any.

(m) Provisions

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

(n) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Bonus plans

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

(iii) Pension obligations

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

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

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

(o) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(p) Contingent liabilities

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

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

(g) Convertible bonds

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

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

(r) Revenue recognition

Revenue from port-related transportation and service income, container service income and container yard management income, net of business tax payable in the PRC, are recognised when the relevant services are rendered.

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

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

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

(s) Segment reporting

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

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

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.

3. TURNOVER, REVENUES AND SEGMENT INFORMATION

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

2001	2002
HK\$'000	HK\$'000
_	384,035
674,460	872,761
29,222	23,333
474,759	384,255
27,664	24,752
1 206 105	4 600 436
1,206,105	1,689,136
7,945	43,583
49,475	21,167
961	556
28,594	_
15,331	15,832
102.206	04 430
102,306	81,138
1,308,411	1,770,274

3. TURNOVER, REVENUES AND SEGMENT INFORMATION - Continued

Primary reporting format – business segments

The Group is organised into four main business segments:

Ports operation	_	Container terminal operation, bulk and general cargo terminal operation,
		port transportation and airport cargo handling operation by the Group
		and the Group's associates

Container manufacturing and – Container paint manufacturing by the Group and container related operations manufacturing by the Group's associate

Toll road operation – Toll road operation by the Group and the Group's jointly controlled entities

Oil tanker operation – Shipping operation by the Group

Other operations of the Group mainly comprise the holding of properties for lease to China Merchants Holdings (Hong Kong) Company Limited ("CMHK") and its wholly-owned subsidiaries and dealing in shares, neither of which are of a sufficient size to be reported separately.

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

Secondary reporting format - geographical segments

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

Hong Kong – ports operation, container paint manufacturing and holding of properties

Mainland China – ports operation, container manufacturing, paint manufacturing and related

operations and toll road operation

Others – container manufacturing and related operations

There are no material sales between the geographical segments.

3. TURNOVER, REVENUES AND SEGMENT INFORMATION – Continued

Primary reporting format – business segments

	Ports	operation	manufact	ainer uring and perations		l road ration		l tanker eration		Other erations	G	iroup
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Profit and loss account												
Turnover	384,035	-	872,761	674,460	23,333	29,222	384,255	474,759	24,752	27,664	1,689,136	1,206,105
Segment results	50,550	-	136,747	66,036	58,248	28,269	131,068	233,469	(3,418)	23,795	373,195	351,569
Unallocated costs											(41,472)	(41,884)
Unallocated interest income											11,189	31,650
Gain on disposal of investments in infrastructures joint ventures/ interests in												
associates	-	5,165	-	-	22,147	-	-	-	-	-	22,147	5,165
Provision for impairment on Land and buildings	-	-	-	-	-	-	-	-	(200,000)	-	(200,000)	-
Interests in jointly controlled entities Investments in	-	-	-	-	-	(100,000)	-	-	-	-	-	(100,000)
infrastructure joint ventures	-	-	-	-	-	(39,559)	-	-	-	-		(39,559)
Operating profit											165,059	206,941
Finance costs											(39,707)	(66,561)
Share of profits less losses of												
Associates	581,633	513,483	162,309	189,774	-	-	-	-	50,961	-	794,903	703,257
Jointly controlled entities	(440)	(3,568)	-	-	167,829	136,003	-	-	(3,164)	(973)	164,225	131,462
Profit before taxation											1,084,480	975,099
Taxation											(137,201)	(115,037)
Profit after taxation											947,279	860,062
Minority interests											(64,792)	(59,852)
Profit for the year											882,487	800,210

3. TURNOVER, REVENUES AND SEGMENT INFORMATION – Continued

Primary reporting format – business segments – Continued

	Ports 2002	operation 2001	manufact	turing and perations		l road eration 2001		tanker eration 2001		Other erations	2002	Group 2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance sheet												
Segment assets	873,841	-	732,263	619,654	337,844	342,672	1,304,001	1,469,416	896,662	1,177,224	4,144,611	3,608,966
Goodwill/ (negative goodwill)	295,302	-	-	-	-	-	(146,278)	(158,817)	-	-	149,024	(158,817)
Interests in associates	2,155,082	2,419,677	857,440	746,684	-	-	-	-	426,271	-	3,438,793	3,166,361
Interests in jointly controlled entities	354,947	158,074	-	-	2,953,389	3,125,754	-	-	53,466	38,506	3,361,802	3,322,334
Investments in infrastructure joint ventures	18,721	21,061	_	_	65,663	433,514	_	_	_	_	84,384	454,575
Investments securities	704	21,001		_	421,097	371,989		_	_	_	421,801	371,989
Other non-current	, ,				121,007	371,303					121,001	371,303
assets	222,954	-	-	-	-	-	-	-	-	-	222,954	-
Unallocated assets											859,720	1,523,867
Total assets											12,683,089	12,289,275
Segment liabilities	263,439	137,993	297,065	219,058	46,273	50,493	33,278	275,563	74	1,713	640,129	684,820
Unallocated liabilities											421,235	599,145
Total liabilities											1,061,364	1,283,965
Other information												
Capital expenditure	22,933	-	17,681	5,704	-	-	-	-	-	-	40,614	5,704
Unallocated capital expenditure											272	223
expenditure											-	
Depreciation	32,995		12,483	13,385	62	230	88,900	102,929	24,027	25,573	40,886 158,467	5,927 142,117
Unallocated	32,333	_	12,403	13,303	02	230	00,500	102,323	24,027	25,515	130,407	142,117
depreciation											7,210	6,129
											165,677	148,246
Amortisation charge (net)	12,294	7,673		_	6,544	6,079	(12,538)	(6,268)			6,300	7,484
Impairment charges	12,234	7,073		_	0,577	139,559	(12,330)	(0,200)	200,000	_	200,000	139,559
impairment charges		_	_	_	_	מככיברו	_	_	200,000	_	200,000	פנכ,כנו

3. TURNOVER, REVENUES AND SEGMENT INFORMATION – Continued

Secondary reporting format – geographical segments

	Ti	ırnover	Segm	ent results	То	tal assets	Capital expenditure		
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	
Operations other than oil tanker business: Hong Kong Mainland China Others	273,022 960,860 70,999	86,895 573,079 71,372	34,169 197,687 10,271	32,766 77,292 8,042	1,006,659 1,833,951 –	1,177,230 962,320 –	4,696 36,190 -	223 5,704 –	
Oil tanker business, global scale	384,255	474,759	131,068	233,469	1,304,001	1,469,416	-	-	
	1,689,136	1,206,105	373,195	351,569	4,144,611	3,608,966	40,886	5,927	
Unallocated costs			(41,472)	(41,884)					
Unallocated interest income Gain on disposal of investments in infrastructure joint			11,189	31,650					
ventures/interest in associates Provision for impairment on Land and buildings			22,147	5,165					
Interests in jointly controlled entities Investments on infrastructure			-	(100,000)					
joint ventures Operating profit			165,059	206,941					
Goodwill/ (negative goodwill) Interests in associates Interests in jointly controlled entities Investments in infrastructure					149,024 3,438,793 3,361,802	(158,817) 3,166,361 3,322,334			
joint ventures Investment securities Other non-current assets Unallocated assets					84,384 421,801 222,954 859,720	454,575 371,989 – 1,523,867			
Total assets					12,683,089	12,289,275			

4. OPERATING PROFIT

	2002 HK\$'000	2001 HK\$'000
Operating profit is arrived at after crediting and charging the following:		
Crediting		
Operating lease rental income from land and buildings,		
net of outgoings of HK\$795,000 (2001: HK\$776,000)	23,957	26,888
Amortisation on negative goodwill (included in administrative expenses)	12,538	6,268
Write-back of provision for amount due from an associate	10,575	_
Profit on sale of listed other investments, net	-	28,594
Net exchange gains	-	2,202
Net unrealised gain on listed other investments		680
Charging		
Staff costs including Directors' emoluments (note 6)	167,037	78,838
Cost of inventories sold	552,660	427,551
Auditors' remuneration	3,397	2,651
Depreciation and amortisation on:		
Fixed assets	165,677	148,246
Goodwill (included in administrative expenses)	12,294	_
Toll highway operating rights (included in cost of sales)	6,544	6,079
Loss on disposal of fixed assets	1,780	121
Operating lease rentals in respect of		
Land and buildings	59,740	8,721
Plant and machinery	16,295	_
Provision for bad and doubtful debts	16,962	15,629
Provision for amount due from an associate	-	10,575
Provision for diminution in value of leasehold land and buildings	-	7,500
Deficit on revaluation of investment property	590	_
Net unrealised loss on listed other investments	1,298	_
Net exchange losses	4,184	_

5. FINANCE COSTS

6.

	2002	2001
	HK\$'000	HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	6,658	29,508
Bank borrowings not wholly repayable within five years	5,904	12,351
Convertible bonds, wholly repayable within five years	22,363	22,301
Loan due to a fellow subsidiary	2,381	-
Amortisation of convertible bond issue expenses (note 26)	2,401	2,401
	39,707	66,561
STAFF COSTS INCLUDING DIRECTORS' REMUNERATION		
	2002	2001
	HK\$'000	HK\$'000
Wages and salaries	160,460	74,544
Retirement benefits schemes contributions, net of forfeited		
contributions of HK\$24,000 (2001: HK\$59,000)	6,577	4,294
	167,037	78,838

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 of the Group. 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, death or total incapacity. For non-MPF schemes, the unvested benefits of employees forfeited upon termination of employment can be utilised by the Group to reduce future levels of contributions.

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

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

7. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

	2002	2001
	HK\$'000	HK\$'000
Fees		
Executive Directors	_	_
Independent Non-Executive Directors	300	300
'	-	
	300	300
Other emoluments (Executive Directors)		
Salaries, share options, other allowances and benefits in kind	3,908	6,523
Discretionary bonuses	281	262
Retirement benefits scheme contributions	139	130
	4,328	6,915
	4,628	7,215
	.,,,,	,,,,,,,

The emoluments of the Directors disclosed above do not include the benefits derived or to be derived from the share options granted under the Company's share option scheme adopted on 26 June 1992 and the share option scheme approved by the shareholders of the Company at an Extraordinary General Meeting of the Company held on 20 December 2001.

During the year, a total of 6,900,000 (2001: 3,584,000) share options were granted to certain Directors of the Company at an exercise price of HK\$4.985 per share under a share option scheme (note 28). The market price per share immediately before the date of grant was HK\$4.825.

The Directors' emoluments are within the following bands:

Nil – HK\$1,000,000
HK\$1,000,001 - HK\$1,500,000
HK\$1,500,001 - HK\$2,000,000
HK\$2,000,001 - HK\$2,500,000

Num	ber of Directors
2002	2001
10	13
_	1
2	1
-	1
12	16

No Director waived emoluments in respect of the years ended 31 December 2002 and 2001.

7. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS - Continued

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, two (2001: three) were Directors of the Company whose emoluments are included in the disclosure in note 7(a) above. The emoluments of the remaining three (2001: two) individuals were as follows:

Salaries, share options, other allowances and benefits in kind Performance related incentive payments Retirement benefits scheme contributions

2002	2001
HK\$'000	HK\$'000
4,158	3,452
479	327
169	76
4,806	3,855

The emoluments are within the following bands:

HK\$1,000,001 - HK\$1,500,000 HK\$2,500,001 - HK\$3,000,000

Numb	er of individuals
2002	2001
2	1
1	1
3	2

8. TAXATION

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

	2002	2001
	HK\$'000	HK\$'000
Hong Kong profits tax:		
Current year	3,470	5,847
Over provision in prior years	(1,018)	(137)
PRC Enterprise Income Tax	26,011	5,535
	28,463	11,245
Share of taxation attributable to associates:	20,403	11,243
Hong Kong profits tax	65,806	64,898
PRC Enterprise Income Tax	40,158	37,036
Share of taxation attributable to jointly controlled entities:		
PRC Enterprise Income Tax	2,774	1,858
	137,201	115,037

Notes to the Financial Statements

8. TAXATION - Continued

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profit for the year.

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

No provision for taxation has been made in respect of the oil tankers business as the shipping companies of the Group have no assessable income under any relevant jurisdiction for the year (2001: Nil).

There was no material unprovided deferred taxation for the year (2001: Nil).

9. PROFIT FOR THE YEAR

Profit for the year is dealt with in the financial statements of the Company to the extent of HK\$628,614,000 (2001: HK\$169,853,000).

10. DIVIDENDS

Interim, paid, of 2002 of HK7.0 cents (2001: HK7.0 cents) per share Final, proposed, of 2002 of HK10.0 cents (2001: HK9.0 cents) per share Special, proposed, of 2002 of HK5.0 cents (2001: Nil) per share

2002	2001
HK\$'000	HK\$'000
143,933	144,075
205,659	184,813
102,829	_
452,421	328,888

At a meeting held on 10 April 2003, the Directors declared a final dividend of HK 10.0 cents per ordinary share and a special dividend of HK 5.0 cents per ordinary share. These proposed dividends are not reflected as dividends payable in these financial statements but will be reflected as an appropriation of retained earnings for the year ending 31 December 2003.

2002

2001

11. EARNINGS PER SHARE

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

	HK\$'000	HK\$'000
Earnings for the purposes of basic earnings per share	882,487	800,210
Effect of dilutive potential ordinary shares: Interest on convertible bonds	22,363	22,301
Earnings for the purposes of fully diluted earnings per share	904,850	822,511
	Num	nber of shares
	2002	2001
Weighted average number of ordinary shares for the purposes of basic earnings per share	2,055,470,000	2,053,031,000
Effect of dilutive potential ordinary shares: Options Convertible bonds	4,685,000 61,997,000	489,000 61,997,000
Weighted average number of ordinary shares for the purposes of fully diluted earnings per share	2,122,152,000	2,115,517,000

12. FIXED ASSETS

					Group				
	Investment	Land and	Harbour works and building,	Plant, machinery, furniture and	Vessels	Motor	Leasehold improve-	Assets under contruc-	
	property	buildings	dockyard		and ships	vehicles	ments	tion	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation									
At 1 January 2002	13,971	1,523,198	_	94,677	1,847,203	22,984	10,738	1,670	3,514,441
Exchange adjustments	(8)	(9)	(296)		350	(10)	(1)	(14)	(110)
Additions	_	11,115	_	7,922	560	482	7	20,800	40,886
Acquisition of subsidiaries									
(note 30(c))	_	_	348,764	198,416	26,616	12,177	2,749	16,418	605,140
Disposals	_	_	(906)		_	(3,643)	(677)	_	(18,397)
Disposal of a subsidiary									
(note 30(d))	_	_	(1,093)	(382)	-	(299)	-	_	(1,774)
Revaluation	(590)	-	_	_	-	-	-	_	(590)
Transfers		1,188	3,833	20,173	-	1,311	-	(26,505)	_
At 31 December 2002	13,373	1,535,492	350,302	307,513	1,874,729	33,002	12,816	12,369	4,139,596
Accumulated depreciation									
and impairment charge									
At 1 January 2002	_	155,127	_	64,733	564,057	20,737	4,127	_	808,781
Exchange adjustments	_	(3)	(5)		142	(2)	_	_	126
Acquisition of subsidiaries									
(note 30(c))	_	_	5,725	35,789	14,832	1,350	1,386	_	59,082
Charge for the year	-	32,863	10,276	27,549	89,909	3,114	1,966	_	165,677
Disposals	_	-	(828)	(12,465)	-	(3,221)	-	_	(16,514)
Disposal of a subsidiary									
(note 30(d))	-	-	(199)	(291)	-	(155)	-	-	(645)
Impairment charge (note 12(d))		200,000	-	-	-	-	-	_	200,000
At 31 December 2002	<u>-</u>	387,987	14,969	115,309	668,940	21,823	7,479 	<u>-</u>	1,216,507
Net book value									
At 31 December 2002	13,373	1,147,505	335,333	192,204	1,205,789	11,179	5,337	12,369	2,923,089
At 31 December 2001	13,971	1,368,071	_	29,944	1,283,146	2,247	6,611	1,670	2,705,660

12. FIXED ASSETS – Continued

(a) The analysis of the cost or valuation of the above assets of the Group at 31 December 2002 and 2001 is as follows:

	Investment property HK\$'000	Land and buildings HK\$'000	works and building,	Plant, machinery, furniture and equipment HK\$'000	Vessels and ships HK\$'000	Motor vehicles HK\$'000	Leasehold improve- ments HK\$'000	Assets under contruc- tion HK\$'000	Total HK\$'000
At cost	-	1,535,492	350,302	307,513	1,874,729	33,002	12,816	12,369	4,126,223
At 2002 valuation	13,373	_		_	_	_	_	_	13,373
At 31 December 2002	13,373	1,535,492	350,302	307,513	1,874,729	33,002	12,816	12,369	4,139,596
At cost	-	1,523,198	-	94,677	1,847,203	22,984	10,738	1,670	3,500,470
At 2001 valuation	13,971	-	_	_	_	-	_	-	13,971
At 31 December 2001	13,971	1,523,198	-	94,677	1,847,203	22,984	10,738	1,670	3,514,441

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

	Investment Group La			Group Land
		property	a	nd buildings
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Leasehold land and buildings in Hong Kong, held on:				
Leases of between 10 to 50 years	-	-	1,088,541	1,317,497
Land use rights and buildings in Mainland China, held on:				
Land use rights with periods between 10 to 50 years	13,373	13,971	53,397	44,404
Land use rights with periods of less than 10 years	_	_	5,567	6,170
. 5 , 6 6 7	13,373	13,971	1,147,505	1,368,071

12. FIXED ASSETS - Continued

- (c) The investment property was revalued at 31 December 2002 by Shenzhen Gongpinghen Appraisal Co., Ltd., a registered asset valuer in the PRC, on an open market value basis.
- (d) Certain properties included in leasehold land and buildings are leased to CMHK and its wholly-owned subsidiaries. The cost and accumulated depreciation and impairment loss of these properties as at 31 December 2002 were HK\$1,201,316,000 (2001: HK\$1,201,316,000) and HK\$320,204,000 (2001: HK\$96,178,000), respectively. As at 31 December 2002, a provision of HK\$200,000,000 was made by the Directors against the carrying value of the properties to reflect the fair value of the properties to the Group.
- (e) At 31 December 2002, no fixed assets were pledged as security for the Group's banking facilities (2001: a vessel with net book value of HK\$300,354,600 was pledged as security for the Group's banking facilities).

		Company				
	Plant,					
	machinery,					
	furniture					
	and	Motor	Leasehold			
	equipment	vehicles	improvements	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
Cost						
At 1 January 2002	2,188	2,956	20	5,164		
Additions	266	_	7	273		
Disposals	(54)	_		(54)		
At 31 December 2002	2,400	2,956	27	5,383		
Accumulated depreciation						
At 1 January 2002	1,891	2,776	7	4,674		
Charge for the year	263	180	8	451		
Disposals	(54)	_	_	(54)		
At 31 December 2002	2,100	2,956	15	5,071		
Net book value						
At 31 December 2002	300	-	12	312		
At 31 December 2001	297	180	13	490		

13. TOLL HIGHWAY OPERATING RIGHTS

		Group
	2002	2001
	HK\$'000	HK\$'000
at 1 January	326,353	332,364
ustment	(87)	68
the year	(6,544)	(6,079)
31 December	319,722	326,353
	349,858	349,963
ortisation	(30,136)	(23,610)
31 December	319,722	326,353

14. GOODWILL/(NEGATIVE GOODWILL)

	Group	
	Negative	
Goodwill	goodwill	Total
HK\$'000	HK\$'000	HK\$'000
_	(158,817)	(158,817)
307,597	- -	307,597
(12,294)	12,538	244
295,303	(146,279)	149,024
307,597	(165,085)	142,512
(12,294)	18,806	6,512
295,303	(146,279)	149,024
_	(165,085)	(165,085)
	6,268	6,268
_	(158,817)	(158,817)
	HK\$'000 - 307,597 (12,294) 295,303 307,597 (12,294)	Goodwill HK\$'000 - (158,817) 307,597 (12,294) 295,303 (146,279) 307,597 (12,294) 18,806 295,303 (146,279) - (165,085) 295,303 (146,279) - (165,085) - 6,268

15. INTERESTS IN SUBSIDIARIES

Unlisted shares, at cost Amounts due from subsidiaries

2002	2001
HK\$'000	HK\$'000
1,908,564	1,789,674
12,418,249	10,608,837
14,326,813	12,398,511
3,490,845	2,829,197

Company

Amounts due to subsidiaries

The amounts due from and to subsidiaries are unsecured, interest free and have no fixed terms of repayment except for an amount due from a subsidiary of HK\$62,721,000 (2001: Nil) which bears interest at the Hong Kong Interbank Offer 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.

Other than CMHI Caymans Inc., the subsidiaries of the Company have no loan capital. CMHI Caymans Inc. has issued convertible bonds with a principal amount of US\$40,960,000 (equivalent to HK\$317,435,000) outstanding at 31 December 2002 (note 26). The Group has no interest in these convertible bonds.

On 4 January 2002 and 1 April 2002, the Group acquired 100% interests in China Merchants Container Services Limited ("CMCS") and China Merchants Port Services (Shenzhen) Company Limited ("CMPS") for HK\$103,540,000 and HK\$766,146,000, respectively, satisfied in cash. As a result of the acquisitions, the Group's profit for the year and the net assets as at the year end have been increased by HK\$45,770,000.

Particulars of the Company's principal subsidiaries at 31 December 2002 are set out in note 34.

16. INTERESTS IN ASSOCIATES

		_			
		iroup	Company		
	2002	2001	2002	2001	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Listed shares, at cost					
Shares listed in the PRC	_	_	153,174	153,174	
Share of net assets of:					
	4 220 052	1 122 704			
Listed associates	1,239,853	1,133,794	-	_	
Unlisted associates	1,983,074	1,827,113	-		
	3,222,927	2,960,907	153,174	153,174	
		<u>-</u>		. – – – – <i>–</i> – –	
(Negative goodwill)/goodwill					
on acquisition of associates less					
amortisation and impairment:					
Listed associates	(9,247)	(9,750)	_	_	
Unlisted associates	108,869	115,020	-	_	
	99,622	105,270	-	_ 	
Amounts due from associates	116,244	110,759	_	_	
Provision	-	(10,575)	_	_	
		(10/010)			
	116,244	100,184	-	_	
	3,438,793	3,166,361	153,174	153,174	
	470.000	656.400	252 722	247 422	
Market value of listed shares	478,833	656,489	252,783	347,423	

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.

At 31 December 2002, the Group held a total of 228,116,353 (2001: 181,656,883) shares in PRC listed associates, of which 154,615,660 (2001: 120,511,190) shares are founder shares and have no market value. The share of net assets attributable to these founder shares amounted to HK\$782,437,000 (2001: HK\$711,910,000).

Particulars of the Group's principal associates at 31 December 2002 are set out in note 35.

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES

Unlisted investment, at cost
Share of net assets of jointly
controlled entities
Loans to jointly controlled entities
Less: Provision for impairment
·

Group		Company	
2002	2001	2002	2001
HK\$'000	HK\$'000	HK\$'000	HK\$'000
-	-	2,949	_
2,380,303	2,030,010	-	_
1,081,499 (100,000)	1,392,324 (100,000)	-	_
3,361,802	3,322,334	2,949	_

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

Particulars of the Company's and the Group's jointly controlled entities at 31 December 2002 are set out in note 36.

18. INVESTMENTS IN INFRASTRUCTURE JOINT VENTURES

	Group	
	2002	2001
	HK\$'000	HK\$'000
Unlisted investments, at cost	66,707	291,320
Loans to infrastructure joint ventures	51,482	252,709
Local	118,189	544,029
Less: Accumulated capital receipts from infrastructure joint ventures	(18,580)	(49,895)
Provision for impairment	(15,225)	(39,559)
	84,384	454,575

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

18. INVESTMENTS IN INFRASTRUCTURE JOINT VENTURES - Continued

Particulars of the Group's investments in infrastructure joint ventures at 31 December 2002 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 Limited (寧波招商國際集裝箱 有限公司, "Ningbo JV") (note b)	PRC	US\$12,000,000	25%	Port and port-related operation

Notes:

(a) The Luo-mei Highways JV is a Sino-foreign co-operative joint venture established in the PRC for the period from June 1996 to June 2021. According to the terms of the relevant joint venture agreements, the Group is entitled to receive from Luo-mei Highways JV a pre-determined annual return during the first 20 years (the "Guaranteed Period").

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 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. Should the Group's entitled guaranteed return cannot be repaid in full in the first 15 years, the Guaranteed Period will be extended to 30 years.

Profit of the Luo-mei Highways JV will not be shared by the Group. 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.

Profit of the Ningbo JV will not be shared by the Group. 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.

During the year, the Group disposed of its investments in two infrastructure joint ventures, Zhangzhou Tongda Road Development Company Limited and Zhangzhou Haiwei Construct Development Company Limited, for approximately HK\$390,000,000. The gain on disposal amounted to approximately HK\$22,147,000.

19. INVESTMENTS IN SECURITIES

Investment securities
Unlisted shares, at cost
Loans to an investee

Other investments, at market value: Listed shares in Hong Kong

	Group
2002	2001
HK\$'000	HK\$'000
32,031	31,327
389,770	340,662
421,801	371,989
9,145	10,443

The loans to an investee are unsecured, bearing interest at a rate of 1% (2001: 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.

20. OTHER NON-CURRENT ASSETS

Other non-current assets represent mainly the construction works incurred on investment projects. Included in the balance were preliminary studies and advanced construction works of approximately HK\$196,186,000 incurred in respect of the development of Phase II container terminals at Shekou Container Terminal at Shekou Industrial Zone, Shenzhen, the PRC. Details of the transaction are set out in note 33 (d) below.

21. INVENTORIES

Raw materials Work in progress Finished goods

	Group
2002	2001
HK\$'000	HK\$'000
65,505	51,935
1,518	1,032
60,856	52,040
127,879	105,007

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

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

23. DEBTORS, DEPOSITS AND PREPAYMENTS

Trade debtors (note (a))
Other debtors, deposits and prepayments
Loan receivable (note (b))

	Group		Company	
2002	2001	2002	2001	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	
389,137	196,166	-	_	
124,979	203,336	8,416	6,302	
94,233	_	-	_	
608,349	399,502	8,416	6,302	

(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:

0 – 30 days
31 – 60 days
61 – 120 days
Over 120 days

	Group
2002	2001
HK\$'000	HK\$'000
178,010	97,817
54,949	29,480
84,896	35,765
71,282	33,104
389,137	196,166

(b) The loan receivable represented a loan made to Shenzhen Nanyou (Group) Company Limited ("Nanyou"), a joint venture partner for the development of a port project at Mawan Port, Shenzhen, the PRC. The loan is unsecured, bears interest at a rate of 5.841% per annum and is repayable within one year. The loan repayment is guaranteed by the holding company of Nanyou. Further details of the transaction are set out in note 33 (e).

24. CREDITORS AND ACCRUALS

Trade creditors Charterhire received in advance Other payable and accruals

	Group		Company	
2002	2001	2002 2		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	
169,098	89,074	-	_	
-	5,046	-	_	
237,543	147,783	5,711	3,655	
406,641	241,903	5,711	3,655	

Notes to the Financial Statements

24. CREDITORS AND ACCRUALS - Continued

The ageing analysis of the trade creditors is as follows:

0 – 30 days 31 – 60 days 61 – 120 days Over 120 days

	Group
2002	2001
HK\$'000	HK\$'000
145,710	58,018
11,395	22,236
11,034	8,678
959	142
169,098	89,074

25. BANK BORROWINGS

Short-term bank loans
– unsecured

Long-term bank loans
– secured
– unsecured

The long-term bank loans are repayable as follows:

On demand or within one year In the second year In the third to fifth year After the fifth year

Less: Amounts due within one year shown under current liabilities

Company Group 2002 2001 2002 2001 HK\$'000 HK\$'000 HK\$'000 HK\$'000 55,400 62,000 216,225 89,211 280,847 155,950 89,211 497,072 155,950 144,611 559,072 155,950 35,684 203,978 155,950 48,902 35,684 17,843 99,221 144,971 89,211 497,072 155,950 (155,950)(35,684)(203,978)53,527 293,094

26. CONVERTIBLE BONDS

Principal amount
At 1 January and 31 December

Issue expenses
At 1 January

Carrying value at 31 December

Amortisation for the year

	Group
2002	2001
HK\$'000	HK\$'000
317,435	317,435
5,525 (2,401)	7,926 (2,401)
3,124	5,525
314,311	311,910

The US\$40,960,000 (2001: US\$40,960,000) 7% guaranteed convertible bonds bear interest at 7% per annum. Interest is payable semi-annually in arrear on 20 May and 20 November each year commencing 20 November 1999 with the final payment of interest due on 20 April 2004. The convertible bonds are convertible into shares with a par value of HK\$0.1 each in the Company, on or after 31 May 1999 and up to 13 April 2004, at an initial conversion price of HK\$5.120 per share of the Company, determined on the basis of a fixed rate of exchange of HK\$7.7497 = US\$1.00. Unless previously converted, redeemed or purchased and cancelled, the convertible bonds will be redeemed, in whole or in part, at the option of the Group at any time on or after 20 April 2002 and prior to 20 April 2004 at the principal amount plus interest accrued.

27. LOANS FROM MINORITY SHAREHOLDERS

The loans are unsecured, interest free and have no fixed terms of repayment. 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.

28. SHARE CAPITAL

Ordinary shares of HK\$0.1 each Authorised:
Issued and fully paid:
At 1 January
Issue of shares upon the exercise
of share options
Shares repurchased
At 31 December

Num	ber of shares	S	hare capital	
2002	2001	2002	2001	
		HK\$'000	HK\$'000	
3,000,000,000	3,000,000,000	300,000	300,000	
2,053,472,388	2,050,022,388	205,347	205,002	
3,113,000	4,150,000	311	415	
-	(700,000)	-	(70)	
2,056,585,388	2,053,472,388	205,658	205,347	

28. SHARE CAPITAL - Continued

During the year, 3,113,000 (2001: 4,150,000) new ordinary shares of the Company of HK\$0.1 each 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, deriving the following proceeds, net of transaction costs of HK\$35,000 (2001: HK\$21,000):

Ordinary share capital – at par Share premium *(note 29)*

Net proceeds

2002	2001
HK\$'000	HK\$'000
311	415
15,388	20,572
15,699	20,987

Details of share options granted by the Company pursuant to the share option schemes of the Company and the share options outstanding at 31 December 2002 are as follows:

Date of grant	Note	Subscription price per share HK\$	At 1 January 2002	Share options granted during the year	Share options exercised during the year	At 31 December 2002
Directors						
1 March 2000	(i)	5.054	4,140,000	_	820,000	3,320,0000
19 September 2000	(i)	5.615	350,000	-	_	350,000
11 October 2002	(ii)	4.985		6,900,000	_	6,900,000
			4,490,000	6,900,000	820,000	10,570,000
Employees						
1 March 2000	(i)	5.054	4,269,000	_	1,955,000	2,314,000
19 September 2000	(i)	5.615	1,002,000	_	_	1,002,000
24 May 2001	(i)	5.63	738,000	_	38,000	700,000
6 July 2001	(i)	5.61	700,000	_	_	700,000
11 October 2002	(ii)	4.985		23,300,000	300,000	23,000,000
			6,709,000	23,300,000	2,293,000	27,716,000
			11,199,000	30,200,000	3,113,000	38,286,000

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.

29. RESERVES

				Group			
		Capital	Capital				
	Share	reserve	redemption	Translation	Statutory	Retained	
	premium	(goodwill)	reserve	reserve	reserves	earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2002	8,043,033	(197,635)	70	(3,925)	123,941	2,702,105	10,667,589
Issue of shares on exercise of share options, net							
of share issue expenses	15,388	_	_	_	_	_	15,388
Exchange differences	_	-	-	(552)	-	-	(552)
Profit for the year	-	-	-	-	-	882,487	882,487
2001 final dividend paid 2002 interim dividend paid	-	-	-	-	-	(185,019)	(185,019)
(note 10)	_	_	_	_	_	(143,933)	(143,933)
Transfer to reserves	-	_	_	_	34,898	(34,898)	
At 31 December 2002	8,058,421	(197,635)	70	(4,477)	158,839	3,220,742	11,235,960
Represented by:							
Reserves	8,058,421	(197,635)	70	(4,477)	158,839	2,912,254	10,927,472
Proposed final dividend (note 10)	_	_	_	_	_	205,659	205,659
Proposed special dividend							
(note 10)	-	_	_	_	_	102,829	102,829
	8,058,421	(197,635)	70	(4,477)	158,839	3,220,742	11,235,960
Analysed by:							
Company and subsidiaries	8,058,421	(171,796)	70	(7,269)	77,007	1,854,813	9,811,246
Associates	_	(25,839)	_	2,303	72,787	1,007,163	1,056,414
Jointly controlled entities	-	_	_	489	9,045	358,766	368,300
At 31 December 2002	8,058,421	(197,635)	70	(4,477)	158,839	3,220,742	11,235,960

29. RESERVES - Continued

				Group			
	Share premium HK\$'000	Capital reserve (goodwill) HK\$'000	Capital redemption reserve HK\$'000	Translation reserve HK\$'000	Statutory reserves HK\$'000	Retained earnings HK\$'000	Total HK\$'000
	7774	7777	7777	777.000	1πφ σσσ	777,000	7774 000
At 1 January 2001 Issue of shares on exercise of share options, net of	8,022,461	(197,635)	-	(2,294)	93,366	2,243,740	10,159,638
share issue expenses	20,572	_	-	_	_	-	20,572
Shares repurchased Premium on shares	-	-	70	-	-	(70)	- (2.422)
repurchased	_	_	_	(4.624)	-	(3,123)	(3,123)
Exchange differences Profit for the year	_	_	-	(1,631)	_	800,210	(1,631) 800,210
2000 final dividend paid 2001 interim dividend paid	-	-	-	-	-	(164,002)	(164,002)
(note 10)	-	_	_	_	_	(144,075)	(144,075)
Transfer to reserves	_	_	_	_	30,575	(30,575)	
At 31 December 2001	8,043,033	(197,635)	70	(3,925)	123,941	2,702,105	10,667,589
Represented by:							
Reserves Proposed final dividend	8,043,033	(197,635)	70	(3,925)	123,941	2,517,292	10,482,776
(note 10)		_	_	_	_	184,813	184,813
	8,043,033	(197,635)	70	(3,925)	123,941	2,702,105	10,667,589
Analysed by:							
Company and subsidiaries	8,043,033	(171,796)	70	(7,444)	66,802	1,697,130	9,627,795
Associates	_	(25,839)	-	3,019	51,148	778,410	806,738
Jointly controlled entities		_	_	500	5,991	226,565	233,056
At 31 December 2001	8,043,033	(197,635)	70	(3,925)	123,941	2,702,105	10,667,589

29. RESERVES - Continued

			Company Capital		
	Share	Capital	redemption	Retained	
	premium	reserve	reserve	earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2002	8,043,033	2,339,985	70	281,812	10,664,900
Issue of shares on exercise of share options,					
net of shares issue expenses	15,388	_	_	_	15,388
Profit for the year (note 9)	_	_	_	628,614	628,614
2001 final dividend paid	_	_	_	(185,019)	(185,019)
2002 interim dividend paid (note 10)		_	-	(143,933)	(143,933)
At 31 December 2002	8,058,421	2,339,985	70	581,474	10,979,950
Represented by:					
Reserves	8,058,421	2,339,985	70	272,986	10,671,462
Proposed final dividend (note 10)	_	_	-	205,659	205,659
Proposed special dividend (note 10)		_	_	102,829	102,829
	8,058,421	2,339,985	70	581,474	10,979,950
At 1 January 2001	8,022,461	2,339,985	-	423,229	10,785,675
Issue of shares on exercise of share options,					
net of shares issue expenses	20,572	-	-	-	20,572
Profit for the year (note 9)	_	-	-	169,853	169,853
Cost of shares repurchased	_	_	70	(70)	-
Premium on shares repurchased	_	_	-	(3,123)	(3,123)
2000 final dividend paid	_	_	-	(164,002)	(164,002)
2001 interim dividend paid (note 10)		_	_	(144,075)	(144,075)
At 31 December 2001	8,043,033	2,339,985	70	281,812	10,664,900
Represented by:					
Reserves	8,043,033	2,339,985	70	96,999	10,480,087
Proposed dividend	_	_	_	184,813	184,813
	8,043,033	2,339,985	70	281,812	10,664,900

29. RESERVES - Continued

- (a) The Company's capital reserve which arose in 1998 upon reduction of share premium as confirmed by the Order of the High Court of the Hong Kong Special Administrative Region is not realised profits and is a non-distributable reserve.
- (b) The statutory reserves are reserves required under PRC laws and regulations.
- (c) The Company's reserves available for distribution to shareholders at 31 December 2002 amounted to approximately HK\$581,474,000 (2001: HK\$281,812,000) being its retained profits at that date.

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

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

	2002	2001
	HK\$'000	HK\$'000
		_
Operating profit	165,059	206,941
Depreciation and amortisation	171,977	155,730
Gain on disposal of investments in infrastructure joint		
ventures/interests in associates	(22,147)	(5,165)
Write-back of dry-docking provision	-	(27,166)
Write-back of provision for amount due from an associate	(10,575)	_
Provision for impairment on		
Land and buildings	200,000	_
Interests in jointly controlled entities	-	100,000
Investments in infrastructure joint ventures	-	39,559
Provision for amount due from an associate	-	10,575
Provision for diminution in value of leasehold land and buildings	_	7,500
Loss on disposal of fixed assets	1,780	121
Net unrealised loss/(gain) on listed other investments	1,298	(680)
Deficit on revaluation of investment property	590	_
Gain on disposal of listed other investments	_	(28,594)
Income received from infrastructure joint ventures	(43,583)	(7,945)
Interest income	(21,167)	(49,475)
Dividend income from listed other investments	(556)	(961)
Operating profit before working capital changes	442,676	400,440
(Increase)/decrease in inventories	(15,066)	40,106
Increase in debtors, deposits and prepayments	(61,623)	(23,520)
Increase in listed other investments	_	(4,173)
Net increase in amounts due from and to intermediate		
holding companies and fellow subsidiaries	(42,129)	(4,600)
(Increase)/decrease in amounts due from associates	(87,011)	74,797
Increase/(decrease) in creditors and accruals	77,577	(31,796)
Net cash inflow from operations	314,424	451,254

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS – Continued

(b) Analysis of changes in financing during the year

_	Share	Short term			
	capital	bank loans			Loans from
	and share	and	Convertible	Minority	minority
	premium	borrowings	bonds	interests	shareholders
_	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2002	8,248,380	559,072	311,910	132,374	168,959
Cash items: Issue of shares on exercise of share					
options, net of issue expenses	15,699	_	_	_	_
Repayment of loans	_	(414,537)	_	_	_
Loans repaid to minority shareholders	_	_	_	_	(8,524)
Dividend paid to minority shareholders Non-cash items:	-	-	-	(17,030)	_
Exchange differences Amortisation of convertible bond	-	76	_	(37)	5
issue expenses	_	_	2,401	_	_
Minority share of profit for the year	_	_		64,792	_
Purchase of a subsidiary	_	_	_	2,475	_
Disposal of a subsidiary	_	_	_	(2,467)	_
_					
At 31 December 2002	8,264,079	144,611	314,311	180,107	160,440
At 1 January 2001	8,227,463	944,435	309,509	481,057	175,896
Cash items:					
Issue of shares on exercise of share					
options, net of issue expenses	20,987	_	_	_	_
Repayment of loans	_	(385,281)	_	-	_
Loans repaid to minority shareholders	_	_	_	-	(6,942)
Dividend paid to minority shareholders	-	_	-	(21,930)	-
Non-cash items:					
Cost of shares repurchased	(70)	_	_	-	_
Exchange differences	_	(82)	_	28	5
Amortisation of convertible bond			2 401		
issue expenses	_	_	2,401	-	_
Minority share of profit for the year	_	_	_	59,852	_
Buyout of minority interests in Ming Wah Universal Bermuda Co., Ltd.	_	-	_	(386,633)	_
At 31 December 2001	8,248,380	559,072	311,910	132,374	168,959
_					

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS - Continued

(c) Acquisition of subsidiaries

	2002	2001
	HK\$'000	HK\$'000
Net assets acquired		
Fixed assets	546,058	_
Investments in associates	5,523	-
Investment securities	704	_
Inventories	7,806	_
Debtors, deposits and prepayments	123,257	_
Bank balances and cash	38,452	_
Creditors and accruals	(105,062)	_
Amounts due to fellow subsidiaries	(50,332)	_
Taxation payable	(1,842)	_
Minority interest	(2,475)	_
,		
	562,089	_
	302,003	
Goodwill	307,597	_
Goodwiii		
	000.000	
	869,686	
Satisfied by		
Cash	869,686	_

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

	2002 HK\$'000	2001 HK\$'000
Cash consideration Bank balances and cash acquired	869,686 (38,452)	-
Net cash outflow in respect of the acquisition of subsidiaries	831,234	_

The subsidiaries acquired during the year contributed HK\$64,158,000 (2001: Nil) to the Group's net operating cash flows, and utilised HK\$24,373,000 (2001: Nil) for investing activities.

2002

2001

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS - Continued

(d) Disposal of a subsidiary

	2002	2001
	HK\$'000	HK\$'000
Net assets disposed of		
Fixed assets	1,129	_
Debtors, deposits and prepayments	2,110	_
Amounts due from fellow subsidiaries	5,138	_
Bank balances and cash	1,351	_
Creditors and accruals	(4,693)	_
Taxation payable	(10)	_
Minority interests	(2,467)	-
	2,558	_
Satisfied by		
Cash consideration	2,558	_
Other receivable	120	_
	2,678	_

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

	HK\$'000	HK\$'000
Cash consideration Bank balances and cash disposed of	2,558 (1,351)	-
	1 207	

31. COMMITMENTS

(a) Capital commitments for fixed assets

	2002	2001
	HK\$'000	HK\$'000
Contracted but not provided for	19,306	753

31. COMMITMENTS - Continued

(b) Capital commitments for investments

	2002	2001
	HK\$'000	HK\$'000
Contracted but not provided for Jointly controlled entities Port projects	90,675 940,770	191,251 -
	1,031,445	191,251

(c) Commitments under operating leases

At 31 December 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases for land and buildings as follows:

	2002	2001
	HK\$'000	HK\$'000
Within one year	33,958	4,951
In the second to fifth year inclusive	74,591	750
	108,549	5,701

The Company did not have any commitments at 31 December 2002 (2001: Nil).

(d) Future operating lease receivables

At 31 December 2002, the Group had future aggregate lease receivables under non-cancellable operating leases as follows:

	2002	2001
	HK\$'000	HK\$'000
Vessels		
Within one year	46,582	133,403
In the second to fifth year inclusive	694	-
	47,276	133,403
Lond and buildings		
Land and buildings		
Within one year	58,859	5,098
In the second to fifth year inclusive	8,919	7,232
After the fifth year	16,680	18,487
	84,458	30,817
	131,734	164,220

32. CONTINGENT LIABILITIES

At 31 December 2002, there were contingent liabilities in respect of the following:

Guarantees for bank loans and overdrafts of subsidiaries
Guarantees for bank loans of associates
Guarantees for bank loans of an investee
Guarantees for cash distribution of jointly controlled entities
Guarantees for convertible bonds issued by a subsidiary

Group			Company
2002	2001	2002	2001
HK\$'000	HK\$'000	HK\$'000	HK\$'000
-	_	124,669	39,680
53,433	59,938	53,433	59,938
6,630	3,900	6,630	3,900
16,331	_	16,331	_
_	_	317,435	317,435
76,394	63,838	518,498	420,953

33. RELATED PARTY TRANSACTIONS

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

			Income	/(expenses)
Name of party	Nature of transaction	Note	2002	2001
			HK\$'000	HK\$'000
Holding company:				
China Merchants Holdings (Hong Kong) Company Limited	Rental of office premises charged by the Group	<i>(i)</i>	16,058	16,058
Fellow subsidiaries:				
Associated Maritime Company (Hong Kong) Limited	Management fee charged to the Group	(ii)	(11,355)	(12,492)
China Merchants Godown Wharf and Transportation Company Limited	Rental of use of nine vessels charged to the Group	(iii)	(3,024)	-
China Merchants Shekou Holdings Company Ltd	Rental of properties and fixed assets charged to the Group	(iii)	(10,001)	-
China Merchants Shekou Industrial Zone Company Limited	Interest charged to the Group	(iv)	(2,381)	-

33. RELATED PARTY TRANSACTIONS - Continued

(a)

			Income/(expenses)	
Name of party	Nature of transaction	Note	2002 HK\$'000	2001 HK\$'000
Euroasia Dockyard Enterprise and Development Limited	Rental of properties at Tsing Yi Terminal charged to the Group	(iii)	(20,285)	-
Hoi Tung Marine Machinery Suppliers Limited	Rental of office premises charged by the Group	<i>(i)</i>	2,934	3,826
	Rental of warehouse charged to the Group	(iii)	(4,526)	(4,526)
	Transportation service fee charged to the Group	(v)	(1,336)	(1,313)
Hong Kong Ming Wah Shipping Co. Ltd.	Rental of office premises charged by the Group	<i>(i)</i>	5,761	7,751
	Fees for cargo handling, loading, unloading and warehousing services charged by the Group	(v)	8,130	-
Salemay Company Limited	Sales of road marking, construction and other industrial products by the Group	(v)	-	3,447
Yiu Lian Dockyards Limited	Rental of properties at Tsing Yi Terminal charged to the Group	(iii)	(5,589)	_
	Rental of warehouse charged to the Group	(iii)	(3,420)	_
Jointly controlled entity of the Com	pany:			
Zhangzhou China Merchants Port Co. Ltd.	Management fee charged by the Group	(vi)	936	546
Associates of the Company:				
China International Marine Containers (Group) Co., Ltd.	Sales of container paints by the Group	(v)	252,989	169,831

33. RELATED PARTY TRANSACTIONS - Continued

(a)

			Income/(expenses)		
Name of party	Nature of transaction	Note	2002	2001	
			HK\$'000	HK\$'000	
Valspar Hai Hong Coatings (Shenzhen) Company Limited	Rental of premises charged by the Group	(iii)	428	428	
Associates of the holding company:					
China Merchants Bank ("CMB")	Interest earned by the Group	(vii)	1,353	1,122	

Notes:

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

(b) Balances with related parties

Name of party	of party Nature of transaction		2001 HK\$'000
China Merchants Bank	Deposits placed with CMB	147,678	47,591

(c) On 4 January 2002, 1 April 2002 and 16 July 2002, the Group completed the acquisitions of the 100% interests in CMCS, CMPS and Silverflow Company Limited from the indirectly wholly-owned subsidiaries of China Merchants Group Limited, the ultimate holding company, with considerations of HK\$103,540,000, HK\$766,146,000 and HK\$3,735,000, respectively. The acquired companies are engaged mainly in ports operations.

33. RELATED PARTY TRANSACTIONS - Continued

- (d) On 16 July 2002, the Group entered into a shareholders agreement with Achieve Ridge Holdings Limited ("ARH") in relation to the establishment of a foreign investment enterprise in the PRC ("SCT2"), which will be held as to 51% by the Group and as to 49% by ARH, for the purpose of the development and operations of the Phase II container terminals at Shekou Industrial Zone, Shenzhen, the PRC (the "SCT2 Project"). ARH is 39% indirectly held by Modern Terminals Limited, an associate of the Company. In addition, pursuant to a supplemental agreement among the Group, the shareholders of ARH and other parties relating to the SCT2 Project, SCT2, upon its set up in 2003, will acquire from the Group the preliminary studies and advanced construction works incurred on the SCT2 Project. To the extent that such works are not acquired by SCT2, the shareholders of ARH have agreed to indemnify the Group against, inter alia, 49% of the amount of the works incurred. As at 31 December 2002, the preliminary studies and advanced construction works incurred by the Group amounted to HK\$196,186,000 (note 20).
- (e) On 30 September 2002 and the subsequent period, the Group entered into a shareholder agreement and a cooperation agreement with Shenzhen Chiwan Wharf Holdings Limited ("SCWH"), an indirect associate of the Group, and Nanyou, in respect of the set up of an investment company and certain sino-foreign joint venture companies in the PRC ("JV Companies") for the development of Berths number 0,5,6,7 and 8 located at Mawan Port, Shenzhen, the PRC. In connection with the above transactions, loans of up to RMB480 million (equivalent to approximately HK\$453 million) in aggregate, attributable to the Group and SCWH in equal portions, will be made to Nanyou. As at 31 December 2002, loans amounting to RMB 200 million (equivalent to approximately HK\$188 million), attributable to the Group of HK\$94,233,000 (note 23 (b)), was made to Nanyou.

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The table below only lists 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.

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES – Continued

Particulars of the Company's principal subsidiaries at 31 December 2002 are as follows:

Name of subsidiary	Place of incorporation or registration/operation	Nominal value of issued share capital or registered capital	Proportion of nominal value of issued capital or registered capital held by the Company		Principal activities
			Directly	Indirectly	
CMHI Caymans Inc.	Cayman Islands	US\$2	100%	-	Provision of financial services to group companies
China Merchants Container Services Limited*, acquired on 4 January 2002	Hong Kong	HK\$500,000	-	100%	Provision of container terminal services and port transportation
China Merchants Port Services (Shenzhen) Company Limited**, acquired on 1 April 2002	PRC	RMB100,000,000	-	100%	Provision of terminal services and port transportation
Cotter International Limited	BVI	US\$1	-	100%	Investment in an infrastructure joint venture, Luo-mei Highways JV
Fair Oaks Development Limited	Hong Kong	HK\$2	100%	-	Investment holding and securities trading
Finstead Shipping Limited	Liberia	US\$500	-	100%	Ship owning and operation
Fully Profit Property Limited	Hong Kong	HK\$2	100%	-	Property investment
Hai Hong Industry (Shenzhen) Co., Ltd.*#	PRC	HK\$30,700,000	-	100%	Manufacture and sales of paint products
Hempel-Hai Hong Coatings Company Limited*	Hong Kong	HK\$106,000,000	-	64%	Sales of paint products
Hempel-Hai Hong Coatings (Kunshan) Company Limited*#	PRC	HK\$40,000,000	-	64%	Manufacture and sales of paint products
Hempel-Hai Hong Coatings (Shenzhen) Company Limited*#	PRC	HK\$40,000,000	-	64%	Manufacture and sales of paint products

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES - Continued

Name of subsidiary	Place of incorporation or registration/operation	Nominal value of issued share capital or registered capital	nominal issued c registere held by th	tion of value of apital or d capital e Company	Principal activities
			Directly	Indirectly	
Hempel-Hai Hong Coatings (Yan Tai) Company Limited**	PRC	HK\$20,000,000	-	64%	Manufacture and sales of paint products
Hempel-Segull Coatings (Shenshen) Company Limited*#	PRC	HK\$20,000,000	-	64%	Manufacture and sales of paint products
Island Tanker No. 1 Shipping Inc.	Liberia	US\$10,000	-	100%	Ship-owning and operation
Island Tanker No. 2 Shipping Inc.	Liberia	US\$10,000	-	100%	Ship-owning and operation
Island Tanker No. 3 Shipping Inc.	Liberia	US\$10,000	-	100%	Ship-owning and operation
Island Tanker No. 4 Shipping Inc.	Liberia	US\$10,000	-	100%	Ship-owning and operation
New Alliance Shipping Inc.	Liberia	US\$5,000	-	100%	Ship-owning and operation
New Amity Shipping Inc.	Liberia	US\$5,000	-	100%	Ship-owning and operation
Ningbo Changzhen Highway Co. Ltd* ^	PRC	US\$7,730,640	-	60%	Operation of a toll road
Ningbo Zhenluo Highway Co. Ltd* ^	PRC	US\$6,329,440	-	60%	Operation of a toll road
Universal Sheen Investment Limited	Hong Kong	HK\$100	100%	-	Property holding
Wharton Overseas	BVI	US\$1	-	100%	Investment in an infrastructure joint venture, Luo-mei Highways JV

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

[#] Foreign investment enterprises with limited liability in the PRC.

[^] Sino-foreign joint ventures with limited liability in the PRC.

35. PARTICULARS OF PRINCIPAL ASSOCIATES

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

Name of associate	Place of incorporation or registration/operation	value of is or registe	of nominal sued capital red capital e Company	Principal activities
	operation	Directly	Indirectly	rincipal activities
Asia Airfreight Terminal Company Limited ("AAT")	Hong Kong	-	20%	Airfreight
China International Marine Containers (Group) Co., Ltd. ("CIMC") (B shares listed in the Mainland China)	PRC	7.26%	20.05%	Design, manufacture and sales of dry freight containers and refrigerated containers
China Merchants Holdings (Pacific) Limited ("China Merchants Pacific")*	Singapore	-	24%	Investment holding
China Merchants Shekou Holdings Co. Ltd. ("CMSH") (B shares listed in the Mainland China)	PRC	-	18.62% *	Property development, sales of petrochemical products and merchandise, provision of electricity and water supply
China Nanshan Development (Group) Incorporation ("CND")	PRC	-	37%	Port transportation, petroleum services, property development, food and oil processing, building materials and other engineering services
Chiwan Container Terminal Co. Ltd. ("CCT")	PRC	-	25.52%	Port and container terminal business
Jinan Metallic Pigment Company Limited	PRC	-	35%	Manufacture and sales of metallic pigments for industrial use
Modern Terminals Limited ("MTL")	Hong Kong	-	22.1%	Provides container terminal services and warehouse services
PPG Coatings (Tianjin) Company Limited	PRC	-	30%	Manufacture and sales of automotive coatings

35. PARTICULARS OF PRINCIPAL ASSOCIATES - Continued

Name of associate	Place of incorporation or registration/ operation	Proportion of nominal value of issued capital or registered capital held by the Company		Principal activities
		Directly	Indirectly	
Shekou Container Terminals Limited ("SCT")	PRC	-	32.5%	Container jetty business
Valspar Hai Hong Coatings (Shenzhen) Company Limited	PRC	-	40%	Manufacture and sales of packaging coating

^{*} In the opinion of the Directors, the Group is in a position to exercise significant influence over CMSH. Accordingly, CMSH is regarded as an associate of the Group.

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

	CIMC
2002	2001
HK\$'000	HK\$'000
8,507,857	6,285,544
398,994	537,957
2,975,377	3,131,439
4,635,043	2,628,186
(4,265,032)	(1,792,334)
(76,350)	(979,208)
3,269,038	2,988,083

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

	2002	2001
	HK\$'000	HK\$'000
Turnover	5,190,309	4,642,774
Profit for the year	2,095,532	1,815,647
Non-current assets	9,537,066	9,039,319
Current assets	2,349,439	2,350,226
Current liabilities	(1,784,408)	(1,842,932)
Non-current liabilities	(2,767,918)	(2,699,388)
Net assets	7,334,179	6,847,226

35. PARTICULARS OF PRINCIPAL ASSOCIATES - Continued

The above financial information include the financial information of AAT, China Merchants Pacific, CND, CCT, MTL and SCT. MTL is regarded as a significant associate of the Group. In accordance with SSAP 10 paragraph 37, the Company should disclose detailed information including income, profit or loss, non-current assets, current assets, current liabilities, non-current liabilities and contingent liabilities of MTL. However, because of two undertakings provide by the Company to MTL, the information pertaining to MTL cannot be disclosed separately in the financial statements. In the opinion of the Directors, this non-disclosure would not prevent the financial statements from giving a true and fair view of the Group's results and state of affairs as a whole.

36. PARTICULARS OF JOINTLY CONTROLLED ENTITIES

Particulars of the Group's jointly controlled entities at 31 December 2002 are as follows:

Name of jointly controlled entity		Nominal value of issued capital or registered capital	nominal issued o registero held ir by the o	rtion of I value of capital or ed capital ndirectly Company	Principal activities	
(i)	Joint ventures which hold the operating rights of the Guiliu Expressway in Guangxi, PRC (the "Guiliu JVs"):		Directly	Indirectly		
	Guangxi Fushan Infrastructure Facilities Co., Ltd.	HK\$55,317,800	-	40%	Operation of toll road	
	Guangxi Guida Infrastructure Co., Ltd.	HK\$90,737,370	-	40%	Operation of toll road	
	Guangxi Liugui Highway Co., Ltd.	HK\$92,563,400	-	40%	Operation of toll road	
	Guangxi Liujing Highway Co., Ltd.	HK\$84,661,600	-	40%	Operation of toll road	
	Guangxi Luqing Highway Construction Co., Ltd	HK\$84,692,600	-	40%	Operation of toll road	
	Guangxi Machinery & Operation Co., Ltd	HK\$84,126,200	-	40%	Operation of toll road	
	Guangxi Rongzhu Highway Construction Co., Ltd.	HK\$83,443,000	-	40%	Operation of toll road	

36. PARTICULARS OF JOINTLY CONTROLLED ENTITIES – Continued

Name of jointly controlled entity		Nominal value of issued capital or registered capital	nominal issued o registero held in	rtion of value of capital or ed capital directly Company	Principal activities
		- Capital	Directly	Indirectly	- Timespar detivities
(i)	– Continued				
	Guangxi Surface Operation Co., Ltd.	HK\$67,552,000	-	40%	Operation of toll road
	Guangxi Wanli Highway Engineering Co., Ltd.	HK\$92,453,900	-	40%	Operation of toll road
	Guangxi Wushi Highway Co., Ltd.	HK\$66,732,800	-	40%	Operation of toll road
	Guangxi Xinya Engineering Co., Ltd.	HK\$73,232,200	-	40%	Operation of toll road
	Guangxi Zhenxing Infrastructure Co., Ltd.	HK\$49,317,000	-	40%	Operation of toll road
(ii)	Joint ventures which hold the operating rights of the Guihuang Highway in Guizhou, PRC (the "Guihuang JVs"):				
	Guizhou Jinguan Highway Co., Ltd.	US\$11,761,300	-	60%	Operation of toll road
	Guizhou Jinhua Highway Co., Ltd.	US\$11,372,100	-	60%	Operation of toll road
	Guizhou Pantao Highway Co., Ltd.	US\$10,204,320	-	60%	Operation of toll road
	Guizhou Yunguan Highway Co., Ltd.	US\$10,201,600	-	60%	Operation of toll road

36. PARTICULARS OF JOINTLY CONTROLLED ENTITIES - Continued

Name of jointly controlled entity		Nominal nominal value of issued ca issued capital registere or registered held inc		rtion of value of capital or ed capital directly Company	Principal activities
(iii)	Joint ventures which hold the operating rights of the Yuyao Highway in Ningbo, PRC (the "Yuyao JVs"):		Directly	Indirectly	
	Ningbo Baoshun Infrastructure Development Co. Ltd.	RMB54,304,000	-	60%	Operation of toll road
	Ningbo Deshun Transportation Management Co. Ltd.	RMB79,696,000	-	60%	Operation of toll road
	Ningbo Gangshun Communications Development Co. Ltd.	RMB65,624,000	-	60%	Operation of toll road
	Ningbo Longshun Roads Development Co. Ltd.	RMB64,376,000	-	60%	Operation of toll road
	Ningbo Yashun Roads & Bridges Co. Ltd.	RMB26,345,000	-	60%	Operation of toll road
	Ningbo Yishun Roads Engineering Co. Ltd.	RMB98,924,000	-	60%	Operation of toll road

36. PARTICULARS OF JOINTLY CONTROLLED ENTITIES - Continued

Name of jointly controlled entity			Proportion of nominal value of issued capital or registered capital held indirectly by the Company		Principal activities	
	•		· 	Directly	Indirectly	
(iv)	Others:					
	CMF Technology Fund I Limited	Cayman Islands	US\$40,000,000	-	46.5%	Investment holding
	Twinbridge Development Corporation	BVI	US\$10,000	-	30%	Investment in toll bridge
	Zhangzhou China Merchants Port Company Limited	PRC	RMB660,000,000	-	49%	Operation of berth No. 3 in the Zhengzhen Economic Development Zone, Fujian Province, PRC
	Shenzhen Cyber-Harbour Netwrok Co. Limited	PRC	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.

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

36. PARTICULARS OF JOINTLY CONTROLLED ENTITIES - Continued

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

	200	2001
	HK\$'00	0 HK\$'000
Turnover	131,83	125,368
Profit for the year	30,80	4 45,142
Non-current assets	2,506,98	5 2,552,652
Current assets	92,82	95,416
Current liabilities	(18,96	2) (4,013)
Non-current liabilities	(1,103,07	7) (1,196,680)
Net assets	1,477,77	2 1,447,375

37. ULTIMATE HOLDING COMPANY

The Directors regard China Merchants Group Limited (formerly known as China Merchants Holdings Company Limited), a company registered in the PRC, as being the ultimate holding company.

38. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 10 April 2003.

Schedule of Investment Property

INVESTMENT PROPERTY

Location	Purpose	Term of lease	Group interest
Bao Yuan Industrial Zone	Industrial	Medium-term	100%
Xinan Zhan			
Xi Xiang			
Baoan County			
Shenzhen			
The People's Republic of China			

Abbreviations

"AAT" Asia Airfreight Terminal Company Limited

"Board" Board of Directors

"China Merchants Container Services" China Merchants Container Services Limited

"China Merchants Pacific" China Merchants Holdings (Pacific) Limited

"Chiwan Container Terminal" Chiwan Container Terminal Co., Ltd.

"Chiwan Wharf" Shenzhen Chiwan Wharf Holdings Ltd.

"CIMC" China International Marine Containers (Group) Ltd.

"CMPS" China Merchants Port Services (Shenzhen) Co. Limited

"CND" China Nanshan Development (Group) Inc

"Company" China Merchants Holdings (International) Company Limited

"Current Year" the year ended 31 December 2002

"Group" the Company and its subsidiaries

"Hempel-Hai Hong" Hempel-Hai Hong Coatings Co. Ltd.

"Ming Wah Bermuda" Ming Wah Universal (Bermuda) Company Limited

"MTL" Modern Terminal Limited

"PPG Coatings" PPG Coatings (Hong Kong) Co. Ltd.

"SCT" Shekou Container Terminals Limited

"Shenzhen Cyber-Harbour" Shenzhen Cyber-Harbour Network Co. Ltd

"Valspar Hai Hong" Valspar Hai Hong Co. Ltd.

"Zhangzhou CM Port" Zhangzhou China Merchants Port Co. Ltd.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at the Ballroom of JW Marriott Hotel, Pacific Place, 88 Queensway, Hong Kong on Friday, 6 June 2003 at 9:30 a.m. for the following purposes:

- 1. To receive and consider the Audited Consolidated Financial Statements and the Reports of the Directors and Auditors for the year ended 31 December 2002.
- 2. To declare a final dividend and a special dividend for the year ended 31 December 2002.
- 3. To re-elect the retiring Directors and to authorise the Board to fix the remuneration of Directors.
- 4. To re-appoint Auditors for the year ending 31 December 2003 and to authorise the Board to fix their remuneration.
- 5. As special business, to consider and, if thought fit, to pass with or without modifications the following resolutions as ordinary resolutions:

A. "**THAT**:

- (a) subject to paragraph (c) of this Resolution and pursuant to section 57B of the Companies Ordinance, the exercise by the Directors of the Company during the Relevant Period of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company or securities convertible into such shares or options, warrants or similar rights to subscribe for any shares in the Company and to make or grant offers, agreements and options which might require the exercise of such power be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this Resolution shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such power after the end of the Relevant Period;
- the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue; (ii) the exercise of rights of subscription or conversion under the terms of any warrants issued by the Company or any securities which are convertible into shares of the Company; (iii) any option scheme or similar arrangement for the time being adopted for the grant or issue of shares or rights to acquire shares of the Company; or (iv) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Articles of Association of the Company, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this Resolution and the said approval shall be limited accordingly; and
- (d) for the purposes of this Resolution:
 - "Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:
 - (i) the conclusion of the next annual general meeting of the Company;

- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable law to be held; and
- (iii) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders in general meeting.

"Rights Issue" means an offer of shares open for a period fixed by the Directors of the Company to holders of shares of the Company on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong)."

B. "**THAT**:

- (a) subject to paragraph (b) of this Resolution, the exercise by the Directors of the Company during the Relevant Period of all the powers of the Company to repurchase its own shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of shares of the Company which may be repurchased by the Company pursuant to the approval in paragraph (a) of this Resolution during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution and the said approval shall be limited accordingly; and
- (c) for the purposes of this Resolution:
 - "Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable law to be held; and
 - (iii) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders of the Company in general meeting."

Notice of Annual General Meeting

C. "THAT conditional upon Resolutions numbered 5A and 5B set out in the notice convening this meeting being passed, the aggregate nominal amount of the number of shares in the capital of the Company which are repurchased by the Company under the authority granted to the Directors of the Company as mentioned in Resolution numbered 5B set out in the notice convening this meeting shall be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors of the Company pursuant to Resolution numbered 5A set out in the notice convening this meeting, provided that the amount of share capital repurchased by the Company shall not exceed 10 per cent. of the total nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution."

By Order of the Board

Dr. Fu Yuning

Chairman

Hong Kong, 10 April 2003

Registered Office:
38th Floor East, China Merchants Tower,
Shun Tak Centre,
168-200 Connaught Road Central,
Hong Kong.

Notes:

- 1. A member entitled to attend and vote at the meeting convened pursuant to the above notice is entitled to appoint one or more proxies to attend and vote in his place. A proxy need not be a member of the Company.
- 2. In order to be valid, the instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power of attorney or authority, must be deposited at the Company's registered office at 38th Floor East, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting.
- 3. The register of members of the Company will be closed from 2 June 2003 to 6 June 2003, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final and special dividends to be approved at the meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 30 May 2003.
- 4. Concerning resolutions numbered 5A and 5C above, the Board wishes to state that it has no immediate plans to issue any new shares in the Company. The ordinary resolution is being sought from members as a general mandate in compliance with section 57B of the Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange.
- 5. Concerning resolution numbered 5B above, the Board wishes to state that it has no immediate plans to repurchase any existing shares pursuant to the relevant mandate. Approval is being sought from members as a general mandate to be given to the Directors to repurchase shares. The Explanatory Statement required by the Rules Governing the Listing of Securities on the Stock Exchange in connection with the proposed repurchase mandate will be despatched to members together with the notice of the meeting.