

Notes to the Accounts

1. Principal Accounting Policies

The accounts have been prepared under the historical cost convention, as modified by the revaluation of certain fixed assets, and in conformity with generally accepted accounting principles in Hong Kong.

Pursuant to the Interpretation 9 "Accounting for Pre-operating Costs" and Draft Interpretation 11 "Property, Plant and Equipment - Major Inspection or Overhaul Costs" issued by the Hong Kong Society of Accountants, the Group has changed its accounting policies for pre-operating, dry-docking and special survey costs as detailed in notes (h) and (i) below. The changes in accounting policies have been applied retrospectively by means of a prior year adjustment and as a result, reserves of the Group as at 31st December 1999 have been reduced by US\$8.7 million and profit for the year then ended has been increased by US\$5.3 million.

In addition, the Group applies the revised Statement of Standard Accounting Practice No 2.114 "Leases" issued by the Hong Kong Society of Accountants with effect from 1st January 2000.

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

(a) Basis of consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December.

The consolidated accounts also include the Group's attributable share of post-acquisition results and reserves of its jointly controlled entities.

Results attributable to subsidiaries acquired or disposed of during the year are included from the date of acquisition or to the date of disposal as applicable.

(b) Goodwill on consolidation

Goodwill arising on acquisition of subsidiaries and jointly controlled entities represents the excess of purchase consideration over the fair values ascribed to the net tangible assets acquired and is taken directly to reserves in the year of acquisition.

(c) Jointly controlled entities

A jointly controlled entity is a joint venture in respect of which a contractual arrangement is established between the participating venturers and whereby the Group together with the venturers undertake an economic activity which is subject to joint control and none of the venturers has unilateral control over the economic activity. Jointly controlled entities are accounted for under the equity method whereby the Group's share of profits less losses is included in the consolidated profit and loss account and the Group's share of net assets is included in the consolidated balance sheet.

(d) Fixed assets and depreciation

Fixed assets are stated at cost or valuation less depreciation and provision for significant permanent diminution in values.

No depreciation is provided for vessels under construction, the investment property and freehold land.

The investment property, being a commercial building, is held for long-term yields and is not occupied by the Group. The investment property is carried at fair value, representing open market value determined annually based on Directors' or independent valuation. A deficit in valuation is charged to the profit and loss account; an increase is first credited to the profit and loss account to the extent of valuation deficit previously charged and thereafter is credited to the assets revaluation reserve. Upon disposal of the investment property, any revaluation surplus is transferred to the profit and loss account.

Other fixed assets are depreciated, using the straight line method, to write off their cost or valuation over their estimated useful lives or if shorter, the relevant finance lease periods, to their estimated residual values. Estimated useful lives are summarised as follows:

Container vessels	25 years
Containers	5 to 12 years
Chassis	10 to 12 years
Terminal equipment	10 to 15 years
Freehold buildings	Not exceeding 75 years
Medium-term leasehold land and buildings	Unexpired period of the lease
Vehicles, furniture, computer and other equipment	5 to 10 years

1. Principal Accounting Policies (Continued)

(d) Fixed assets and depreciation (Continued)

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group. The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have permanently declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount.

Interest costs on borrowings to finance the construction or acquisition of fixed assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

Profits and losses on disposal of fixed assets are determined as the difference between the net disposal proceeds and the carrying amounts of the assets and are dealt with in the profit and loss account. Upon disposal of revalued assets, any revaluation surplus is transferred directly to retained profit.

(e) Investments

Debt securities expected to be held until maturity and equity shares intended to be held for the long term are included in the balance sheet under long-term investments and are carried at cost, as adjusted for the amortisation of the premiums and discounts on acquisition, less provisions. Provision is made when, in the opinion of the Directors, there is a permanent diminution in value.

Premiums or discounts on the acquisition of long-term debt securities are amortised through the profit and loss account over the period from the date of purchase to the expected date of maturity. Any profit or loss on the realisation of long-term investments is recognised as it arises and is included in the profit and loss account under other operating income.

Portfolio investments comprising mainly marketable securities, which are managed either internally or by independent investment managers and are readily convertible into cash, are included in the balance sheet under current assets and are carried at their realisable values. Income from portfolio investments, together with surplus or deficit, including exchange differences, arising from the sale or revaluation is included in the profit and loss account under net financing charges.

(f) Investments in finance leases

Leases that transfer substantially all the risks and rewards incident to ownership of the relevant assets to the lessees are accounted for as investments in finance leases. Finance lease debtors are included in the balance sheet net of gross earnings allocated to future periods.

Gross earnings under finance leases are allocated to accounting periods to give a constant periodic rate of return on the net investment in the leases in each period.

(g) Leased assets

Leases that transfer substantially all the risks and rewards incident to ownership of the relevant assets to the Group are accounted for as finance leases. At the inception of a finance lease, the fair value of the asset or, if lower, the present value of the minimum lease payments, derived by discounting them at the interest rate implicit in the lease, is recorded as a fixed asset; the corresponding liability, net of finance charges, is recorded as finance lease obligations. Assets held under finance leases are depreciated on the basis described in note (d) above. Amounts payable in respect of finance leases are apportioned between interest charges and a reduction of the lease obligations based on the interest rates implicit in the relevant leases.

All other leases are accounted for as operating leases and rentals payable are charged to the profit and loss account over the periods of the respective leases on a straight line basis or another systematic basis which is representative of the time pattern of the benefit to the lessees.

1. Principal Accounting Policies (Continued)

(h) Vessel repairs and surveys

Dry-docking and special survey costs for vessels are written off as incurred.

In previous years, dry-docking and special survey costs were deferred and amortised over the dry-docking cycle of two to five years. Upon disposal of vessels, any relevant unamortised costs were written off to the profit and loss account under operating costs. This accounting policy has been changed to conform with the Draft Interpretation 11 "Property, Plant and Equipment - Major Inspection or Overhaul Costs" issued by the Hong Kong Society of Accountants.

(i) Deferred expenditure

Costs associated with the development of identifiable and unique computer software products controlled by the Group and have probable economic benefit exceeding the cost beyond one year are deferred and capitalised as fixed assets on completion of development and then depreciated on the basis described in note (d) above. Financing expenses are amortised on a straight line basis over the relevant loan periods. Property leasing and other deferred expenses are amortised on a straight line basis over a period of up to five years. Pre-operating costs are expensed as they are incurred.

In previous years, pre-operating costs were deferred and amortised over a period of five years from the date of commencement of operations. This accounting policy has been changed to conform with the Interpretation 9 "Accounting for Pre-operating Costs" issued by the Hong Kong Society of Accountants.

(j) Properties held for sale

Properties under development for sale are included under current assets and comprise land at cost, construction costs and any interest capitalised, less provisions for foreseeable losses. Completed properties held for sale are carried at the lower of cost and net realisable value.

(k) Deferred taxation

Deferred taxation is provided at the current tax rates using the liability method in respect of all significant timing differences, principally accelerated depreciation allowances, which are expected to reverse in the foreseeable future.

(l) Revenue recognition

Freight revenues from the operation of the international containerised transportation business are recognised on a percentage of completion basis, which is determined on the time proportion method of each individual vessel voyage. Revenues from the operation of container terminals and provision of other services are recognised when services are rendered or on an accrual basis. Rental income is recognised over the periods of the respective leases on a straight line basis. Revenues from sale of properties are recognised based on the proportion of construction work completed or if lower, the proportion of sales proceeds received.

(m) Pensions and retirement benefits

The Group operates a number of defined benefit and defined contribution pension and retirement benefit schemes in the main countries in which the Group operates.

Contributions under the defined contribution schemes are charged to the profit and loss account in the year to which the contributions relate. For the defined benefit schemes, annual contributions are made in accordance with the advice of qualified actuaries for the funding of retirement benefits in order to build up reserves for each scheme member during the employee's service life and which are used to pay to the employee or dependent a pension after retirement. The costs of providing these benefits are recognised in the profit and loss account on a systematic basis over the average remaining lives of the employees.

(n) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, amounts repayable on demand from banks and financial institutions within three months from the date of placement and portfolio investments which are readily convertible into cash, less advances from banks and financial institutions repayable within three months from the date of advance.

1. Principal Accounting Policies (Continued)

(o) Financial instruments

The Group undertakes off balance sheet financial instruments, including futures, forward, swap and option transactions, to manage its exposure to fluctuations in foreign exchange, interest rates and other operating costs. These financial instruments are entered as part of the Group's risk management strategy against assets, liabilities, position or cash flows measured on an accrued basis and are accounted for on an equivalent basis to the underlying assets, liabilities or net positions at the balance sheet date. Any profit or loss arising is recognised on the same basis as that arising from the related assets, liabilities or positions. Premiums on options are however charged to the profit and loss account as they are incurred. A net unrealised loss at the balance sheet date on open exchange contracts for future obligations is charged to the profit and loss account, whereas a net unrealised gain is deferred.

(p) Foreign currencies

The accounts are expressed in US dollars.

Transactions in other currencies during the year are converted at rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in other currencies at the balance sheet date and the accounts of subsidiaries expressed in other currencies are translated at rates of exchange ruling at that date.

Exchange differences arising from the translation of the accounts of subsidiaries expressed in other currencies are taken directly to reserves. All other exchange differences are dealt with in the profit and loss account.

2. Turnover

US\$'000	2000	1999
International transportation and logistics		
Asia	1,439,745	1,265,783
North America	390,522	388,053
Europe	303,276	249,645
Australia	34,740	32,781
	2,168,283	1,936,262
Container terminals		
North America	209,040	184,779
Property investment and development		
North America	17,837	18,030
	2,395,160	2,139,071

The principal activities of the Group are international transportation and logistics, container terminal, property investment and development.

2. Turnover (Continued)

Turnover represents gross freight, charterhire, service and other income from the operation of the international containerised transportation and container terminal businesses and rental income from the investment property.

Freight revenues from international transportation and logistics are analysed based on the outbound cargoes of each geographical territory.

3. Operating Costs

US\$'000	2000	1999
Cargo	957,196	927,408
Vessel and voyage	458,793	364,677
Equipment and repositioning	333,757	300,666
Terminal operating	156,638	129,308
Property management	8,010	9,867
	1,914,394	1,731,926

4. Other Operating Income

US\$'000	2000	1999
Long-term investment income		
Listed	3,936	4,520
Unlisted	–	828
Profit on disposal of fixed assets, including vessels	1,217	1,612
Exchange gain and others	4,347	3,536
Write back of provision for closure cost of subsidiaries	2,435	–
Profit on disposal of long-term investments	–	17
	11,935	10,513

5. Other Operating Expenses

US\$'000	2000	1999
Business and administrative	306,668	274,861
Corporate	8,887	7,523
Provision for diminution in value of long-term investments	9,877	–
Payment for early termination of an agent	2,286	–
Loss on disposal of long-term investments	175	–
Provision for closure cost of subsidiaries	–	7,000
	327,893	289,384

6. Operating Profit Before Financing

US\$'000	2000	1999
(a) Operating profit before financing is arrived at after crediting :		
Operating lease rental income		
Vessels and equipment	–	435
Land and buildings	17,837	18,030
Gross earnings on finance leases	354	388
Payment for early termination of property leases	70	1,019
and after charging :		
Depreciation		
Owned fixed assets	59,160	56,600
Leased fixed assets	24,958	12,944
Operating lease rental expense		
Vessels and equipment	309,580	317,039
Land and buildings	20,971	17,524
Staff costs		
General and administrative staff	216,892	213,471
Terminal workers	103,209	99,913
Crew and seamen	17,869	17,922
Amortisation of deferred expenditure	4,896	4,720
Auditors' remuneration	1,731	1,834
(b) Operating profit before financing by activity is as follows :		
International transportation and logistics	159,207	114,859
Container terminals	24,583	22,042
Property investment and development	6,007	(4,474)
Others	(14,511)	(2,175)
	175,286	130,252
Corporate services	(8,887)	(7,523)
	166,399	122,729

In respect of the international transportation and logistics activities which cover the world's major shipping lanes, the Directors consider that the nature of the trade and the way in which costs are allocated precludes a meaningful allocation of operating profit to specific geographical segments. Operating profit from international transportation and logistics includes the results from the operations of the terminals at Long Beach and Kaohsiung which form an integral part of that business. The other container terminals and the investment property are located in North America. The Group has no other significant identifiable components in one geographical location for the purpose of carrying on a distinct and separate business.

7. Directors' Remuneration

US\$'000	2000	1999
Fees	261	231
Salaries and other emoluments	1,780	1,882
Discretionary bonuses	478	–
Retirement benefits	106	97
	2,625	2,210

The emoluments of individual Directors fall within the following bands :

Emoluments bands (US\$)	Number of directors	
	2000	1999
Nil ~ 128,200 (Nil ~ HK\$1,000,000)	4	3
320,501 ~ 384,600 (HK\$2,500,001 ~ HK\$3,000,000)	1	1
384,601 ~ 448,700 (HK\$3,000,001 ~ HK\$3,500,000)	1	–
448,701 ~ 512,800 (HK\$3,500,001 ~ HK\$4,000,000)	–	1
512,801 ~ 576,900 (HK\$4,000,001 ~ HK\$4,500,000)	–	1
641,001 ~ 705,100 (HK\$5,000,001 ~ HK\$5,500,000)	–	1
769,201 ~ 833,300 (HK\$6,000,001 ~ HK\$6,500,000)	1	–
833,301 ~ 897,400 (HK\$6,500,001 ~ HK\$7,000,000)	1	–
	8	7

None of the Directors has waived the right to receive their emoluments. Fees and other emoluments paid to non-executive directors amount to US\$13,000 (1999: US\$13,000) and US\$32,000 (1999: US\$32,000), respectively.

Details of the emoluments paid to the five individuals, including two (1999: three) Directors, whose emoluments were the highest in the Group are :

US\$'000	2000	1999
Salaries and other emoluments	2,170	2,368
Discretionary bonuses	1,238	–
Retirement benefits	198	164
	3,606	2,532

7. Directors' Remuneration (Continued)

The emoluments of the five individuals fall within the following bands :

Emoluments bands (US\$)	Number of individuals	
	2000	1999
384,601 ~ 448,700 (HK\$3,000,001 ~ HK\$3,500,000)	–	2
448,701 ~ 512,800 (HK\$3,500,001 ~ HK\$4,000,000)	–	1
512,801 ~ 576,900 (HK\$4,000,001 ~ HK\$4,500,000)	–	1
576,901 ~ 641,000 (HK\$4,500,001 ~ HK\$5,000,000)	1	–
641,001 ~ 705,100 (HK\$5,000,001 ~ HK\$5,500,000)	2	1
769,201 ~ 833,300 (HK\$6,000,001 ~ HK\$6,500,000)	1	–
833,301 ~ 897,400 (HK\$6,500,001 ~ HK\$7,000,000)	1	–
	5	5

8. Net Financing Charges

US\$'000	2000	1999
Interest expense		
Bank loans, overdrafts and other loans wholly repayable within five years	46,682	45,612
Other loans not wholly repayable within five years	1,030	1,292
Finance lease obligations		
Wholly payable within five years	6,298	2,641
Not wholly payable within five years	9,270	1,630
	63,280	51,175
Interest income	(14,028)	(11,733)
Net interest expense	49,252	39,442
Financing charges	6,981	6,165
Portfolio investment income	(7,987)	(4,186)
	48,246	41,421

Financing charges include the funding costs reimbursed to TAPCO (note 19) amounting to US\$5.9 million (1999: US\$4.2 million).

9. Taxation

US\$'000	2000	1999
Current overseas taxation		
Company and subsidiaries	18,974	12,441
Jointly controlled entities	13	277
	18,987	12,718

Current taxation has been provided at the appropriate rates of taxation prevailing in the countries in which the Group operates on the estimated assessable profits for the year. The rate applicable for Hong Kong profits tax is 16% (1999: 16%).

Deferred taxation charges/(credit) for the year has not been accounted for in respect of the following:

US\$'000	2000	1999
Accelerated depreciation allowances	1,870	1,009
Taxation losses and others	8,999	(14,326)
	10,869	(13,317)

10. Dividends

US\$'000	2000	1999
Ordinary		
Interim of US1 cent per share (1999: nil)	5,171	–
Proposed final of US3 cents (1999: US3 cents) per share	15,514	15,514
	20,685	15,514

11. Earnings Per Ordinary Share

The calculation of earnings per ordinary share is based on a profit of US\$111.9 million (1999: US\$67.2 million), being the profit attributable to ordinary shareholders, and on 517.1 million ordinary shares in issue during the year.

12. Fixed Assets

US\$'000	Container vessels	Vessels under construction	Containers	Chassis	Terminal equipment	Land and buildings outside Hong Kong Freehold	Medium-term leasehold	Vehicles, furnitures, computer and other equipment	Total
Group									
Cost or valuation									
At 31st December 1999	846,360	12,046	170,870	83,260	127,779	163,880	22,329	124,869	1,551,393
Changes in exchange rates	-	-	-	(80)	(1,705)	(169)	166	(1,063)	(2,851)
Additions	2,384	118,777	143,230	19,875	67,976	-	10,651	15,565	378,458
Reclassification	115,193	(115,193)	-	-	-	-	-	-	-
Disposals	(35,166)	-	(13,364)	(98)	(586)	(5,157)	(281)	(3,045)	(57,697)
Disposal of subsidiaries	-	-	-	-	-	-	(5,180)	(4,279)	(9,459)
At 31st December 2000	928,771	15,630	300,736	102,957	193,464	158,554	27,685	132,047	1,859,844
Accumulated depreciation									
At 31st December 1999	220,529	-	115,992	58,648	52,866	20,963	4,452	71,531	544,981
Changes in exchange rates	-	-	-	(26)	(715)	(40)	223	(647)	(1,205)
Charge for the year	29,884	-	19,192	5,796	10,271	1,503	2,401	15,071	84,118
Disposals	(32,728)	-	(13,225)	(77)	(548)	(2,491)	(9)	(1,891)	(50,969)
Disposal of subsidiaries	-	-	-	-	-	-	(668)	(2,610)	(3,278)
At 31st December 2000	217,685	-	121,959	64,341	61,874	19,935	6,399	81,454	573,647
Net book amount									
At 31st December 2000	711,086	15,630	178,777	38,616	131,590	138,619	21,286	50,593	1,286,197
At 31st December 1999	625,831	12,046	54,878	24,612	74,913	142,917	17,877	53,338	1,006,412
Net book amount of leased assets									
At 31st December 2000	-	-	162,211	32,689	57,011	-	-	574	252,485
At 31st December 1999	-	-	39,379	20,525	19,488	-	-	848	80,240