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 property, plant and equipment, and in conformity with Hong Kong Financial Reporting Standards.

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Accounting Standards ("new HKFRSs"), which are effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31st December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs and the Directors consider that these new HKFRSs would not have a significant impact on the results of operations and financial position of the Group.

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. Subsidiaries are companies in which the Group has the power to exercise control governing the financial and operating policies of the company.

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 in the consolidated profit and loss account from the date on which control is transferred to the Group or to the date that control ceases, as applicable.

All significant inter-company transactions and balances between group companies are eliminated.

(b) Goodwill and capital reserve

Goodwill represents the difference between the cost of an acquisition over the fair values ascribed to the Group's share of the net assets of the acquired subsidiaries and jointly controlled entities at the effective date of acquisition. Goodwill on acquisitions is included in the balance sheet as a separate asset and amortised using the straight line method over its estimated useful life of not more than twenty years. Where the fair values ascribed to the net assets exceed the purchase consideration, such differences are recognised as income in the year of acquisition or over the weighted average useful life of the acquired non-monetary assets.

The carrying amount of goodwill is reviewed annually and provision is only made where, in the opinion of the Directors, there is impairment in value other than temporary in nature.

The profit or loss on disposal of subsidiaries and jointly controlled entities is calculated by reference to the net assets at the date of disposal including the attributable amount of goodwill which remains unamortised.

(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.

1. Principal accounting policies (Continued)

(d) Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and provision for significant permanent impairment 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 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 and improvements	10 to 15 years
Freehold buildings	Not exceeding 75 years
Medium-term leasehold land and buildings	Over period of the lease
Vehicles, furniture, computer and other equipment	5 to 10 years

Major costs incurred in restoring 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 assets are reviewed regularly. Where the estimated recoverable amounts have declined permanently below their carrying amounts, the carrying amounts are written down to their estimated recoverable amounts.

Profits and losses on disposal 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 reserve is transferred directly to retained profit.

1. Principal accounting policies (Continued)

(e) Investments

Debt securities expected to be held until maturity and equity shares intended to be held 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 impairment in value other than temporary in nature.

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 acquired principally for the purpose of generating profit from fluctuation in price 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) Leased assets

Assets leased from third parties under agreements that transfer substantially all the risks and rewards incident to ownership of the relevant assets to the Group are classified 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 capitalised as an asset; the corresponding obligations, net of finance charges, is included under long-term liabilities. Assets held under finance leases are depreciated on the basis described in note (d) above. Gross rental 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.

Leases where a significant portion of the risk and rewards of ownership are retained by the lessors are classified as operating leases. Rentals payable, net of incentives received from the lessors, under operating leases 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.

(g) Computer software development costs

Costs that are directly associated with identifiable and unique software products controlled by the Group and have probable economic benefit exceeding the cost beyond one year are recognised as intangible assets. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads. Other costs associated with developing and maintaining computer software programmes are recognised as an expense as incurred.

Expenditure which enhances or extends the performance of computer software programmes beyond their original specifications is recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortised on completion of development using the straight line method over their estimated useful lives of three to five years.

1. Principal accounting policies (Continued)

(h) Deferred expenditure

Expenses incurred in connection with long-term financing and leasing arrangements are deferred and amortised on a straight line basis over the relevant tenure of the loan and lease periods. Expenditure associated with the leasing of the investment property is deferred and amortised on a straight line basis over a period of up to five years.

(i) 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. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(j) Provisions

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

Restructuring provisions mainly comprise lease termination penalties and employee termination payments, and are recognised in the period in which the Group becomes legally or constructively committed to payment. Employee termination benefits are recognised only after either an agreement is in place with the appropriate employee representatives specifying the terms of redundancy and the number of employees affected, or after individual employees have been advised of the specific terms. Costs related to the ongoing activities of the Group are not provided in advance. Any property, plant and equipment that are no longer required for their original use are transferred to current assets and carried at the lower of the carrying amount or estimated net realisable value.

(k) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. The principal temporary differences arise from depreciation on property, plant and equipment, provisions for retirement benefits and tax losses carried forward. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred taxation assets relating to carry forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and jointly controlled entities, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

1. Principal accounting policies (Continued)

(l) Employee 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. These schemes are generally funded by payments from employees and by relevant group companies, taking into account of the recommendations of independent qualified actuaries where required.

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 pension 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. Such pension costs are assessed using the projected unit credit method, under which, the cost of providing pensions is charged to the profit and loss account so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries with full valuation of the plans every two to three years. The pension obligations are measured as the present value of the estimated future cash outflows using interest rates of high quality corporate bonds which have terms to maturity approximating the terms of the related liabilities. Plan assets are measured at fair values. Actuarial gains and losses are recognised in the profit and loss account over the expected average remaining service lives of employees to the extent of the amount in excess of 10% of the greater of the present value of the plan obligations and the fair value of plan assets.

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.

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.

(m) Revenue recognition

Freight revenues from the operation of the container transport and logistics 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 under operating leases is recognised over the periods of the respective leases on a straight line basis. Sales of properties under construction are recognised over the course of development based on the proportion of construction work completed or if lower, the proportion of sales proceeds received. Sales of completed properties are recognised upon completion of the sale and purchase contracts.

(n) Vessel repairs and surveys

Dry-docking and special survey costs for vessels are charged to the profit and loss account as incurred.

(o) Borrowing costs

Interest and related costs on borrowings directly incurred to finance the construction or acquisition of an asset 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.

1. Principal accounting policies (Continued)

(p) Financial instruments

The Group enters into financial instruments, including futures, forward, swap and option transactions, in order to hedge its exposure to fluctuations in foreign exchange, interest rates and other operating costs as part of the Group's risk management strategy against assets, liabilities, position or cash flows measured on an accrual basis. These financial instruments 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. Unrealised gains and losses at the balance sheet date on open exchange contracts for future obligations are dealt with in the profit and loss account.

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances, deposits with banks and financial institutions repayable within three months from the date of placement and portfolio investments which are readily convertible into cash, net of bank overdrafts and advances from banks and financial institutions repayable within three months from the date of advance.

(r) Foreign currencies

The functional currency of the Group is US dollar.

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 are translated at rates of exchange ruling at that date. Exchange differences arising are dealt with in the profit and loss account.

Profit and loss accounts of subsidiaries expressed in other currencies are translated at the weighted average exchange rates for the year and balance sheets are translated at the exchange rates ruling at the balance sheet date. Exchange differences arising from the translation of net investment in foreign subsidiaries are taken directly to reserves.

2. Turnover

US$'000	2004	2003
Container transport and logistics	**3,827,893**	2,969,554
Container terminals	**289,185**	251,025
Property investment and development	**23,250**	20,534
	4,140,328	3,241,113

The principal activities of the Group are container transport and logistics, container terminals, property investment and development.

Turnover represents gross freight, charterhire, service and other income from the operation of the container transport and logistics and container terminal businesses, sales of properties and rental income from the investment property.

3. Operating costs

US$'000	2004	2003
Cargo	1,546,856	1,253,669
Vessel and voyage	748,095	630,005
Equipment and repositioning	502,436	446,877
Terminal operating	206,298	180,727
Property management and development	9,073	8,924
	3,012,758	2,520,202

4. Other operating income

US$'000	2004	2003
Long-term investment income		
Unlisted	49	2
Profit on disposal of long-term investments	1,862	17
Profit on disposal of a jointly controlled entity	770	—
Profit on disposal of property, plant and equipment	1,768	1,914
Exchange gain	1,587	8,095
Others	909	4,847
	6,945	14,875

5. Other operating expenses

US$'000	2004	2003
Business and administrative	423,759	366,692
Corporate	11,893	9,710
	435,652	376,402

6. Operating profit before financing

US$'000	2004	2003
Operating profit before financing is arrived at after crediting:		
Operating lease rental income		
Land and buildings	**22,262**	20,046
Reduction in terminal lease rental payments	**—**	14,254
and after charging:		
Depreciation		
Owned assets	**95,514**	68,074
Leased assets	**49,784**	46,666
Operating lease rental expense		
Vessels and equipment	**399,126**	362,566
Land and buildings	**37,077**	21,759
Staff costs		
General and administrative staff	**363,495**	292,891
Terminal workers	**170,876**	151,325
Crew and seamen	**21,547**	19,631
Amortisation of intangible assets	**8,996**	11,752
Auditors' remuneration	**1,960**	1,825

7. Directors' remuneration

US$'000	2004	2003
Fees	**562**	324
Salaries and other emoluments	**1,925**	1,709
Discretionary bonuses	**2,875**	317
Retirement benefits	**432**	177
	5,794	2,527

7. Directors' remuneration (Continued)

The emoluments of individual Directors fall within the following bands:

Emoluments bands (US$)		Number of Directors 2004	2003
Nil ~ 128,200	(Nil ~ HK$1,000,000)	**4**	5
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
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)	**—**	2
1,153,801 ~ 1,218,000	(HK$9,000,001 ~ HK$9,500,000)	**1**	—
1,602,501 ~ 1,666,600	(HK$12,500,001 ~ HK$13,000,000)	**1**	—
1,858,901 ~ 1,923,000	(HK$14,500,001 ~ HK$15,000,000)	**1**	—
		9	9

None of the Directors has waived the right to receive their emoluments. Fees and other emoluments paid to independent non-executive Directors amount to US$19,200 (2003: US$14,400) and US$44,900 (2003: US$35,200), respectively.

Details of the emoluments paid to the five individuals, including three (2003: three) Directors, whose emoluments were the highest in the Group are:

US$'000	2004	2003
Salaries and other emoluments	**2,167**	2,419
Discretionary bonuses	**3,928**	562
Retirement benefits	**561**	266
	6,656	3,247

7. Directors' remuneration (Continued)

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

Emoluments bands (US$)		Number of individuals 2004	2003
384,601 ~ 448,700	(HK$3,000,001 ~ HK$3,500,000)	—	1
512,801 ~ 576,900	(HK$4,000,001 ~ HK$4,500,000)	—	1
705,101 ~ 769,200	(HK$5,500,001 ~ HK$6,000,000)	—	1
769,201 ~ 833,300	(HK$6,000,001 ~ HK$6,500,000)	—	2
833,301 ~ 897,400	(HK$6,500,001 ~ HK$7,000,000)	**1**	—
1,153,801 ~ 1,218,000	(HK$9,000,001 ~ HK$9,500,000)	**2**	—
1,602,501 ~ 1,666,600	(HK$12,500,001 ~ HK$13,000,000)	**1**	—
1,858,901 ~ 1,923,000	(HK$14,500,001 ~ HK$15,000,000)	**1**	—
		5	5

The Group usually determines and pays discretionary bonuses to employees (including Directors) around April / May each year based on the actual financial results of the Group for the preceding year. The discretionary bonuses shown above therefore represent actual payments to the Directors and individuals during the current financial year in relation to performance for the preceding year.

8. Net financing charges

US$'000	2004	2003
Interest expense		
Bank loans, overdrafts and other loans wholly repayable within five years	**19,080**	18,182
Finance lease obligations		
Wholly payable within five years	**11,201**	8,911
Not wholly payable within five years	**7,272**	6,435
	37,553	33,528
Amount capitalised under assets	**(2,661)**	(2,636)
	34,892	30,892
Interest income	**(17,518)**	(14,020)
Net interest expense	**17,374**	16,872
Dividend on preference shares (note 26)	**6,212**	6,794
Financing charges	**2,683**	2,498
Portfolio investment income	**(12,627)**	(7,424)
	13,642	18,740

Financing charges include the funding costs reimbursed to TAPCO (note 20) amounting to US$1.8 million (2003: US$1.6 million).

9. Taxation

US$'000	2004	2003
Current (overseas)		
Company and subsidiaries	**28,784**	16,349
Jointly controlled entities	**4,402**	6,047
	33,186	22,396
Deferred		
Company and subsidiaries	**(3,045)**	1,749
	30,141	24,145

Taxation has been provided at the appropriate tax rates prevailing in the countries in which the Group operates on the estimated assessable profits for the year. These rates range from 10% to 53% and the rate applicable for Hong Kong profits tax is 17.5% (2003: 17.5%).

9. Taxation (Continued)

The tax of the Group's profit before taxation differs from the theoretical amount that would arise using the applicable tax rate, being the weighted average of rates prevailing in the territories in which the Group operates, as follows:

US$'000	2004	2003
Profit before taxation	**700,739**	353,306
Tax calculated at applicable tax rate	**138,435**	76,579
Income not subject to tax	**(112,470)**	(63,490)
Expenses not deductible for tax purposes	**9,913**	14,695
Tax losses not recognised	**2,768**	3,756
Temporary differences not recognised	**(57)**	2,813
Utilisation of previously unrecognised tax losses	**(7,403)**	(11,043)
Utilisation of previously unrecognised temporary differences	**(665)**	—
Recognition of previously unrecognised deferred tax assets	**(1,981)**	(523)
Recognition of previously unrecognised temporary differences	**(156)**	(254)
Withholding tax	**1,381**	935
Increase in tax rate	**—**	40
Other items	**376**	637
	30,141	24,145

10. Earnings per ordinary share

The calculation of earnings per ordinary share is based on the profit attributable to ordinary shareholders of US$670.4 million (2003: US$329.0 million) and the weighted average number of 561.8 million ordinary shares (2003: 555.0 million ordinary shares after adjusting for the bonus issue) in issue during the year.

11. Dividends

US$'000	2004	2003
Interim paid of US12.00 cents (2003: US3.50 cents) per ordinary share	**68,354**	18,099
Proposed final of US18.00 cents (2003: US11.64 cents) per ordinary share	**102,403**	60,184
	170,757	78,283

The Board of Directors proposes a final dividend in respect of 2004 of US18.00 cents per ordinary share (2003: US11.64 cents after adjusting for the bonus issue). This dividend will be accounted for as an appropriation of retained profit in the year ending 31st December 2005.

12. Property, plant and equipment

US$'000	Container vessels	Vessels under construction	Containers	Chassis	Terminal equipment and improvements	Land and buildings outside Hong Kong Freehold	Land and buildings outside Hong Kong Medium-term leasehold	Vehicles, furnitures, computer and other equipment	Total
Group									
Cost or valuation									
At 31st December 2003	1,043,812	172,284	442,865	120,178	287,861	153,607	26,140	108,319	2,355,066
Changes in exchange rates	—	—	—	485	10,300	26	441	2,155	13,407
Additions	—	528,260	189,946	17,610	38,916	—	—	24,767	799,499
Reclassification	320,294	(320,294)	—	—	—	—	—	—	—
Disposals	—	—	(13,828)	(515)	(2,403)	—	(915)	(8,718)	(26,379)
At 31st December 2004	1,364,106	380,250	618,983	137,758	334,674	153,633	25,666	126,523	3,141,593
Accumulated depreciation									
At 31st December 2003	307,446	—	168,538	84,485	105,672	24,872	8,807	75,448	775,268
Changes in exchange rates	—	—	—	194	4,489	16	97	1,386	6,182
Charge for the year	46,915	—	55,518	8,187	20,085	1,889	1,794	10,910	145,298
Disposals	—	—	(11,549)	(271)	(1,517)	—	(778)	(6,216)	(20,331)
At 31st December 2004	354,361	—	212,507	92,595	128,729	26,777	9,920	81,528	906,417
Net book amount									
At 31st December 2004	1,009,745	380,250	406,476	45,163	205,945	126,856	15,746	44,995	2,235,176
At 31st December 2003	736,366	172,284	274,327	35,693	182,189	128,735	17,333	32,871	1,579,798
Net book amount of leased assets									
At 31st December 2004	384,188	144,620	61,608	23,449	68,071	—	—	352	682,288
At 31st December 2003	153,073	—	125,867	26,913	77,620	—	—	607	384,080

12. Property, plant and equipment (Continued)

(a) Freehold land and buildings include the investment property, "Wall Street Plaza", a commercial property located at 88, Pine Street, New York, USA. The property is situated on three parcels of freehold land, two of which are wholly owned by the Group. The freehold interest in the third parcel, representing approximately 10% of the site, is owned 50% by the Group and under a long-term lease to the Group expiring in the year 2066. The property is stated at Directors' valuation of US$100.0 million (2003: US$100.0 million), by reference to a professional valuation made in December 2004 on an open market basis.

(b) Container vessels include three (2003: three) vessels which were previously operated under finance lease terms and direct ownership was acquired by the Group in May 1990. These vessels are carried at Directors' valuation, representing the then purchase consideration which was determined by reference to professional valuations on a cum-charter open market basis of US$87.0 million. Subsequent revaluations of these vessels are not required to be made in accordance with paragraph 72 of Hong Kong Statement of Standard Accounting Practice 17 "Property, plant and equipment". Had these vessels been carried at cost, the net book amount of the container vessels would have been reduced by US$2.3 million (2003: US$2.7 million).

(c) Apart from the investment property and container vessels mentioned under (a) and (b) above, all other property, plant and equipment are carried at cost.

(d) The aggregate net book amount of assets pledged as securities for loans amounts to US$1,006.3 million (2003: US$999.0 million). Specific charges on vessels of the Group include legal mortgages and assignments of insurance claims and charterhire income relating to these vessels.

(e) Interest costs of US$1.3 million (2003: US$1.6 million) during the year were capitalised as part of vessels under construction.

13. Subsidiaries

US$'000	2004	2003
Company		
Unlisted shares, at cost less provision	**169,482**	169,482
Amounts receivable	**1,012,308**	688,368
Amounts payable	**(707,225)**	(528,013)
	474,565	329,837

Particulars of the principal subsidiaries at 31st December 2004 are shown on pages 108 to 117. The amounts receivable and payable are unsecured, interest free and have no specific repayment terms.

14. Jointly controlled entities

US$'000	2004	2003
Group		
Unlisted shares, at cost less provision	**9,829**	12,905
Share of retained post-acquisition profits/(losses)	**4,967**	(347)
Share of net assets	**14,796**	12,558
Amounts receivable	**16,459**	11,740
	31,255	24,298

Particulars of the principal jointly controlled entities at 31st December 2004 are shown on page 118. The amounts receivable are unsecured, interest free and have no specific repayment terms.

15. Long-term investments

US$'000	2004	2003
Group		
Investment in Hui Xian, at cost	**93,601**	93,601
Unlisted, at cost less provisions	**2,337**	5,617
	95,938	99,218

The investment in Hui Xian represents the Group's approximately 8% (2003: 8%) unlisted equity interest in and advances to Hui Xian Holdings Limited ("Hui Xian"), incorporated in Hong Kong and the holding company for the Beijing Oriental Plaza, which comprises a commercial, retail and residential complex of approximately six million square feet, the development of which was completed in mid 2003. Under the Hui Xian shareholders' agreement, the shareholders agreed to finance Hui Xian in proportion to their shareholdings. In addition to the finance from the shareholders, Hui Xian has arranged a bank loan of US$350 million (2003: US$275 million), over which the Group has provided a proportionate guarantee (note 32).

16. Intangible assets

US$'000	2004	2003
Group		
Computer software development costs	**55,287**	48,336
Property leasing expenses	**27,127**	24,936
Financing charges	**9,246**	6,295
	91,660	79,567
Accumulated amortisation	**(58,345)**	(49,750)
Net book value	**33,315**	29,817
Net book value at beginning of year	**29,817**	27,541
Changes in exchange rates	**(3)**	—
Additions	**12,539**	14,028
Written off	**(42)**	—
Amortisation	**(8,996)**	(11,752)
Net book value at end of year	**33,315**	29,817

17. Other non-current assets

US$'000	2004	2003
Group		
Restricted bank balances and deposits (note 21)	**22,367**	20,802
Deferred taxation assets (note 27)	**15,352**	10,960
Pension and retirement assets (note 28)	**5,796**	5,145
	43,515	36,907
Company		
Restricted bank balances and deposits (note 21)	**75**	57

18. Properties under development and for sale

Interest costs of US$1.4 million (2003: US$1.0 million) during the year were capitalised as part of properties under development.

19. Debtors and prepayments

US$'000	2004	2003
Group		
Trade debtors (note 20)	**147,651**	115,650
Other debtors	**42,663**	26,901
Prepayments	**54,122**	48,611
Utility and other deposits	**21,402**	29,126
Bunker	**30,008**	24,257
Tax recoverable	**5,984**	2,099
	301,830	246,644
Company		
Prepayments	**107**	53

20. Trade debtors

In 1998, the Group entered into a receivables purchase agreement (the "Agreement") under which the Group agreed to assign, from time to time, certain specific trade receivables to The Rhino Receivables Company Limited ("Rhino"), a Channel Island unrelated special purpose company. The Group can offer to sell, at the time of each aforesaid assignment, a certain portion of those receivables, subject to a specified accumulated maximum amount, to Tulip Asset Purchase Company BV ("TAPCO"), a Netherlands unrelated special purpose company. Rhino holds all such trade receivables on trust for the benefit of the Group and TAPCO. Under the Agreement, TAPCO will settle in cash on the date of sale a fixed portion of the purchase price of the trade receivables, representing approximately 91% of those trade receivables on the date of sale with the balance on final settlement. TAPCO funds the purchases of the receivables by cash advances from Tulip Funding Corporation, a United States unrelated special purpose company, which in turn issues US dollar floating rate commercial papers backed by such receivables, supplemented by letter of credit and liquidity arrangements from a bank. The Group continues to manage the trade receivables and acts as collection agent for Rhino. The Group also agrees to reimburse all funding costs incurred by TAPCO in relation to the purchases of the trade receivables from the Group. Upon collection of all trade receivables sold, TAPCO will settle the balance of the purchase price, after deducting any funding costs not yet reimbursed and bad debts arising from those trade receivables.

Trade debtors of the Group include the following trade receivables:

US$'000	2004	2003
Gross trade receivables assigned to Rhino	**184,720**	164,067
Less non-returnable proceeds received from TAPCO	**(99,500)**	(99,500)
	85,220	64,567

20. Trade debtors (Continued)

Trade receivables are normally due for payment on presentation of invoices or granted with an approved credit period ranging mainly from 10 to 45 days. Debtors with overdue balances are requested to settle all outstanding balances before any further credit is granted. The ageing analysis of the Group's trade debtors, including those assigned to Rhino but net of provision for bad and doubtful debts, prepared in accordance with the due date of invoices, is as follows:

US$'000	2004	2003
Below one month	**215,128**	194,084
Two to three months	**26,750**	19,575
Four to six months	**5,123**	1,162
Over six months	**150**	329
	247,151	215,150

21. Bank balances and deposits

US$'000	2004	2003
Group		
Restricted	**105,932**	127,825
Not restricted	**749,245**	536,791
	855,177	664,616
Less restricted and included in		
Non-current assets (note 17)	**(22,367)**	(20,802)
Non-current liabilities (note 26)	**(83,565)**	(91,975)
	749,245	551,839
Company		
Restricted	**75**	57
Not restricted	**8,515**	15,728
	8,590	15,785
Less restricted and included in		
Non-current assets (note 17)	**(75)**	(57)
	8,515	15,728

Restricted bank balances and deposits are funds which are pledged as securities for banking facilities and performance under leasing arrangements or required to be utilised for specific purposes. In 2003, a restricted deposit of the Group amounting to US$15.0 million which had been pledged as security for a short-term bank loan of the same amount (note 23), was not classified as a non-current asset.

22. Creditors and accruals

US$'000	2004	2003
Group		
Trade creditors	**164,823**	141,199
Other creditors	**33,071**	30,877
Accrued operating expenses	**335,047**	278,095
Deferred revenue	**20,594**	36,073
	553,535	486,244
Company		
Accrued operating expenses	**1,604**	1,219

The ageing analysis of the Group's trade creditors, prepared in accordance with date of invoices, is as follows:

US$'000	2004	2003
Below one month	**132,763**	82,741
Two to three months	**25,906**	52,559
Four to six months	**1,326**	2,402
Over six months	**4,828**	3,497
	164,823	141,199

23. Bank overdrafts and short-term loans

US$'000	2004	2003
Group		
Short-term loans		
Secured	—	29,283
Unsecured	—	9,625
Bank overdrafts		
Unsecured	85	50
	85	38,958

In 2003, a secured bank loan of US$15.0 million was secured by a bank deposit of the same amount (note 21).

24. Long-term liabilities

US$'000	2004	2003
Group		
Bank loans		
Secured	709,595	594,334
Unsecured	10,624	51,405
Other loans wholly repayable within five years		
Secured	9,897	15,541
Unsecured	2,644	2,580
Finance lease obligations		
Wholly payable within five years	141,682	190,317
Not wholly payable within five years	530,437	205,027
	1,404,879	1,059,204
Current portion included in current liabilities	(145,926)	(218,527)
	1,258,953	840,677

24. Long-term liabilities (Continued)

(a) The maturity of the Group's bank loans, other loans and finance lease obligations is as follows:

US$'000	Bank loans	Other loans	Finance leases Present value	Finance leases Minimum payments
As at 31st December 2004				
2005	101,712	5,559	38,655	62,289
2006	104,998	4,945	62,374	83,604
2007	114,375	710	58,161	75,265
2008	83,958	654	19,092	33,833
2009	123,975	229	25,193	38,634
2010 onwards	191,201	444	468,644	619,128
	720,219	12,541	672,119	912,753
As at 31st December 2003				
2004	160,053	7,271	51,203	65,892
2005	80,818	5,268	34,727	47,748
2006	63,478	4,659	73,647	84,364
2007	64,833	487	44,823	51,507
2008	66,302	430	8,735	13,550
2009 onwards	210,255	6	182,209	227,387
	645,739	18,121	395,344	490,448

(b) The bank loans, other loans and finance lease obligations carry interest at fixed rates, ranging from 3.5% to 10.6% per annum, or variable rates, varying from 0.2% to 2.2% over stipulated market rates per annum.

25. Other non-current liabilities

US$'000	**2004**	2003
Group		
Redeemable preference shares (note 26)	**—**	—
Deferred taxation liabilities (note 27)	**40,166**	37,624
Pension and retirement liabilities (note 28)	**14,141**	11,117
	54,307	48,741

26. Redeemable preference shares

US$'000	2004	2003
Group		
Redeemable preference shares and premium	**83,565**	91,975
Less restricted deposits under the put options (note 21)	**(83,565)**	(91,975)
	—	—

In June 2002, the Group entered into, inter alia, a Shareholders Agreement, as subsequently amended, with, inter alios, two unrelated third parties (together the "Preference Shareholders") in relation to a subsidiary. Under the Shareholders Agreement, the Preference Shareholders acquired from the Group 90 cumulative preference shares (the "Preference Shares") of €150 each in this subsidiary and contributed an aggregate of US$100.0 million less the nominal value of the Preference Shares as share premium (the "Premium"). The Preference Shareholders are entitled to receive annual dividends of 7.08% per annum on the aggregate amount of the nominal value of the Preference Shares and Premium (collectively "Preference Shares Contributions") outstanding from time to time. To the extent permitted by local law, the Preference Shareholders may propose a repayment of the Premium annually, provided that such repayment does not exceed a maximum percentage specified in the Shareholders Agreement. During the year, Premium amounting to US$8.4 million (2003: US$8.0 million) was repaid to the Preference Shareholders.

The Preference Shareholders have been granted irrevocable options to sell their Preference Shares to the Group under certain circumstances. As securities for the options, the Group has placed certain bank deposits (the "Deposits") equivalent to the outstanding Preference Shares Contributions, amounting to US$83.6 million (2003: US$92.0 million) for the provision of bank guarantees to fulfil the obligations of the Group under the options. The consideration for the Preference Shares under the options equals to the fair market value of the Preference Shares but not exceeding the Deposits outstanding plus the accrued interest thereon. The Group has also given irrevocable undertakings for the banks to release the Deposits and accrued interest under the bank guarantees upon receiving relevant notices from the Preference Shareholders. In view of the various arrangements, the Directors consider it fair and appropriate to deduct the Deposits from the redeemable Preference Shares Contributions in the accounts.

27. Deferred taxation assets/(liabilities)

US$'000	2004	2003
Group		
Deferred taxation assets (note 17)	**15,352**	10,960
Deferred taxation liabilities (note 25)	**(40,166)**	(37,624)
	(24,814)	(26,664)

27. Deferred taxation assets/(liabilities) (Continued)

Deferred taxation assets and liabilities are offset when there is a legal right to set off current taxation assets with current taxation liabilities and when the deferred taxation relates to the same authority. The above assets/(liabilities) shown in the consolidated balance sheet are determined after appropriate offsetting of the relevant amounts and include the following:

US$'000	2004	2003
Deferred taxation assets to be recovered after more than twelve months	**10,178**	4,455
Deferred taxation liabilities to be settled after more than twelve months	**(39,699)**	(37,396)

Deferred taxation is calculated in full on temporary differences under the liability method using applicable tax rates prevailing in the countries in which the Group operates. Movements on the deferred taxation account are as follows:

US$'000	Accelerated depreciation allowances	Revenue expenditure	Tax losses	Pensions	Total
Deferred taxation assets					
At 31st December 2002	93	5,554	3,132	952	9,731
Changes in exchange rates	—	255	8	—	263
Credited/(charged) to profit and loss account	(93)	1,521	740	589	2,757
At 31st December 2003	—	7,330	3,880	1,541	12,751
Changes in exchange rates	—	140	(83)	—	57
Credited/(charged) to profit and loss account	—	5,880	1,112	(333)	6,659
At 31st December 2004	—	13,350	4,909	1,208	19,467

27. Deferred taxation assets/(liabilities) (Continued)

US$'000	Accelerated depreciation allowances	Investment property	Pensions	Total
Deferred taxation liabilities				
At 31st December 2002	12,687	18,836	808	32,331
Changes in exchange rates	2,489	—	89	2,578
Charged/(credited) to profit and loss account	4,095	577	(166)	4,506
At 31st December 2003	19,271	19,413	731	39,415
Changes in exchange rates	1,193	—	59	1,252
Charged/(credited) to profit and loss account	3,319	384	(89)	3,614
At 31st December 2004	23,783	19,797	701	44,281

Deferred taxation assets of US$21.0 million (2003: US$33.2 million) arising from unused tax losses of US$101.2 million (2003: US$164.2 million) have not been recognised in the accounts. Unused tax losses of US$94.8 million (2003: US$162.0 million) have no expiry date and the balance will expire at various dates up to and including 2010.

Deferred taxation liabilities of US$11.5 million (2003: US$7.0 million) on temporary differences associated with investments in subsidiaries of US$133.8 million (2003: US$105.5 million) have not been recognised as there is no current intention of remitting the retained profits of these subsidiaries to the holding companies.

28. Pension and retirement benefits

The Group operates a number of defined benefits and defined contribution pension and retirement schemes in the main countries in which the Group operates. The total charges to the profit and loss account for the year were US$21.2 million (2003: US$16.2 million).

The principal defined contribution schemes are operated in Hong Kong, the USA and Canada. These schemes cover approximately 72% of the Group's employees. Contributions to the defined contribution schemes, all the assets of which are held in trust funds separate from the Group, are based on a percentage of employee salary, depending upon the length of service of the employee, but the Group's contributions to certain schemes may be reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in those contributions. The charges for the defined contribution schemes to the profit and loss account during the year are as follows:

US$'000	2004	2003
Contributions to the schemes	**14,346**	11,332
Forfeitures utilised	**(37)**	(49)
	14,309	11,283

28. Pension and retirement benefits (Continued)

The principal defined benefit schemes are operated in the USA, United Kingdom and Canada. The defined benefit schemes cover approximately 13% of the Group's employees and are fully funded, with the exception of two smaller schemes and certain post retirement benefits. The assets of the funded schemes are held in trust funds separate from the Group. Contributions to these schemes are assessed in accordance with the advice of qualified actuaries in compliance with local practice and regulations. The actuarial assumptions used to calculate the projected benefit obligations of the Group's pension schemes vary according to the economic conditions of the country in which they are situated. Actuary valuations for these schemes are carried out by independent professionally qualified actuaries ranging between two to three years.

The net assets/(liabilities) for the defined benefit schemes are recognised in the balance sheet as follows:

US$'000	2004	2003
Fair value of plan assets	**251,100**	229,844
Present value of funded obligations	**(299,283)**	(263,382)
Net funded obligations	**(48,183)**	(33,538)
Present value of unfunded obligations	**(8,943)**	(5,682)
Unrecognised actuarial losses	**45,059**	31,902
Unrecognised prior service cost	**3,476**	841
Unrecognised other assets	**246**	505
Net pension and retirement liabilities	**(8,345)**	(5,972)
Representing:		
Pension and retirement assets (note 17)	**5,796**	5,145
Pension and retirement liabilities (note 25)	**(14,141)**	(11,117)
	(8,345)	(5,972)

Movements of the net liabilities during the year are as follows:

US$'000	2004	2003
Balance at beginning of year	**(5,972)**	(3,618)
Changes in exchange rates	**(159)**	(352)
Net expense recognised in profit and loss account	**(6,908)**	(4,962)
Contributions paid	**4,694**	2,960
Balance at end of year	**(8,345)**	(5,972)

28. Pension and retirement benefits (Continued)

The charges for the defined benefit schemes are recognised in the profit and loss account as follows:

US$'000	2004	2003
Current service cost	**4,188**	3,536
Interest cost	**15,029**	13,726
Expected return on plan assets	**(14,175)**	(12,956)
Amortisation of past service cost	**390**	185
Net actuarial gain	**602**	353
Loss on curtailments and settlements	**874**	118
Net expense recognised for the year	**6,908**	4,962

The main actuarial assumptions made for the principal defined benefit schemes were as follows:

	2004	2003
Discount rate	**2 to 8%**	1 to 8%
Expected return on plan assets	**1 to 8%**	2 to 8%
Expected future salary increases	**3 to 8%**	3 to 7%
Actual return on plan assets (US$'000)	**16,862**	20,885

29. Share capital

US$'000	2004	2003
Authorised:		
900,000,000 ordinary shares of US$0.10 each	**90,000**	90,000
65,000,000 convertible redeemable preferred shares of US$1 each	**65,000**	65,000
50,000,000 redeemable preferred shares of US$1 each	**50,000**	50,000
	205,000	205,000
Issued and fully paid:		
568,902,998 (2003: 470,184,544) ordinary shares of US$0.10 each	**56,890**	47,018

29. Share capital (Continued)

The Company allotted and issued 47,000,000 new ordinary shares of US$0.10 each under a placing agreement dated 13th February 2004 at an issue price of HK$25.75 per share for cash to be used for working capital and general corporate purposes.

By an ordinary resolution passed on 27th April 2004, the issued share capital was increased by way of a bonus issue by applying US$5,171,845 charging to the share premium account in payment in full at par of 51,718,454 shares of US$0.10 each on the basis of one new share for every ten shares held on 27th April 2004.

All the new shares rank pari passu with the existing shares.

30. Reserves

US$'000	2004	2003
Group		
Share premium	**178,146**	35,073
Capital redemption reserve	**4,696**	4,696
Asset revaluation reserve	**9,948**	9,948
Contributed surplus	**88,547**	88,547
Retained profit	**1,471,182**	925,472
	1,752,519	1,063,736
Company		
Share premium	**178,146**	35,073
Capital redemption reserve	**4,696**	4,696
Contributed surplus	**88,547**	88,547
Retained profit	**153,379**	169,122
	424,768	297,438

The profit attributable to shareholders for the year is dealt with in the accounts of the Company to the extent of US$118.8 million (2003: loss of US$0.5 million).

Under the Companies Act of Bermuda and the Bye-laws of the Company, the contributed surplus is also distributable. Accordingly, total distributable reserves of the Company amount to US$241.9 million (2003: US$257.7 million) as at 31st December 2004.

31. Commitments

Group

(a) Capital commitments

US$'000	2004	2003
Contracted but not provided for	**456,945**	653,597
Authorised but not contracted for	**386,128**	214,770
	843,073	868,367

The commitments include the balance of the purchase cost of six 8,063 TEU and six 4,500 TEU container vessels (2003: ten 8,063 TEU container vessels) to be delivered between 2005 to 2008.

(b) Operating lease commitments

The future aggregate minimum lease rental expense under non-cancellable operating leases are payable in the following years:

US$'000	Vessels and equipment	Land and buildings	Total
As at 31st December 2004			
2005	284,061	43,140	327,201
2006	219,178	36,879	256,057
2007	178,381	35,411	213,792
2008	166,108	34,254	200,362
2009	140,958	32,488	173,446
2010 onwards	860,081	381,104	1,241,185
	1,848,767	563,276	2,412,043
As at 31st December 2003			
2004	219,425	41,487	260,912
2005	174,986	36,280	211,266
2006	165,582	31,653	197,235
2007	159,902	31,062	190,964
2008	161,857	30,060	191,917
2009 onwards	995,849	413,386	1,409,235
	1,877,601	583,928	2,461,529

31. Commitments (Continued)

(c) Operating lease rental receivable

The future aggregate minimum lease rental income on land and buildings under non-cancellable operating leases are receivable in the following years:

US$'000	2004	2003
2004	—	19,328
2005	19,934	19,718
2006	19,673	18,714
2007	18,458	17,195
2008	17,547	16,073
2009	14,794	13,034
2010 onwards	34,270	21,511
	124,676	125,573

32. Contingent liabilities

Group

Guarantees in respect of loan facilities given for:

	Facilities		Utilised	
US$'000	2004	2003	2004	2003
Hui Xian (note 15)	28,000	22,000	28,000	22,000

32. Contingent liabilities (Continued)

Company

(a) Guarantees in respect of loans, finance lease obligations and bank overdraft facilities given for:

	Facilities		Utilised	
US$'000	2004	2003	2004	2003
Subsidiaries	**1,338,441**	1,052,136	**1,197,037**	965,697
Hui Xian (note 15)	**28,000**	22,000	**28,000**	22,000
	1,366,441	1,074,136	**1,225,037**	987,697

(b) The Company has given guarantees for its subsidiaries in respect of future payment of operating lease rentals amounting to US$216.8 million (2003: US$246.3 million).

33. Financial instruments

	Contract amount		Fair value	
US$'000	2004	2003	2004	2003
Interest rate swap agreements	**239,297**	100,000	**9,154**	1,588
Forward foreign exchange contracts	**218**	1,894	**—**	(41)
	239,515	101,894	**9,154**	1,547

The Group manages its exposure to fluctuations of foreign currencies, interest rates and bunker prices through a comprehensive set of procedures, policies and limits approved by the Committees of the Board of Directors. The Group does not engage in any transactions for speculative or dealing purposes. The above financial instruments arise from future, forward, swap and option transactions undertaken by the Group to hedge against assets, liabilities or positions.

The notional or contractual amounts of these instruments indicate the volume of these transactions outstanding at the balance sheet date and they do not represent amounts at risk. The exposure to credit risk is limited to the settlement amount owing by counterparties, which are reputable financial institutions.

The fair value of contracts represents the mark to market value of all contracts, which is estimated by reference to indicative market rates for these contracts, at the balance sheet date. The majority of the results relating to the unexpired contracts are recognised with the underlying transactions. In accordance with the Group's accounting policies, any unrealised gains or losses on open exchange contracts at the balance sheet date is dealt with in the profit and loss account.

34. Notes to consolidated cash flow statement

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

US$'000	2004	2003
Operating profit before financing	**698,863**	359,384
Depreciation	**145,298**	114,740
Profit on disposal of property, plant and equipment	**(1,768)**	(1,914)
Long-term investment income	**(49)**	(2)
Profit on disposal of long-term investments	**(1,862)**	(17)
Profit on disposal of a jointly controlled entity	**(770)**	—
Intangible assets written off	**42**	—
Amortisation of intangible assets	**8,996**	11,752
Increase in net pension liabilities	**2,373**	2,354
Operating profit before working capital changes	**851,123**	486,297
Increase in properties under development and for sale	**(18,365)**	(12,611)
Increase in debtors and prepayments	**(51,482)**	(54,691)
Increase in creditors and accruals	**65,816**	101,701
Cash generated from operations	**847,092**	520,696

34. Notes to consolidated cash flow statement (Continued)

(b) Analysis of changes in financing

US$'000	Share capital and premium	Capital redemption reserve and contributed surplus	Minority interests	Loans and finance lease obligations	Total
At 31st December 2002	86,787	148,286	7,988	865,190	1,108,251
Changes in exchange rates	—	—	—	7,735	7,735
Inception of finance leases	—	—	—	189,516	189,516
Repurchase of own shares	(4,696)	(55,043)	—	—	(59,739)
Minority interests' share of profit	—	—	117	—	117
Dividends paid to minority interests	—	—	(255)	—	(255)
Net cash inflow from financing	—	—	—	20,671	20,671
At 31st December 2003	82,091	93,243	7,850	1,083,112	1,266,296
Changes in exchange rates	—	—	—	2,707	2,707
Inception of finance leases	—	—	—	372,445	372,445
Issue of new shares	152,945	—	—	—	152,945
Minority interests' share of profit	—	—	149	—	149
Dividends paid to minority interests	—	—	(191)	—	(191)
Net cash outflow from financing	—	—	—	(53,385)	(53,385)
At 31st December 2004	235,036	93,243	7,808	1,404,879	1,740,966

The loans above include those loans repayable more than three months from the date of advance.

(c) Analysis of cash and cash equivalents

US$'000	2004	2003
Bank balances and deposits maturing within three months from the date of placement	**744,433**	551,703
Portfolio investments	**249,834**	108,165
Overdrafts and bank loans repayable within three months from the date of advance	**(85)**	(15,050)
	994,182	644,818

35. Approval of accounts

The accounts were approved by the Board of Directors on 10th March 2005.