# Notes to the Consolidated Accounts

## 1. General information

Orient Overseas (International) Limited ("the Company") is a limited liability company incorporated in Bermuda. The address of its registered office is 33rd floor, Harbour Centre, No. 25 Harbour Road, Wanchai, Hong Kong.

The Company has its listing on the Main Board of The Stock Exchange of Hong Kong Limited.

On 23rd November 2006, the Group announced that it had entered into a Stock Purchase Agreement dated 21st November 2006 with 0775150 B.C. Ltd and 2119601 Ontario Limited, being newly-formed subsidiaries of Ontario Teachers' Pension Plan Board to sell its 100% interest in TSI Holding S.A., Consolidated (Terminal Holdings) Limited and Global Terminal & Container Services Inc (collectively referred to as the "Disposal Group") for a gross consideration of US$2.35 billion, receivable in cash. After transaction costs and tax, the post-tax gain arising on the disposal is estimated at US$1.96 billion, which will be recognised in the consolidated profit and loss account upon completion of the sale in 2007.

An analysis of the results, cash flows and assets and liabilities of the Disposal Group is presented in note 16.

## 2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated accounts are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

### 2.1 Basis of preparation

The consolidated accounts have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated accounts have been prepared under the historical cost convention, as modified by the revaluation of investment properties, certain plant and equipment, available-for-sale financial assets, and financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of accounts in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated accounts, are disclosed in note 4.

**The adoption of new/revised HKFRS**

In 2006, the Group adopted the amendments and interpretation of HKFRS below, which are relevant to its operations.

| | |
|---|---|
| HKAS 19 (Amendment) | Actuarial Gains and Losses, Group Plans and Disclosures |
| HKAS 21 (Amendment) | Net Investment in a Foreign Operation |
| HKAS 39 (Amendment) | Cash Flow Hedge Accounting of Forecast Intragroup Transactions |
| HKAS 39 (Amendment) | The Fair Value Option |
| HKAS 39 and HKFRS 4 (Amendment) | Financial Guarantee Contracts |
| HK(IFRIC) – Int 4 | Determining whether an Arrangement contains a Lease |

The Group has assessed the impact of the adoption of these amendments and interpretation and considered that there was no significant impact on the Group's results and financial position nor any substantial changes in the Group's accounting policies, where the adoption of HKAS 19 (Amendment) impacts the format and extent of disclosures presented in the consolidated accounts.

## 2. Summary of significant accounting policies (Continued)

### 2.1 Basis of preparation (Continued)

**Standards, interpretations and amendments to existing standards that are not yet effective**

Certain new standards, amendments and interpretations to existing standards have been published which are relevant to the Group's operations and accounts and are mandatory for the Group's accounting periods beginning on or after 1st January 2007 or later periods as follows :

**Effective from 1st January 2007**

| | |
|---|---|
| HKAS 1 (Amendment) | Presentation of Financial Statements : Capital Disclosures |
| HK (IFRIC) – Int 8 | Scope of HKFRS 2 |
| HK (IFRIC) – Int 9 | Reassessment of Embedded Derivatives |
| HK (IFRIC) – Int 10 | Interim Reporting and Impairment |
| HK (IFRIC) – Int 11 | HKFRS 2 - Group and Treasury Share Transactions |
| HKFRS 7 | Financial Instruments: Disclosures |

**Effective from 1st January 2009**

| | |
|---|---|
| HKFRS 8 | Operating Segments |

The Group has not early adopted the above standards, amendments and interpretations and is not yet in a position to state whether substantial changes to the Group's accounting policies and presentation of the accounts will be resulted.

### 2.2 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 and associated companies.

**(a) Subsidiaries**

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated profit and loss account.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

## 2. Summary of significant accounting policies (Continued)

### 2.2 Consolidation (Continued)

**(a) Subsidiaries** (Continued)

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

**(b) 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.

**(c) Associated companies**

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associated companies includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associated companies' post-acquisition profits or losses is recognised in the consolidated profit and loss account, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

### 2.3 Property, plant and equipment

All property, plant and equipment are stated at historical cost or valuation less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

No depreciation is provided for vessels under construction and freehold land.

## 2. Summary of significant accounting policies (Continued)

### 2.3 Property, plant and equipment (Continued)

Depreciation of other property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over their estimated useful lives, 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 |
| Leasehold buildings | Over period of the lease |
| Vehicles, furniture, computer and other equipment | 3 to 15 years |

The residual values of the assets and their useful lives are reviewed and adjusted if appropriate, at each balance sheet date.

The carrying amount of an asset is written down immediately to its recoverable amount if the carrying amount of the asset is greater than its estimated recoverable amount.

Gains and losses on disposals 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.

### 2.4 Investment properties

Property that is held for long-tem rental yields or for capital appreciation or both, and that is not occupied by the companies in the Group, is classified as investment property. Investment property comprises freehold land, land held under operating leases and buildings held under finance leases. Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Fair value is based on valuation carried out annually by Directors or independent external valuers. Changes in fair values are recognised in the profit and loss account.

Investment property held for sale without redevelopment is classified within non-current assets held for sale, under HKFRS 5.

### 2.5 Vessel repairs and surveys

Upon acquisition of a vessel, the components of the vessel which are required to be replaced at the next dry-docking are identified and their costs are depreciated over the period to the next estimated dry-docking date, usually ranging from three to five years. Costs incurred on subsequent dry-docking of vessels are capitalised and depreciated over the period to the next estimated dry-docking date. When significant dry-docking costs incurred prior to the expiry of the depreciation period, the remaining costs of the previous dry-docking are written off immediately.

## 2. Summary of significant accounting policies (Continued)

### 2.6 Intangible assets

**(a) Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary company, associated company or jointly controlled entity at the effective date of acquisition and, in respect of an increase in holding in a subsidiary company, the excess of the cost of acquisition and the carrying amount of the proportion of the minority interests acquired. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies or jointly controlled entities is included in investments in associated companies or jointly controlled entities. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

**(b) Computer software**

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are stated at cost less accumulated amortisation. Amortisation is calculated on the straight-line basis over their estimated useful life of five years.

### 2.7 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value of an asset less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

### 2.8 Investments

The Group classifies its investments in the following categories: portfolio investments, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

**(a) Portfolio investments**

Portfolio investments include financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

## 2. Summary of significant accounting policies (Continued)

### 2.8 Investments (Continued)

**(b) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

**(c) Available-for-sale financial assets**

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and portfolio investments are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Realised and unrealised gains and losses arising from changes in the fair value of the portfolio investments are included in the profit and loss account in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the profit and loss account as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit and loss account is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account.

### 2.9 Properties under development and for sale

The cost of acquiring land held under operating leases is amortised on a straight-line basis over the lease term. If the property is in the course of development or re-development, the amortisation charge is included as part of the costs of the property under development. In all other cases the amortisation charge for the period is recognised in the profit and loss account immediately. In all other respects, inventories in respect of property development activities are carried at the lower of cost and net realisable value.

## 2. Summary of significant accounting policies (Continued)

### 2.10 Inventories

Inventories mainly comprise bunkers and consumable stores. Inventories are stated at the lower of cost and net realisable value. Cost is calculated on first-in first-out basis. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

### 2.11 Debtors

Debtors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of debtors is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

### 2.12 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks with original maturities of three months or less and net of bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

### 2.13 Share capital

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs, net of income taxes, is deducted from equity attributable to the equity holders of the Company and all the shares are cancelled.

### 2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds net of transaction costs and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the profit and loss account as finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

### 2.15 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 consolidated accounts. However, if the deferred taxation arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred taxation is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred taxation asset is realised or the deferred taxation liability is settled.

## 2. Summary of significant accounting policies (Continued)

### 2.15 Deferred taxation (Continued)

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

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

### 2.16 Employee benefits

**(a) Pension obligations**

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

For defined benefit pension plans, 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 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.

Contributions under the defined contribution schemes are recognised as employee benefit expense when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

**(b) Other post-employment obligations**

Some Group companies provide post-retirement healthcare benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions, are recognised in the profit and loss account over the expected average remaining working lives of the related employees. These obligations are valued annually by independent qualified actuaries.

**(c) Bonus plans**

The Group recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

## 2. Summary of significant accounting policies (Continued)

### 2.17 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

### 2.18 Insurance contracts

The Group assesses at each balance sheet date the liabilities under its insurance contracts using current estimates of future cash flows. Changes in carrying amount of these insurance liabilities are recognised in the profit and loss account. The Group regards its financial guarantees provided to its subsidiaries and an investee company as insurance contracts.

### 2.19 Assets held for sale

The disposal group is classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

### 2.20 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. A discontinued segment is separately presented from continuing segments.

### 2.21 Foreign currency translation

**(a) Functional and presentation currency**

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated accounts are presented in US dollars, which is the Company's functional and presentation currency.

**(b) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

## 2. Summary of significant accounting policies (Continued)

### 2.21 Foreign currency translation (Continued)

**(c) Group companies**

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

### 2.22 Revenue recognition

Revenue comprises the fair value for the sale of services, net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(a) 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.

(b) Revenues from the operation of container terminals and provision of other services are recognised when services are rendered or on an accrual basis.

(c) Rental income under operating leases is recognised over the periods of the respective leases on a straight-line basis.

(d) Sales of properties are recognised when the risk and rewards of the property have been passed to the customers.

(e) Interest income is recognised on a time-proportion basis using the effective interest method.

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

## 2. Summary of significant accounting policies (Continued)

### 2.23 Leases

#### (a) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the profit and loss account on a straight-line basis over the period of the lease.

The up-front prepayments made for the leasehold land and land use rights are expensed in the profit and loss account on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the profit and loss account.

#### (b) Finance lease

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased assets and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is recognised in the profit and loss account over the lease period so as to produce a constant periodic rate of interest on the remaining balances of the liability for each period.

### 2.24 Borrowing costs

Borrowing costs are expensed in the profit and loss account in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying assets commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

### 2.25 Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Changes in fair value are recognised in the profit and loss account.

### 2.26 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's accounts in the period in which the dividends are approved by the Company's shareholders.

## 3. Financial risk management

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

**(a) Market risk**

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to fluctuation in the exchange rate of foreign currencies to the US dollar. Foreign currency exposures are covered by forward contracts and options whenever appropriate.

(ii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified either as available-for-sale financial assets or as portfolio investments. The Group is not exposed to commodity price risk.

**(b) Credit risk**

The Group has no significant concentrations of credit risk. It has policies in place to ensure that services are provided to customers with an appropriate credit history. Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions.

The extent of the Group's credit exposure is represented by the aggregate balance of cash and bank balances, portfolio investments, derivative financial instruments, restricted bank balances and other deposits, debtors and prepayments, advance to an investee company, amounts receivable from jointly controlled entities and the corporate guarantee in respect of bank loan facilities extended to an investee company.

**(c) Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group aims to maintain flexibility in funding by keeping sufficient cash and cash equivalents.

**(d) Cash flow and fair value interest rate risk**

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has a policy to place surplus funds with creditable financial institutions which offer the best return for the Group on a short-term basis.

There are no material fixed rate receivable and borrowings in the Group.

The Group is exposed to cash flow interest rate risk through the impact of rate changes on interest bearing borrowings. These exposures are managed through the use of derivative financial instruments such as interest rate swap.

## 3. Financial risk management (Continued)

### 3.2 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

Unlisted investments have been valued by reference to the market prices of the underlying investments or by reference to the current market value of similar investments or by reference to the discounted cash flows of the underlying net assets.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of foreign exchange forward contracts is determined using forward exchange market rates at the balance sheet date.

The fair values of debtors, cash and cash equivalents, creditors and accruals, current borrowings and balances with subsidiaries, jointly controlled entities and advances to an investee company are assumed to approximate their carrying amount due to the short-term maturities of these assets and liabilities.

The fair values of long-term borrowings are estimated using the expected future payments discounted at market interest rates.

## 4. Critical accounting estimates and judgements

Estimates and judgements used in preparing the accounts are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### (a) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Recognition of deferred tax assets, which principally relate to tax losses, depends on the management's expectation of future taxable profit that will be available against which tax losses can be utilised. The outcome of their actual utilisation may be different.

### (b) Investment property

The fair values of investment properties are determined by independent valuers on an open market for existing use basis. In making the judgement, consideration has been given to assumptions that are mainly based on market conditions existing at the balance sheet date and appropriate capitalisation rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

## 4. Critical accounting estimates and judgements (Continued)

### (c) Pension

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost or income for pensions include the expected long-term rate of return on the relevant plans assets and the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The expected return on plan assets assumptions is determined on an uniform basis, taking into consideration long-term historical returns, asset allocation and future estimates of long-term investment returns.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximately the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions.

### (d) Property, plant and equipment and intangible assets

Management determines the estimated useful lives and residual values for the Group's property, plant and equipment and intangible assets. Management will revise the depreciation charge where useful lives and residual values are different to previously estimated, or it will write off or write down technically obsolete or non-strategy assets that have been abandoned or sold.

### (e) Provision of operating cost

Operating costs, which mainly comprise cargo, vessel and voyage costs, equipment repositioning cost and terminal operating cost. Invoices in relation to these expenses are received approximately up to six months after the expenses have been incurred. Consequently, recognition of operating costs is based on the rendering of services as well as the latest tariff agreed with vendors.

If the actual expenses of a voyage differ from the estimated expenses, this will have an impact on operating cost in future periods. Historically, the Group has not experienced significant deviation from the actual expenses.

## 5. Turnover and segment information

### (a) Turnover

| US$'000 | 2006 | 2005 |
|---|---|---|
| Container transport and logistics | **4,580,186** | 4,322,618 |
| Property investment and development | **29,565** | 23,029 |
| | **4,609,751** | 4,345,647 |

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

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

### (b) Segment reporting

The principal activities of the Group are container transport and logistics and property investment and development. Container transport and logistics include global containerised shipping services in major trade lanes, covering Trans-Pacific, Transatlantic, Asia/Europe, Asia/Australia and Intra-Asia trades, and integrated services over the management and control of effective storage and flow of goods. In accordance with the Group's internal financial reporting and operating activities, the primary segment reporting is by business segments and the secondary segment reporting is by geographical segments.

For the geographical segment reporting, freight revenues from container transport and logistics are analysed based on the outbound cargoes of each geographical territory. The Directors consider that the nature of the container transport and logistics activities, which cover the world's major shipping lanes, and the way in which costs are allocated precludes a meaningful allocation of operating profit to specific geographical segments. Accordingly, geographical segment results for container transport and logistics business are not presented.

Unallocated assets under business segment reporting primarily include portfolio investments, derivative financial instruments, deferred taxation assets, tax recoverable, restricted bank balances and cash and bank balances. While unallocated segment liabilities include borrowings, derivative financial instruments, current and deferred taxation liabilities.

## 5. Turnover and segment information (Continued)

### (b) Segment reporting (Continued)

**Primary reporting – business segment**

The segment results for the year ended 31st December 2006 are as follows:

| US$'000 | Continuing operations: Container transport and logistics | Continuing operations: Property investment and development | Continuing operations: Unallocated | Continuing operations: Elimination | Continuing operations: Sub-total | Discontinued operation: Terminal | Elimination | Group |
|---|---|---|---|---|---|---|---|---|
| **Turnover** | 4,580,186 | 30,413 | — | (848) | 4,609,751 | 500,402 | (53,520) | 5,056,633 |
| Operating profit | 453,668 | 110,666 | 57,030 | — | 621,364 | 87,402 | — | 708,766 |
| Finance costs (note 12) | | | | | (71,721) | (7,085) | | (78,806) |
| Share of profits less losses of jointly controlled entities (note 21) | | | | | 4,346 | — | | 4,346 |
| Share of losses of associated companies (note 22) | | | | | (771) | — | | (771) |
| **Profit before taxation** | | | | | 553,218 | 80,317 | | 633,535 |
| Taxation | | | | | (24,883) | (27,512) | | (52,395) |
| **Profit for the year** | | | | | 528,335 | 52,805 | | 581,140 |
| Capital expenditure | 581,689 | 152 | — | — | 581,841 | 51,287 | — | 633,128 |
| Depreciation | 150,028 | 75 | — | — | 150,103 | 28,658 | — | 178,761 |
| Amortisation | 3,034 | 1,328 | — | — | 4,362 | 925 | — | 5,287 |

## 5. Turnover and segment information (Continued)

### (b) Segment reporting (Continued)

**Primary reporting – business segment** (Continued)

The segment results for the year ended 31st December 2005 are as follows:

| | Continuing operations | | | | | Discontinued operation | | |
|---|---|---|---|---|---|---|---|---|
| US$'000 | Container transport and logistics | Property investment and development | Unallocated | Elimination | Sub-total | Terminal | Elimination | Group |
| **Turnover** | 4,322,618 | 23,932 | — | (903) | 4,345,647 | 393,117 | (42,523) | 4,696,241 |
| Operating profit | 654,791 | 8,271 | 30,501 | — | 693,563 | 51,363 | — | 744,926 |
| Finance costs (note 12) | | | | | (55,744) | (5,915) | | (61,659) |
| Share of profits less losses of jointly controlled entities (note 21) | | | | | 6,950 | — | | 6,950 |
| Share of loss of an associated company (note 22) | | | | | (84) | — | | (84) |
| **Profit before taxation** | | | | | 644,685 | 45,448 | | 690,133 |
| Taxation | | | | | (29,487) | (9,355) | | (38,842) |
| **Profit for the year** | | | | | 615,198 | 36,093 | | 651,291 |
| Capital expenditure | 576,440 | 71 | — | — | 576,511 | 58,983 | — | 635,494 |
| Depreciation | 132,458 | 57 | — | — | 132,515 | 24,787 | — | 157,302 |
| Amortisation | 4,529 | 1,058 | — | — | 5,587 | 1,234 | — | 6,821 |

Inter-segment transfers or transactions are conducted at prices and terms mutually agreed amongst those business segments.

## 5. Turnover and segment information (Continued)

### (b) Segment reporting (Continued)

**Primary reporting – business segment** (Continued)

The segment assets and liabilities at 31st December 2006 are as follows:

| US$'000 | Container transport and logistics | Property investment and development | Unallocated | Group |
|---|---|---|---|---|
| **Segment assets** | | | | |
| Property, plant and equipment | 2,776,703 | 301 | — | 2,777,004 |
| Jointly controlled entities | 3,391 | 18,457 | — | 21,848 |
| Associated companies | 41,820 | — | — | 41,820 |
| Assets held for sale (note 16) | — | — | 406,232 | 406,232 |
| Other assets | 462,716 | 685,553 | 1,204,830 | 2,353,099 |
| Total assets | 3,284,630 | 704,311 | 1,611,062 | 5,600,003 |
| **Segment liabilities** | | | | |
| Creditors and accruals | (544,002) | (15,330) | (1,203) | (560,535) |
| Liabilities directly associated with assets classified as held for sale (note 16) | — | — | (178,992) | (178,992) |
| Other liabilities | (10,305) | — | (2,110,138) | (2,120,443) |
| Total liabilities | (554,307) | (15,330) | (2,290,333) | (2,859,970) |

## 5. Turnover and segment information (Continued)

### (b) Segment reporting (Continued)

**Primary reporting – business segment** (Continued)

The segment assets and liabilities at 31st December 2005 are as follows:

| US$'000 | Container transport and logistics | Terminal | Property investment and development | Unallocated | Group |
|---|---|---|---|---|---|
| **Segment assets** | | | | | |
| Property, plant and equipment | 2,293,813 | 300,009 | 124 | — | 2,593,946 |
| Jointly controlled entities | 4,429 | — | 15,428 | — | 19,857 |
| Associated company | 7,916 | — | — | — | 7,916 |
| Other assets | 380,232 | 74,363 | 411,315 | 1,327,287 | 2,193,197 |
| Total assets | 2,686,390 | 374,372 | 426,867 | 1,327,287 | 4,814,916 |
| **Segment liabilities** | | | | | |
| Creditors and accruals | (530,930) | (55,160) | (14,510) | (2,445) | (603,045) |
| Other liabilities | (11,352) | (3,728) | — | (1,904,332) | (1,919,412) |
| Total liabilities | (542,282) | (58,888) | (14,510) | (1,906,777) | (2,522,457) |

## 5. Turnover and segment information (Continued)

### (b) Segment reporting (Continued)

**Secondary reporting – geographical segment**

The Group's two business segments operate in four main geographical areas, even though they are managed on a worldwide basis.

| US$'000 | Turnover | Operating profit/(loss) | Capital expenditure |
|---|---|---|---|
| Year ended 31st December 2006 | | | |
| Asia | 3,094,351 | (3,170) | 28,145 |
| North America | 744,591 | 110,400 | 28,750 |
| Europe | 689,043 | — | 1,288 |
| Australia | 81,766 | — | 225 |
| Unallocated* | — | 514,134 | 523,433 |
| | 4,609,751 | 621,364 | 581,841 |
| Discontinued operation | 500,402 | 87,402 | 51,287 |
| Elimination | (53,520) | — | — |
| | 5,056,633 | 708,766 | 633,128 |
| Year ended 31st December 2005 | | | |
| Asia | 3,023,294 | 468 | 39,333 |
| North America | 693,177 | 15,545 | 31,905 |
| Europe | 556,054 | — | 751 |
| Australia | 73,122 | — | 337 |
| Unallocated* | — | 677,550 | 504,185 |
| | 4,345,647 | 693,563 | 576,511 |
| Discontinued operation | 393,117 | 51,363 | 58,983 |
| Elimination | (42,523) | — | — |
| | 4,696,241 | 744,926 | 635,494 |

## 5. Turnover and segment information (Continued)

### (b) Segment reporting (Continued)

**Secondary reporting – geographical segment** (Continued)

| US$'000 | 2006 | 2005 |
|---|---|---|
| **Total assets** | | |
| Asia | **656,040** | 379,907 |
| North America | **322,090** | 540,467 |
| Europe | **28,546** | 21,262 |
| Australia | **823** | 627 |
| Unallocated* | **4,186,272** | 3,872,653 |
| | **5,193,771** | 4,814,916 |
| Assets held for sale | **406,232** | — |
| | **5,600,003** | 4,814,916 |

* Operating profit comprises results from container transport and logistics and investment activities. Whereas total assets mainly comprise vessels, containers, intangible assets, portfolio investments, derivative financial instruments, inventories, deferred taxation assets, tax recoverable, restricted bank balances and cash and bank balances while capital expenditure mainly comprises additions to vessels, containers and intangible assets.

## 6. Operating costs

| US$'000 | 2006 | 2005 |
|---|---|---|
| Cargo | **1,912,134** | 1,732,272 |
| Vessel and voyage | **1,200,279** | 965,406 |
| Equipment and repositioning | **591,643** | 537,912 |
| Property management and development | **14,722** | 10,443 |
| | **3,718,778** | 3,246,033 |

## 7. Other operating income

| US$'000 | 2006 | 2005 |
|---|---|---|
| Income from available-for-sale financial assets | | |
| - profit on disposal | 16 | 18 |
| - dividend income | 17 | 18 |
| Interest income from banks | 40,431 | 29,155 |
| Portfolio investment income | | |
| - fair value gain (realised and unrealised) | 25,471 | 10,344 |
| - interest income | 2,678 | 2,722 |
| - dividend income | 1,458 | 1,277 |
| Gain on foreign exchange forward contracts | 8,103 | — |
| Gain on interest rate swap contracts | — | 5,152 |
| Profit on disposal of property, plant and equipment | 11,644 | 8,709 |
| Exchange gain | 6,810 | 13,287 |
| Others | 6,310 | 4,662 |
| | 102,938 | 75,344 |

The investment income from listed and unlisted investments for the year are US$3.3 million (2005: US$2.7 million) and US$0.8 million (2005: US$1.3 million), respectively.

## 8. Other operating expenses

| US$'000 | 2006 | 2005 |
|---|---|---|
| Business and administrative | 459,557 | 464,958 |
| Corporate | 11,920 | 11,845 |
| Loss on interest rate swap contracts | 1,070 | — |
| Loss on foreign exchange forward contracts | — | 4,592 |
| | 472,547 | 481,395 |

## 9. Employee benefit expense

| US$'000 | 2006 | 2005 |
|---|---|---|
| Wages and salaries | | |
| - General and administrative staff | **352,244** | 370,982 |
| - Terminal workers | **244,906** | 199,760 |
| - Crew and seamen | **28,709** | 25,696 |
| | **625,859** | 596,438 |
| Pension and retirement benefits | | |
| - Defined contribution plans (note 25) | **16,226** | 15,296 |
| - Defined benefit plans (note 25) | **6,812** | 7,410 |
| | **648,897** | 619,144 |
| Representing : | | |
| Continuing operations | **374,103** | 393,166 |
| Discontinued operation | **274,794** | 225,978 |
| | **648,897** | 619,144 |

Employee benefit expenses of US$64.9 million (2005: US$68.7 million) are included in operating costs in the profit and loss account.

## 10. Directors' and management's emoluments

### (a) Directors' emoluments

The remuneration of every Director is set out below:

| Name of Director US$'000 | Fees | Salary | Discretionary bonuses | Other benefits | Employer's contribution to provident fund scheme | Total |
|---|---|---|---|---|---|---|
| For the year ended 31st December 2006 | | | | | | |
| Mr C C Tung | 106 | 539 | 976 | — | 152 | 1,773 |
| Mr Tsann Rong Chang | — | 64 | — | — | — | 64 |
| Mr Roger King | — | 54 | — | — | 5 | 59 |
| Mr Nicholas D Sims | 115 | 139 | 704 | 114 | 80 | 1,152 |
| Mr Philip Chow | — | 468 | 2,336 | — | 258 | 3,062 |
| Mr Alan Tung | — | 238 | 115 | — | 35 | 388 |
| Mr Simon Murray | 19 | — | — | — | — | 19 |
| Dr Victor K Fung | 32 | — | — | — | — | 32 |
| Prof Richard Wong | 26 | — | — | — | — | 26 |

The discretionary bonuses paid in 2006 were in relation to performance for year 2005.

## 10. Directors' and management's emoluments (Continued)

### (a) Directors' emoluments (Continued)

| Name of Director US$'000 | Fees | Salary | Discretionary bonuses | Other benefits | Employer's contribution to provident fund scheme | Total |
|---|---|---|---|---|---|---|
| For the year ended 31st December 2005 | | | | | | |
| Mr C C Tung | 106 | 539 | 995 | — | 154 | 1,794 |
| Mr Tsann Rong Chang | — | 64 | — | — | — | 64 |
| Mr Roger King | — | 54 | — | — | 5 | 59 |
| Mr Nicholas D Sims | 115 | 136 | 697 | 108 | 53 | 1,109 |
| Mr Philip Chow | — | 456 | 2,396 | — | 285 | 3,137 |
| Mr Alan Tung | — | 160 | — | — | 16 | 176 |
| Mr Simon Murray | 19 | — | — | — | — | 19 |
| Dr Victor K Fung | 32 | — | — | — | — | 32 |
| Prof Richard Wong | 26 | — | — | — | — | 26 |

The discretionary bonuses paid in 2005 were in relation to performance for year 2004.

None of the Directors has waived the right to receive their emoluments.

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2005: two) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2005: three) individuals are as follows:

| US$'000 | 2006 | 2005 |
|---|---|---|
| Basic salaries, housing allowances, other allowances and benefits in kind | **967** | 921 |
| Discretionary bonuses | **3,737** | 3,834 |
| Pension costs - defined contribution plans | **360** | 475 |
| | **5,064** | 5,230 |

## 10. Directors' and management's emoluments (Continued)

### (b) Five highest paid individuals (Continued)

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

| | | Number of individuals | |
|---|---|---|---|
| Emolument bands (US$) | | 2006 | 2005 |
| 1,474,301 ~ 1,538,400 | (HK$11,500,001 ~ HK$12,000,000) | 1 | — |
| 1,602,501 ~ 1,666,600 | (HK$12,500,001 ~ HK$13,000,000) | 1 | 2 |
| 1,730,701 ~ 1,794,900 | (HK$13,500,001 ~ HK$14,000,000) | 1 | 1 |
| 1,923,001 ~ 1,987,100 | (HK$15,000,001 ~ HK$15,500,000) | 1 | 1 |
| 3,012,801 ~ 3,076,900 | (HK$23,500,001 ~ HK$24,000,000) | 1 | — |
| 3,076,901 ~ 3,141,000 | (HK$24,000,001 ~ HK$24,500,000) | — | 1 |
| | | 5 | 5 |

### (c) Key management compensation

| US$'000 | 2006 | 2005 |
|---|---|---|
| Salaries and other short-term employee benefits | 13,771 | 11,792 |
| Pension costs - defined contribution plans | 1,207 | 1,109 |
| | 14,978 | 12,901 |

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.

## 11. Operating profit

| US$'000 | 2006 Continuing operations | 2006 Discontinued operation | 2005 Continuing operations | 2005 Discontinued operation |
|---|---|---|---|---|
| Operating profit is arrived at after crediting : | | | | |
| Operating lease rental income | | | | |
| Land and buildings | **23,740** | **—** | 21,974 | — |
| and after charging: | | | | |
| Depreciation | | | | |
| Owned assets | **117,151** | **19,348** | 105,367 | 12,046 |
| Leased assets | **32,952** | **9,310** | 29,821 | 10,068 |
| Operating lease rental expense | | | | |
| Vessels and equipment | **431,399** | **1** | 405,442 | — |
| Land and buildings | **22,450** | **29,286** | 21,036 | 26,437 |
| Rental outgoings in respect of an investment property | **13,546** | **—** | 14,223 | — |
| Amortisation of intangible assets | **2,743** | **507** | 4,307 | 953 |
| Amortisation of prepayments of lease premiums | **1,619** | **418** | 1,280 | 281 |
| Less: Amount capitalised under properties under development and for sale | **(1,327)** | **—** | (1,057) | — |
| | **292** | **418** | 223 | 281 |
| Auditors' remuneration | | | | |
| Audit | **2,316** | **261** | 2,081 | 246 |
| Non-audit | **1,250** | **254** | 1,443 | 116 |

Operating lease rental expenses of US$428.4 million and US$25.4 million (2005: US$403.2 million and US$23.2 million) respectively were included in operating costs and other operating expenses in the profit and loss account.

## 12. Finance costs

| US$'000 | 2006 | 2005 |
|---|---|---|
| Interest expense | | |
| Bank loans, overdrafts and other loans | | |
| Wholly repayable within five years | **20,623** | 16,697 |
| Not wholly repayable within five years | **14,603** | 12,743 |
| Loans from minority interests | | |
| Wholly repayable within five years | **198** | — |
| Not wholly repayable within five years | **60** | — |
| Finance lease obligations | | |
| Wholly payable within five years | **4,502** | 5,391 |
| Not wholly payable within five years | **43,682** | 22,288 |
| | **83,668** | 57,119 |
| Amount capitalised under assets | **(16,909)** | (6,977) |
| Net interest expense | **66,759** | 50,142 |
| Dividend on preference shares | **4,962** | 5,602 |
| | **71,721** | 55,744 |

The borrowing cost of the loans to finance the vessels under construction (note 17) and properties under development and for sale (note 29) represents an average capitalisation rate of approximately 4.9% (2005: 3.9%).

## 13. Taxation

| US$'000 | 2006 | 2005 |
|---|---|---|
| Current taxation | | |
| Hong Kong profits tax | **2,572** | 1,026 |
| Overseas taxation | **12,814** | 14,277 |
| | **15,386** | 15,303 |
| Deferred taxation | | |
| Hong Kong profits tax | **—** | 1,866 |
| Overseas taxation | **9,497** | 12,318 |
| | **24,883** | 29,487 |

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 7% to 52% (2005: 3% to 52%) and the rate applicable for Hong Kong profits tax is 17.5% (2005: 17.5%).

## 13. 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 | 2006 | 2005 |
|---|---|---|
| Profit before taxation | **553,218** | 644,685 |
| Share of profits less losses of jointly controlled entities | **(4,346)** | (6,950) |
| Share of losses of associated companies | **771** | 84 |
| | **549,643** | 637,819 |
| Tax calculated at applicable tax rates | **153,218** | 138,797 |
| Income not subject to tax | **(154,727)** | (119,943) |
| Expenses not deductible for tax purposes | **27,641** | 18,062 |
| Tax losses not recognised | **2,169** | 2,193 |
| Temporary differences not recognised | **480** | (2,580) |
| Utilisation of previously unrecognised tax losses | **(2,492)** | (4,434) |
| Utilisation of previously unrecognised temporary differences | **(2,272)** | (2,761) |
| Recognition of previously unrecognised temporary differences | **—** | 11 |
| Change in tax rates | **—** | (131) |
| Withholding tax | **1,183** | 198 |
| Other items | **(317)** | 75 |
| | **24,883** | 29,487 |

## 14. Earnings per ordinary share

The calculation of basic and diluted earnings per ordinary share is based on the Group's profit attributable to equity holders divided by the number of ordinary shares in issue during the year.

The basic and diluted earnings per ordinary share are the same since there are no potential dilutive shares.

| | **2006** | 2005 |
|---|---|---|
| Number of ordinary shares in issue (thousands) | **625,793** | 625,793 |
| Group's profit from continuing operations attributable to equity holders (US$'000) | **527,798** | 614,761 |
| Earnings per share from continuing operations (US cents) | **84.4** | 98.2 |
| Profit from discontinued operation attributable to equity holders (US$'000) | **52,805** | 36,093 |
| Earnings per share from discontinued operation (US cents) | **8.4** | 5.8 |

## 15. Dividends

| **US$'000** | **2006** | 2005 |
|---|---|---|
| Interim paid of US11 cents (2005: US12 cents) per ordinary share | **68,939** | 75,261 |
| Proposed final of US12 cents (2005: US15 cents) per ordinary share | **75,095** | 93,869 |
| Proposed special of US80 cents (2005: nil) per ordinary share | **500,635** | — |
| | **644,669** | 169,130 |

The Board of Directors proposes a final dividend in respect of 2006 of US12 cents per ordinary share (2005: US15 cents after adjusting for the bonus issue). In addition, the Board of Directors proposes a special dividend of US80 cents per ordinary share as a result of the disposal of the Group's Terminals Division. These proposed dividends will be accounted for as an appropriation of retained profit in the year ending 31st December 2007.

## 16. Discontinued operation and assets held for sale

An analysis of the results, cash flows and assets and liabilities of the Disposal Group is as follows:

### (a) Discontinued operation

| US$'000 | 2006 | 2005 |
|---|---|---|
| **Group** | | |
| **(i) Results** | | |
| Turnover | **500,402** | 393,117 |
| Operating costs | **(358,911)** | (288,269) |
| Gross profit | **141,491** | 104,848 |
| Other operating income | **1,968** | 950 |
| Other operating expenses | **(56,057)** | (54,435) |
| Operating profit | **87,402** | 51,363 |
| Finance costs | **(7,085)** | (5,915) |
| Profit before taxation | **80,317** | 45,448 |
| Taxation | **(27,512)** | (9,355) |
| Profit for the year | **52,805** | 36,093 |
| **(ii) Cash flows** | | |
| Operating cash flows | **74,694** | 50,366 |
| Investing cash flows | **(41,314)** | (57,326) |
| Financing cash flows | **(15,532)** | 37,637 |
| Total cash flows | **17,848** | 30,677 |

## 16. Discontinued operation and assets held for sale (Continued)

### (b) Assets held for sale

| US$'000 | Note | As at 31st December 2006 |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | | |
| Property, plant and equipment | 17 | **243,894** |
| Prepayments of lease premiums | 19 | **1,870** |
| Intangible assets | 23 | **4,300** |
| Pension and retirement assets | | **4,803** |
| Restricted bank balances and other deposits | | **3,317** |
| Other non-current assets | | **587** |
| | | **258,771** |
| **Current assets** | | |
| Debtors and prepayments | | **78,022** |
| Amounts receivable from group companies | | **7,121** |
| Cash and bank balances | | **62,318** |
| | | **147,461** |
| **Total assets** | | **406,232** |
| **LIABILITIES** | | |
| **Non-current liabilities** | | |
| Borrowings, secured | | **40,662** |
| Deferred taxation liabilities | 24 | **18,885** |
| Pension and retirement liabilities | | **4,042** |
| | | **63,589** |
| **Current liabilities** | | |
| Creditors and accruals | | **45,707** |
| Amounts payable to group companies | | **2,207** |
| Borrowings, secured | | **59,515** |
| Current taxation | | **7,974** |
| | | **115,403** |
| **Total liabilities** | | **178,992** |

*Note:*

The aggregate net book amounts of leased assets and assets pledged as securities for loans amount to US$94.3 million and US$29.4 million respectively.

## 17. Property, plant and equipment

| US$'000 | Container vessels and capitalised dry-docking costs | Vessels under construction | Containers | Chassis | Terminal equipment and improvements | Freehold land and buildings outside Hong Kong | Buildings under medium-term leasehold land outside Hong Kong | Vehicles, furnitures, computer and other equipment | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | | |
| Cost or valuation | | | | | | | | | |
| At 31st December 2005 | 1,527,231 | 625,013 | 689,341 | 150,034 | 409,824 | 55,830 | 24,875 | 146,059 | 3,628,207 |
| Currency translation adjustments | — | — | — | (19) | 509 | 122 | 704 | 1,343 | 2,659 |
| Additions | 3,127 | 326,657 | 180,030 | 14,892 | 55,353 | 297 | 16,520 | 20,224 | 617,100 |
| Classified as assets held for sale (note 16) | — | — | — | (9,468) | (323,571) | (49,077) | (6,238) | (26,794) | (415,148) |
| Reclassification | 251,102 | (251,102) | — | — | (136,407) | — | — | 136,407 | — |
| Disposals | (34,585) | — | (28,960) | (2,243) | (5,708) | — | (810) | (34,826) | (107,132) |
| At 31st December 2006 | 1,746,875 | 700,568 | 840,411 | 153,196 | — | 7,172 | 35,051 | 242,413 | 3,725,686 |
| Accumulated depreciation | | | | | | | | | |
| At 31st December 2005 | 414,713 | — | 239,301 | 100,260 | 151,227 | 28,718 | 8,508 | 91,534 | 1,034,261 |
| Currency translation adjustments | — | — | — | (12) | (289) | 61 | 281 | 1,077 | 1,118 |
| Charge for the year | 57,551 | — | 52,108 | 8,020 | 36,538 | 1,126 | 3,528 | 19,890 | 178,761 |
| Classified as assets held for sale (note 16) | — | — | — | (4,616) | (121,046) | (28,086) | (1,111) | (16,395) | (171,254) |
| Reclassification | — | — | — | — | (61,748) | — | — | 61,748 | — |
| Disposals | (31,632) | — | (21,697) | (1,174) | (4,682) | — | (587) | (34,432) | (94,204) |
| At 31st December 2006 | 440,632 | — | 269,712 | 102,478 | — | 1,819 | 10,619 | 123,422 | 948,682 |
| Net book amount | | | | | | | | | |
| At 31st December 2006 | 1,306,243 | 700,568 | 570,699 | 50,718 | — | 5,353 | 24,432 | 118,991 | 2,777,004 |
| At 31st December 2005 | 1,112,518 | 625,013 | 450,040 | 49,774 | 258,597 | 27,112 | 16,367 | 54,525 | 2,593,946 |
| Net book amount of leased assets | | | | | | | | | |
| At 31st December 2006 | 631,541 | 553,544 | 99,980 | 13,601 | — | — | — | 3,093 | 1,301,759 |
| At 31st December 2005 | 510,307 | 534,749 | 54,982 | 17,708 | 76,768 | — | — | 1,819 | 1,196,333 |

## 17. Property, plant and equipment (Continued)

| US$'000 | Container vessels and capitalised dry-docking costs | Vessels under construction | Containers | Chassis | Terminal equipment and improvements | Freehold land and buildings outside Hong Kong | Buildings under medium-term leasehold land outside Hong Kong | Vehicles, furnitures, computer and other equipment | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | | |
| Cost or valuation | | | | | | | | | |
| At 31st December 2004 | 1,364,106 | 380,250 | 618,983 | 137,758 | 334,674 | 53,633 | 19,799 | 126,523 | 3,035,726 |
| Currency translation adjustments | — | — | — | 272 | 6,727 | (73) | 439 | (244) | 7,121 |
| Additions | 18,099 | 389,789 | 87,311 | 13,462 | 78,927 | 2,437 | 4,704 | 26,608 | 621,337 |
| Reclassification | 145,026 | (145,026) | — | — | — | — | — | — | — |
| Disposals | — | — | (16,953) | (1,458) | (10,504) | (167) | (67) | (6,828) | (35,977) |
| At 31st December 2005 | 1,527,231 | 625,013 | 689,341 | 150,034 | 409,824 | 55,830 | 24,875 | 146,059 | 3,628,207 |
| Accumulated depreciation | | | | | | | | | |
| At 31st December 2004 | 354,361 | — | 212,507 | 92,595 | 128,729 | 26,777 | 7,163 | 81,528 | 903,660 |
| Currency translation adjustments | — | — | — | 134 | 2,745 | (33) | 138 | (88) | 2,896 |
| Charge for the year | 60,352 | — | 40,945 | 7,916 | 28,134 | 1,974 | 1,274 | 16,707 | 157,302 |
| Disposals | — | — | (14,151) | (385) | (8,381) | — | (67) | (6,613) | (29,597) |
| At 31st December 2005 | 414,713 | — | 239,301 | 100,260 | 151,227 | 28,718 | 8,508 | 91,534 | 1,034,261 |
| Net book amount | | | | | | | | | |
| At 31st December 2005 | 1,112,518 | 625,013 | 450,040 | 49,774 | 258,597 | 27,112 | 16,367 | 54,525 | 2,593,946 |
| At 31st December 2004 | 1,009,745 | 380,250 | 406,476 | 45,163 | 205,945 | 26,856 | 12,636 | 44,995 | 2,132,066 |
| Net book amount of leased assets | | | | | | | | | |
| At 31st December 2005 | 510,307 | 534,749 | 54,982 | 17,708 | 76,768 | — | — | 1,819 | 1,196,333 |
| At 31st December 2004 | 384,188 | 144,620 | 61,608 | 23,449 | 68,071 | — | — | 352 | 682,288 |

## 17. Property, plant and equipment (Continued)

(a) Container vessels include three (2005: 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 80A of Hong Kong Accounting Standard 16 "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$1.5 million (2005: US$1.9 million).

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

(c) The aggregate net book amount of assets pledged as securities for loans amounts to US$913.9 million (2005: US$447.0 million). Specific charges on vessels of the Group include legal mortgages and assignments of insurance claims and charterhire income relating to these vessels.

(d) Interest costs of US$13.2 million (2005: US$4.5 million) during the year were capitalised as part of vessels under construction.

(e) Depreciation charge of US$130.8 million (2005: US$120.9 million) during the year has been expensed in operating cost and US$19.3 million (2005: US$14.3 million) in business and administrative expenses.

## 18. Investment property

### Group

| US$'000 | 2006 | 2005 |
|---|---|---|
| Balance at beginning of year | 100,000 | 100,000 |
| Fair value gain | 100,000 | — |
| Balance at end of year | 200,000 | 100,000 |

The investment property, "Wall Street Plaza", is 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$200.0 million (2005: US$100.0 million), by reference to a professional valuation made by an independent valuer, in December 2006 on an open market basis.

The investment property is pledged for bank borrowings for 2005 and 2006.

## 19. Prepayments of lease premiums

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

| US$'000 | 2006 | 2005 |
|---|---|---|
| **Group** | | |
| Medium-term lease outside Hong Kong | **5,416** | 7,787 |
| Balance at beginning of year | **7,787** | 3,110 |
| Currency translation adjustments | **115** | 263 |
| Additions | **194** | 4,918 |
| Disposals | **(100)** | — |
| Classified as assets held for sale (note 16) | **(1,870)** | — |
| Amortisation | **(710)** | (504) |
| Balance at end of year | **5,416** | 7,787 |

Amortisation of US$0.3 million (2005: US$0.2 million) is included in "other operating expenses" in the profit and loss account.

## 20. Subsidiaries

| US$'000 | 2006 | 2005 |
|---|---|---|
| **Company** | | |
| Unlisted shares, at cost less provision | **169,482** | 169,482 |
| Amounts due from subsidiaries | **1,340,887** | 1,195,708 |
| Amounts due to subsidiaries | **1,053,522** | 843,900 |

The amounts due from and to subsidiaries are interest free, unsecured and have no specific terms of repayment.

Particulars of the principal subsidiaries at 31st December 2006 are shown on pages 156 to 168.

## 21. Jointly controlled entities

| US$'000 | 2006 | 2005 |
|---|---|---|
| **Group** | | |
| Balance at beginning of year | **21,563** | 14,796 |
| Share of jointly controlled entities' results | | |
| - Profit before taxation | **5,682** | 10,043 |
| - Taxation | **(1,336)** | (3,093) |
| | **25,909** | 21,746 |
| Currency translation adjustments | **612** | 138 |
| Additions | **—** | 187 |
| Dividends received | **(1,037)** | (508) |
| Balance at end of year | **25,484** | 21,563 |
| Share of net assets | **25,484** | 21,563 |
| Amounts payable | **(3,636)** | (1,706) |
| | **21,848** | 19,857 |

The amounts payable are unsecured, interest free and have no specific repayment terms.

The Group's share of assets, liabilities and results of the jointly controlled entities is summarised below:

| US$'000 | 2006 | 2005 |
|---|---|---|
| Non-current assets | **613** | 870 |
| Current assets | **51,763** | 53,755 |
| Current liabilities | **(26,892)** | (33,062) |
| | **25,484** | 21,563 |
| Income | **11,964** | 22,584 |
| Expenses | **(7,618)** | (15,634) |
| Capital commitment | **30** | 28 |

Particulars of the principal jointly controlled entities at 31st December 2006 are shown on page 168.

## 22. Associated companies

| US$'000 | 2006 | 2005 |
|---|---|---|
| **Group** | | |
| Share of net assets | | |
| Balance at beginning of year | **7,916** | — |
| Share of associated companies' results | | |
| - Loss for the year | **(771)** | (84) |
| | **7,145** | (84) |
| Currency translation adjustments | **830** | — |
| Additions | **33,845** | 8,000 |
| Balance at end of year | **41,820** | 7,916 |

The Group's share of assets, liabilities and results of the associated companies is summarised as follows:

| US$'000 | 2006 | 2005 |
|---|---|---|
| Non-current assets | **64,834** | 6,905 |
| Current assets | **17,499** | 1,020 |
| Non-current liabilities | **(11,986)** | — |
| Current liabilities | **(28,527)** | (9) |
| | **41,820** | 7,916 |
| Income | **176** | 4 |
| Expenses | **(947)** | (88) |

Particulars of the associated companies at 31st December 2006 are shown on page 168.

## 23. Intangible assets

| US$'000 | Computer software development costs |
|---|---|
| **Group** | |
| At 1st January 2005 | |
| Cost | 55,287 |
| Accumulated amortisation | (38,360) |
| Net book amount | 16,927 |
| Year ended 31st December 2005 | |
| Opening net book amount | 16,927 |
| Currency translation adjustments | 124 |
| Additions | 9,239 |
| Amortisation | (5,260) |
| Closing net book amount | 21,030 |
| At 31st December 2005 | |
| Cost | 64,339 |
| Accumulated amortisation | (43,309) |
| Net book amount | 21,030 |
| Year ended 31st December 2006 | |
| Opening net book amount | 21,030 |
| Currency translation adjustments | 49 |
| Additions | 15,834 |
| Amortisation | (3,250) |
| Classified as assets held for sale (note 16) | (4,300) |
| Closing net book amount | 29,363 |
| At 31st December 2006 | |
| Cost | 73,914 |
| Accumulated amortisation | (44,551) |
| Net book amount | 29,363 |

Computer software development costs mainly comprise internally generated capitalised software development costs.

Amortisation of US$2.7 million (2005: US$4.3 million) is included in "other operating expenses" in the profit and loss account.

## 24. Deferred taxation assets/(liabilities)

| US$'000 | 2006 | 2005 |
|---|---|---|
| **Group** | | |
| Deferred taxation assets | **1,053** | 8,203 |
| Deferred taxation liabilities | **(33,996)** | (50,204) |
| | **(32,943)** | (42,001) |

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 | 2006 | 2005 |
|---|---|---|
| Deferred taxation assets to be recovered after more than twelve months | **151** | 3,568 |
| Deferred taxation liabilities to be settled after more than twelve months | **(33,996)** | (49,913) |

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 | Revenue expenditure | Tax losses | Pensions | Total |
|---|---|---|---|---|
| **Deferred taxation assets** | | | | |
| At 31st December 2004 | 13,350 | 4,909 | 1,208 | 19,467 |
| Currency translation adjustments | (336) | (184) | — | (520) |
| Change in tax rates | 85 | — | 23 | 108 |
| Credited/(charged) to profit and loss account | (6,118) | (3,672) | 662 | (9,128) |
| At 31st December 2005 | 6,981 | 1,053 | 1,893 | 9,927 |
| Currency translation adjustments | 38 | — | — | 38 |
| Credited/(charged) to profit and loss account | 9,590 | (868) | (311) | 8,411 |
| Classified as assets held for sale (note 16) | (10,854) | — | — | (10,854) |
| At 31st December 2006 | 5,755 | 185 | 1,582 | 7,522 |

## 24. Deferred taxation assets/(liabilities) (Continued)

| US$'000 | Depreciation allowances | Revaluation | Pensions | Total |
|---|---|---|---|---|
| **Deferred taxation liabilities** | | | | |
| At 31st December 2004 | 23,783 | 19,797 | 701 | 44,281 |
| Currency translation adjustments | 1,350 | — | — | 1,350 |
| Change in tax rates | (685) | — | — | (685) |
| Acquisition of a subsidiary | — | 3,803 | — | 3,803 |
| Charged to profit and loss account | 1,759 | 1,420 | — | 3,179 |
| At 31st December 2005 | 26,207 | 25,020 | 701 | 51,928 |
| Currency translation adjustments | 1 | — | (10) | (9) |
| Charged to profit and loss account | 10,964 | 7,239 | 82 | 18,285 |
| Classified as liabilities directly associated with assets held for sale (note 16) | (29,480) | — | (259) | (29,739) |
| At 31st December 2006 | 7,692 | 32,259 | 514 | 40,465 |

Deferred taxation assets of US$25.2 million (2005: US$19.9 million) arising from unused tax losses of US$118.0 million (2005: US$100.1 million) have not been recognised in the accounts. Unused tax losses of US$111.5 million (2005: US$91.7 million) have no expiry date and the balance will expire at various dates up to and including 2010.

Deferred taxation liabilities of US$19.3 million (2005: US$18.5 million) on temporary differences associated with investments in subsidiaries of US$189.9 million (2005: US$180.1 million) have not been recognised as there is no current intention of remitting the retained profit of these subsidiaries to the holding companies.

## 25. Pension and retirement benefits

The Group operates a number of defined benefit 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$23.0 million (2005: US$22.7 million).

### Defined contribution schemes

The principal defined contribution schemes are operated in Hong Kong and the USA. These schemes cover approximately 79% 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's 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 | **2006** | 2005 |
|---|---|---|
| **Group** | | |
| Contributions to the schemes | **16,292** | 15,364 |
| Forfeitures utilised | **(66)** | (68) |
| | **16,226** | 15,296 |

Contributions totalling US$2.6 million (2005: US$2.8 million) were payable to the schemes at the balance sheet date.

### Defined benefit schemes

The amounts recognised in the balance sheet are as follows:

| US$'000 | Note | **2006** | 2005 |
|---|---|---|---|
| **Group** | | | |
| Schemes assets | | **4,068** | 6,683 |
| Schemes liabilities | | **(3,856)** | (9,527) |
| Net Schemes assets/(liabilities) | (a) | **212** | (2,844) |
| Post retirement medical plans | (b) | **(6,449)** | (5,553) |
| | | **(6,237)** | (8,397) |
| Representing: | | | |
| Pension and retirement assets | | **4,068** | 6,683 |
| Pension and retirement liabilities | | **(10,305)** | (15,080) |
| | | **(6,237)** | (8,397) |

## 25. Pension and retirement benefits (Continued)

### Defined benefit schemes (Continued)

The charges recognised in the profit and loss account are as follows:

| US$'000 | Note | 2006 | 2005 |
|---|---|---|---|
| Schemes | (a) | **5,751** | 5,880 |
| Post retirement medical plans | (b) | **1,061** | 1,530 |
| | | **6,812** | 7,410 |
| Representing: | | | |
| Continuing operations | | **5,092** | 6,265 |
| Discontinued operation | | **1,720** | 1,145 |
| | | **6,812** | 7,410 |

**(a) Net Schemes assets/(liabilities)**

The principal defined benefit schemes are operated in the USA, United Kingdom and Japan, which were valued by Wm Yee Actuarial Consulting, Watson Wyatt Limited and Japan Pension Navigator Co., Ltd respectively. The defined benefit schemes (the "Schemes") cover approximately 8% of the Group's employees and are funded. 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.

The net Schemes assets/(liabilities) recognised in the balance sheet are determined as follows:

| US$'000 | 2006 | 2005 |
|---|---|---|
| Fair value of plan assets | **256,581** | 244,176 |
| Present value of funded obligations | **(282,224)** | (302,554) |
| | **(25,643)** | (58,378) |
| Present value of unfunded obligations | **—** | (742) |
| Unrecognised actuarial losses | **24,316** | 54,047 |
| Unrecognised prior service cost | **1,610** | 1,994 |
| Unrecognised other (assets)/liabilities | **(71)** | 235 |
| Net Schemes assets/(liabilities) | **212** | (2,844) |

## 25. Pension and retirement benefits (Continued)

### Defined benefit schemes (Continued)

**(a) Net Schemes assets/(liabilities)** (Continued)

Movements in the fair value of the plan assets of the Schemes during the year are as follows:

| US$'000 | 2006 | 2005 |
|---|---|---|
| Balance at beginning of year | **244,176** | 251,100 |
| Expected return on plan assets | **14,731** | 13,028 |
| Actuarial gains | **3,803** | 11,791 |
| Currency translation adjustments | **28,889** | (23,294) |
| Contributions from the Group | **8,864** | 6,853 |
| Contributions from plan members | **721** | 521 |
| Benefits paid | **(18,089)** | (15,823) |
| Reclassification (note) | **(26,514)** | — |
| Balance at end of year | **256,581** | 244,176 |

Movements in the present value of obligations of the Schemes during the year are as follows:

| US$'000 | 2006 | 2005 |
|---|---|---|
| Balance at beginning of year | **303,296** | 300,208 |
| Current service cost | **4,483** | 3,968 |
| Interest cost | **14,648** | 13,791 |
| Actuarial (gains)/losses | **(25,236)** | 24,160 |
| Currency translation adjustments | **34,504** | (23,529) |
| Contributions from plan members | **721** | 521 |
| Benefits paid | **(18,089)** | (15,823) |
| Reclassification (note) | **(32,103)** | — |
| Balance at end of year | **282,224** | 303,296 |

*Note:*

Reclassification relates to plan assets/obligations of the Disposal Group.

## 25. Pension and retirement benefits (Continued)

**Defined benefit schemes** (Continued)

**(a) Net Schemes assets/(liabilities)** (Continued)

The charges of the Schemes recognised in the profit and loss account are as follows:

| US$'000 | 2006 | 2005 |
|---|---|---|
| Current service cost | **4,483** | 3,968 |
| Interest cost | **14,648** | 13,791 |
| Expected return on plan assets | **(14,731)** | (13,028) |
| Amortisation of past service cost | **259** | 166 |
| Net actuarial loss | **1,092** | 983 |
| Net expense recognised for the year | **5,751** | 5,880 |
| Representing: | | |
| Continuing operations | **4,031** | 4,735 |
| Discontinued operation | **1,720** | 1,145 |
| | **5,751** | 5,880 |

Charges of US$4.0 million (2005: US$4.7 million) were included in other operating expenses in the profit and loss account.

The main actuarial assumptions made for the Schemes were as follows:

| | 2006 | 2005 |
|---|---|---|
| Discount rate | **2 to 6%** | 2 to 6% |
| Expected return on plan assets | **1 to 8%** | 1 to 8% |
| Expected future salary increases | **3 to 5%** | 3 to 5% |
| Expected future pension increases | **3 to 6%** | 3 to 6% |
| Actual return on plan assets (US$'000) | **15,994** | 25,955 |

## 25. Pension and retirement benefits (Continued)

### Defined benefit schemes (Continued)

**(a) Net Schemes assets/(liabilities)** (Continued)

Plan assets of the Schemes are comprised as follows:

| US$'000 | 2006 | | 2005 | |
|---|---|---|---|---|
| Equity | **98,440** | **38%** | 105,052 | 43% |
| Debt | **156,340** | **61%** | 136,020 | 56% |
| Others | **1,801** | **1%** | 3,104 | 1% |
| | **256,581** | **100%** | 244,176 | 100% |

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity reflect long-term real rates of return experienced in the respective markets.

**(b) Post retirement medical plans**

The Group operates two post retirement medical plans in the USA, which are valued by Wm Yee Actuarial Consulting.

The amount recognised in the balance sheet is determined as follows:

| US$'000 | 2006 | 2005 |
|---|---|---|
| Fair value of plan assets | **302** | 182 |
| Present value of obligations | **(7,656)** | (9,117) |
| | **(7,354)** | (8,935) |
| Unrecognised actuarial (gains)/losses | **(102)** | 2,171 |
| Unrecognised prior service cost | **1,007** | 1,211 |
| Net liabilities of post retirement medical plans | **(6,449)** | (5,553) |

## 25. Pension and retirement benefits (Continued)

**Defined benefit schemes** (Continued)

**(b) Post retirement medical plans** (Continued)

Movements in the fair value of the plan assets of the post retirement medical plans during the year are as follows:

| US$'000 | 2006 | 2005 |
|---|---|---|
| Balance at beginning of year | **182** | 84 |
| Expected return on plan assets | **27** | 7 |
| Contributions from the Group | **165** | 147 |
| Benefits paid | **(72)** | (56) |
| Balance at end of year | **302** | 182 |

Movements in the present value of obligations of the post retirement medical plans during the year are as follows:

| US$'000 | 2006 | 2005 |
|---|---|---|
| Balance at beginning of year | **9,117** | 8,102 |
| Current service cost | **406** | 449 |
| Interest cost | **416** | 466 |
| Actuarial (gains)/losses | **(2,211)** | 156 |
| Benefits paid | **(72)** | (56) |
| Balance at end of year | **7,656** | 9,117 |

The charges of the post retirement medical plans recognised in the profit and loss account are as follows:

| US$'000 | 2006 | 2005 |
|---|---|---|
| Current service cost | **406** | 449 |
| Interest cost | **416** | 466 |
| Expected return on plan assets | **(27)** | (7) |
| Amortisation of past service cost | **204** | 213 |
| Net actuarial loss | **62** | 409 |
| Net expense recognised for the year | **1,061** | 1,530 |

The charges were included in other operating expenses in both years.

## 25. Pension and retirement benefits (Continued)

### Defined benefit schemes (Continued)

**(b) Post retirement medical plans** (Continued)

The main actuarial assumptions made for the post retirement medical plans were as follows:

| | 2006 | 2005 |
|---|---|---|
| Discount rate | **5.8%** | 5.5% |
| Healthcare trend rate | **8.0%** | 10.0% |

The effects of a 1% movement in the assumed medical cost trend rate were as follows:

| US$'000 | Increase | Decrease |
|---|---|---|
| Effect on the aggregate of the current service cost and interest cost | 193 | (150) |
| Effect on the obligations | 1,513 | (1,208) |

(c) The experience adjustments of 2005 and 2006 are as follows:

| US$'000 | 2006 | 2005 |
|---|---|---|
| Fair value of plan assets | **256,883** | 244,358 |
| Present value of defined benefit obligations | **(289,880)** | (311,671) |
| Plan deficit | **(32,997)** | (67,313) |
| Experience adjustment on plan assets | **(918)** | (11,666) |
| Percentage of plan assets (%) | **-0.3%** | -4.8% |
| Experience adjustment on plan obligations | **5,429** | 9,377 |
| Percentage of plan obligations (%) | **1.9%** | 3.0% |

## 26. Available-for-sale financial assets

| US$'000 | 2006 | 2005 |
|---|---|---|
| **Group** | | |
| Balance at beginning of year | **13,021** | 3,508 |
| Currency translation adjustments | **74** | (32) |
| Additions | **243** | 6,743 |
| Disposals | **(506)** | (332) |
| Change in fair value transferred to equity | **9,577** | 3,134 |
| Balance at end of year | **22,409** | 13,021 |

Available-for-sale financial assets include the following:

| US$'000 | 2006 | 2005 |
|---|---|---|
| Listed equity securities | | |
| Hong Kong | **12,125** | 7,833 |
| Overseas | **7** | 7 |
| Market value of listed equity securities | **12,132** | 7,840 |
| Unlisted equity securities | **8,275** | 2,991 |
| Unlisted debt securities | **2** | 3 |
| Others | **2,000** | 2,187 |
| | **22,409** | 13,021 |

The carrying amounts of the Group's available-for-sale financial assets are denominated in the following currencies:

| US$'000 | 2006 | 2005 |
|---|---|---|
| Renminbi | **8,172** | 2,887 |
| Hong Kong dollar | **12,593** | 8,302 |
| Other currencies | **1,644** | 1,832 |
| | **22,409** | 13,021 |

## 27. Restricted bank balances and other deposits

| US$'000 | 2006 | 2005 |
|---|---|---|
| **Group** | | |
| Restricted bank balances | **73,694** | 87,034 |
| Other deposits | **14,825** | 14,825 |
| | **88,519** | 101,859 |

The restricted bank balances of US$73.7 million (2005: US$87.0 million) are funds pledged as securities for banking facilities, redeemable preference shares redemption (note 37) and performance under leasing arrangements or required to be utilised for specific purposes.

The effective interest rate on restricted bank balances was 7.3% (2005: 6.3%); these balances have an average maturity of 3.7 years (2005: 4.7 years).

The carrying amounts of the Group's restricted bank balances are mainly denominated in US dollar.

## 28. Other non-current assets

Other non-current assets include an advance to an investee company of US$79.0 million (2005: US$85.5 million) which is interest free, unsecured and has no specific terms of repayment.

## 29. Properties under development and for sale

| US$'000 | 2006 | 2005 |
|---|---|---|
| **Group** | | |
| Properties under development for sale | **378,493** | 178,698 |
| Completed properties held for sale | **—** | 2,847 |
| | **378,493** | 181,545 |
| Representing: | | |
| Leasehold land and land use rights | **123,912** | 71,199 |
| Development costs | **254,581** | 110,346 |
| | **378,493** | 181,545 |

## 29. Properties under development and for sale (Continued)

Interest costs of US$3.7 million (2005: US$2.6 million) during the year were capitalised as part of properties under development and for sale.

Amortisation of leasehold land and land use rights of US$1.3 million (2005: US$1.1 million) during the year was capitalised as part of development costs.

The properties under development are held at medium-term lease outside Hong Kong.

Bank borrowings are secured on properties under development with the carrying amount of US$99.6 million (2005: US$85.3 million).

## 30. Inventories

| US$'000 | 2006 | 2005 |
|---|---|---|
| **Group** | | |
| Bunker | **51,276** | 35,546 |
| Consumable stores | **6,329** | 8,965 |
| | **57,605** | 44,511 |

The cost of inventories recognised as expense and included in operating cost amounts to US$504.7 million (2005: US$425.0 million).

## 31. Debtors and prepayments

| US$'000 | 2006 | 2005 |
|---|---|---|
| **Group** | | |
| Trade receivables | **260,003** | 284,319 |
| Less: provision for impairment | **(4,939)** | (7,502) |
| Trade receivables-net | **255,064** | 276,817 |
| Other debtors | **56,594** | 47,254 |
| Prepayments | **50,488** | 65,061 |
| Utility and other deposits | **3,272** | 3,384 |
| Tax recoverable | **17,109** | 22,574 |
| | **382,527** | 415,090 |

Trade receivables of US$223.0 million (2005: US$219.2 million) were assigned to a third party trustee company which holds these receivables in favour of the Group and an independent third party sponsored by a bank. Under the arrangement, trade receivables of US$110.0 million (2005: US$110.0 million) held in the trustee company were securities for a loan of US$100.0 million (2005: US$100.0 million).

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. Trade receivables with overdue balances are requested to settle all outstanding balances before any further credit is granted.

The ageing analysis of the Group's trade receivables, net of provision for impairment, prepared in accordance with the due date of invoices, is as follows:

| US$'000 | 2006 | 2005 |
|---|---|---|
| Below one month | **227,635** | 246,099 |
| Two to three months | **21,841** | 25,912 |
| Four to six months | **4,212** | 4,797 |
| Over six months | **1,376** | 9 |
| | **255,064** | 276,817 |

## 31. Debtors and prepayments (Continued)

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers, internationally dispersed.

The carrying amounts of the Group's trade receivables are mainly denominated in US dollar.

The Group has recognised a loss of US$0.6 million (2005: US$0.4 million) in respect of the impairment of its trade receivables during the year ended 31st December 2006. The loss has been included in 'other operating expenses' in the profit and loss account.

## 32. Portfolio investments

| US$'000 | 2006 | 2005 |
|---|---|---|
| **Group** | | |
| Listed equity securities | | |
| Hong Kong | **37,912** | 25,273 |
| Overseas | **3,461** | 4,435 |
| Market value of listed equity securities | **41,373** | 29,708 |
| Listed debt securities | | |
| Hong Kong | **6,945** | 6,972 |
| Overseas | **40,003** | 43,978 |
| Unlisted debt securities | **—** | 3,588 |
| Unit trust | **2,427** | 3,325 |
| Money market instruments | **173,766** | 149,433 |
| | **264,514** | 237,004 |

The carrying amounts of the Group's portfolio investments are mainly denominated in US dollar.

## 33. Derivative financial instruments

| US$'000 | 2006 | 2005 |
|---|---|---|
| **Group** | | |
| Assets/(liabilities) | | |
| Foreign exchange forward contracts | **3,510** | (4,592) |
| Interest rate swap contracts | **(715)** | 354 |

## 34. Cash and bank balances

| US$'000 | 2006 | 2005 |
|---|---|---|
| **Group** | | |
| Cash at bank and in hand | **204,364** | 342,099 |
| Short-term bank deposits | **625,352** | 620,442 |
| | **829,716** | 962,541 |

The effective interest rate on short-term bank deposits was 5.2% (2005: 4.3%); these deposits have an average maturity of 14 days (2005: 12 days).

Short-term deposit of US$9.7 million has been pledged for redeemable preference shares redemption. In 2005, short-term deposits of US$49.2 million were funds pledged for redeemable preference shares redemption and a bank loan (note 37).

The carrying amounts of the Group's cash and bank balances are mainly denominated in US dollar.

| US$'000 | 2006 | 2005 |
|---|---|---|
| **Company** | | |
| Cash at bank and in hand | **827** | 796 |
| Short-term bank deposits | **2,029** | 1,709 |
| | **2,856** | 2,505 |

## 35. Share capital

| US$'000 | 2006 | 2005 |
|---|---|---|
| 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 |

| | Number of shares (thousands) | Ordinary shares US$'000 |
|---|---|---|
| Issued and fully paid: | | |
| At 31st December 2004 | 568,903 | 56,890 |
| - bonus issue | 56,890 | 5,689 |
| At 31st December 2005 and 2006 | 625,793 | 62,579 |

## 36. Reserves

### Group

| US$'000 | Share premium | Contributed surplus | Capital redemption reserve | Asset revaluation reserve: Vessels | Asset revaluation reserve: Available-for-sale financial assets | Foreign exchange translation reserve | Retained profit | Total |
|---|---|---|---|---|---|---|---|---|
| Balance at 31st December 2004 | 178,146 | 88,547 | 4,696 | 9,948 | — | (35,291) | 1,506,473 | 1,752,519 |
| Currency translation adjustments | | | | | | | | |
| - Group | — | — | — | — | — | (1,610) | — | (1,610) |
| - Jointly controlled entities | — | — | — | — | — | 138 | — | 138 |
| Bonus issue | (5,689) | — | — | — | — | — | — | (5,689) |
| Change in fair value | — | — | — | — | 3,134 | — | — | 3,134 |
| Profit for the year | — | — | — | — | — | — | 650,854 | 650,854 |
| 2004 final dividend | — | — | — | — | — | — | (102,334) | (102,334) |
| 2005 interim dividend | — | — | — | — | — | — | (75,261) | (75,261) |
| Balance at 31st December 2005 | 172,457 | 88,547 | 4,696 | 9,948 | 3,134 | (36,763) | 1,979,732 | 2,221,751 |
| Currency translation adjustments | | | | | | | | |
| - Group | — | — | — | — | — | 14,224 | — | 14,224 |
| - Jointly controlled entities | — | — | — | — | — | 1,442 | — | 1,442 |
| Change in fair value | — | — | — | — | 9,577 | — | — | 9,577 |
| Profit for the year | — | — | — | — | — | — | 580,603 | 580,603 |
| 2005 final dividend | — | — | — | — | — | — | (94,031) | (94,031) |
| 2006 interim dividend | — | — | — | — | — | — | (68,939) | (68,939) |
| Balance at 31st December 2006 | 172,457 | 88,547 | 4,696 | 9,948 | 12,711 | (21,097) | 2,397,365 | 2,664,627 |

## 36. **Reserves** (Continued)

### Company

| US$'000 | Share premium | Contributed surplus | Capital redemption reserve | Retained profit | Total |
|---|---|---|---|---|---|
| Balance at 31st December 2004 | 178,146 | 88,547 | 4,696 | 153,379 | 424,768 |
| Bonus issue | (5,689) | — | — | — | (5,689) |
| Profit for the year | — | — | — | 218,289 | 218,289 |
| 2004 final dividend | — | — | — | (102,334) | (102,334) |
| 2005 interim dividend | — | — | — | (75,261) | (75,261) |
| Balance at 31st December 2005 | 172,457 | 88,547 | 4,696 | 194,073 | 459,773 |
| Profit for the year | — | — | — | 99,521 | 99,521 |
| 2005 final dividend | — | — | — | (94,031) | (94,031) |
| 2006 interim dividend | — | — | — | (68,939) | (68,939) |
| Balance at 31st December 2006 | 172,457 | 88,547 | 4,696 | 130,624 | 396,324 |

The profit attributable to shareholders for the year is dealt with in the accounts of the Company to the extent of US$99.5 million (2005: US$218.3 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$219.2 million (2005: US$282.6 million) as at 31st December 2006, before the proposed final and special dividends of US$75.1 million and US$500.6 million respectively (2005: final dividend of US$93.9 million) (note 15).

## 37. Borrowings

| US$'000 | 2006 | 2005 |
|---|---|---|
| **Group** | | |
| **Non-current** | | |
| Bank loans | | |
| - secured | 468,859 | 356,870 |
| Other loans | | |
| - secured | 100,436 | 106,020 |
| Loans from minority interests | | |
| - secured | 37,735 | — |
| Redeemable preference shares and premium (note) | 55,834 | 65,514 |
| Finance lease obligations | 1,208,026 | 1,121,640 |
| | 1,870,890 | 1,650,044 |
| **Current** | | |
| Bank overdrafts, unsecured | 147 | 82 |
| Bank loans | | |
| - secured | 123,195 | 120,894 |
| - unsecured | 3,842 | — |
| Other loans | | |
| - secured | 460 | 3,896 |
| - unsecured | — | 6,840 |
| Loans from minority interests | | |
| - secured | 2,481 | — |
| - unsecured | 4,704 | — |
| Redeemable preference shares and premium (note) | 9,680 | 9,237 |
| Finance lease obligations | 53,399 | 47,599 |
| | 197,908 | 188,548 |
| Total borrowings | 2,068,798 | 1,838,592 |

## 37. Borrowings (Continued)

The maturity of borrowings is as follows:

| US$'000 | Bank loans | Bank overdrafts | Other loans | Loans from minority interests | Redeemable preference shares and premium | Finance leases Present value | Finance leases Minimum payments |
|---|---|---|---|---|---|---|---|
| As at 31st December 2006 | | | | | | | |
| 2007 | 127,037 | 147 | 460 | 7,185 | 9,680 | 53,399 | 113,346 |
| 2008 | 73,846 | — | 430 | 4,963 | 10,145 | 54,100 | 118,848 |
| 2009 | 67,140 | — | 6 | 4,963 | 10,632 | 66,477 | 127,873 |
| 2010 | 114,733 | — | 100,000 | 4,963 | 11,142 | 47,381 | 105,678 |
| 2011 | 82,999 | — | — | 4,963 | 11,677 | 91,591 | 146,541 |
| 2012 onwards | 130,141 | — | — | 17,883 | 12,238 | 948,477 | 1,423,655 |
| | 595,896 | 147 | 100,896 | 44,920 | 65,514 | 1,261,425 | 2,035,941 |
| Wholly repayable within five years | 292,074 | 147 | 100,896 | 4,704 | — | 110,963 | |
| Not wholly repayable within five years | 303,822 | — | — | 40,216 | 65,514 | 1,150,462 | |
| | 595,896 | 147 | 100,896 | 44,920 | 65,514 | 1,261,425 | |
| As at 31st December 2005 | | | | | | | |
| 2006 | 120,894 | 82 | 10,736 | — | 9,237 | 47,599 | 82,096 |
| 2007 | 83,914 | — | 1,392 | — | 9,680 | 82,714 | 107,791 |
| 2008 | 52,383 | — | 1,362 | — | 10,145 | 48,304 | 89,869 |
| 2009 | 45,680 | — | 939 | — | 10,632 | 54,741 | 90,141 |
| 2010 | 93,271 | — | 100,932 | — | 11,142 | 35,593 | 73,120 |
| 2011 onwards | 81,622 | — | 1,395 | — | 23,915 | 900,288 | 1,286,451 |
| | 477,764 | 82 | 116,756 | — | 74,751 | 1,169,239 | 1,729,468 |
| Wholly repayable within five years | 140,110 | 82 | 115,361 | — | — | 111,668 | |
| Not wholly repayable within five years | 337,654 | — | 1,395 | — | 74,751 | 1,057,571 | |
| | 477,764 | 82 | 116,756 | — | 74,751 | 1,169,239 | |

## 37. Borrowings (Continued)

The effective interest rates at the balance sheet date were as follows:

| | 2006 | | | | 2005 | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | US$ | £ | Rmb | others | US$ | Can$ | £ | Rmb | others |
| Bank loans | 6.0% | — | 5.1% | — | 5.4% | 5.0% | — | 4.7% | — |
| Other loans | 5.5% | — | — | — | 4.8% | 2.4% | — | — | — |
| Loans from minority interests | 5.5% | — | 6.1% | — | — | — | — | — | — |
| Redeemable preference shares and premium | 7.1% | — | — | — | 7.1% | — | — | — | — |
| Finance lease obligations | 5.6% | 5.7% | — | 5.4% | 5.0% | 7.5% | 4.9% | — | 5.3% |

The carrying amounts and fair values of the non-current borrowings are as follows:

| | Carrying amounts | | Fair values | |
|---|---|---|---|---|
| US$'000 | 2006 | 2005 | 2006 | 2005 |
| Bank loans | 468,859 | 356,870 | 464,897 | 356,870 |
| Other loans | 100,436 | 106,020 | 100,436 | 106,045 |
| Loans from minority interests | 37,735 | — | 37,735 | — |
| Redeemable preference shares and premium | 55,834 | 65,514 | 57,293 | 68,169 |
| Finance lease obligations | 1,208,026 | 1,121,640 | 1,208,171 | 1,124,310 |
| | 1,870,890 | 1,650,044 | 1,868,532 | 1,655,394 |

The fair values are based on cash flows discounted using a rate based on the borrowing rate of 6.1% (2005: 5.8%).

The carrying amounts of short-term borrowings approximate their fair values.

## 37. Borrowings (Continued)

The carrying amounts of the Group's borrowings are denominated in the following currencies:

| US$'000 | 2006 | 2005 |
|---|---|---|
| US dollar | **1,996,963** | 1,697,510 |
| Pound sterling | **63,195** | 59,080 |
| Canadian dollar | **—** | 45,938 |
| Renminbi | **8,546** | 35,935 |
| Other currencies | **94** | 129 |
| | **2,068,798** | 1,838,592 |

The fixed interest rate borrowings of the Group as at 31st December 2006 amounting to US$194.7 million (2005: US$174.0 million). The remaining borrowings of US$1,874.1 million (2005: US$1,664.6 million) were subject to floating interest rates.

*Note:*

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 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.

## 38. Creditors and accruals

| US$'000 | 2006 | 2005 |
|---|---|---|
| **Group** | | |
| Trade payables | **139,327** | 160,927 |
| Other creditors | **69,916** | 52,296 |
| Accrued expenses | **320,751** | 365,730 |
| Deferred revenue | **30,541** | 24,092 |
| | **560,535** | 603,045 |

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

| US$'000 | 2006 | 2005 |
|---|---|---|
| Below one month | **87,770** | 121,595 |
| Two to three months | **48,554** | 34,373 |
| Four to six months | **1,605** | 1,848 |
| Over six months | **1,398** | 3,111 |
| | **139,327** | 160,927 |

The carrying amounts of the Group's trade payables are denominated in the following currencies:

| US$'000 | 2006 | 2005 |
|---|---|---|
| US dollar | **57,740** | 73,792 |
| Canadian dollar | **10,086** | 22,707 |
| Hong Kong dollar | **23,604** | 19,534 |
| Other currencies | **47,897** | 44,894 |
| | **139,327** | 160,927 |

## 39. Commitments

### Group

#### (a) Capital commitments

| US$'000 | 2006 | 2005 |
|---|---|---|
| Contracted but not provided for | | |
| Continuing operations | **634,981** | 284,618 |
| Discontinued operation | **23,855** | — |
| | **658,836** | 284,618 |
| Authorised but not contracted for | | |
| Continuing operations | **235,494** | 459,899 |
| Discontinued operation | **120,395** | — |
| | **355,889** | 459,899 |
| | **1,014,725** | 744,517 |

## 39. Commitments (Continued)

### Group (Continued)

**(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 2006 | | | |
| 2007 | 293,667 | 48,521 | 342,188 |
| 2008 | 240,205 | 44,509 | 284,714 |
| 2009 | 168,128 | 38,813 | 206,941 |
| 2010 | 110,157 | 46,065 | 156,222 |
| 2011 | 86,586 | 44,816 | 131,402 |
| 2012 onwards | 674,554 | 1,648,319 | 2,322,873 |
| | 1,573,297 | 1,871,043 | 3,444,340 |
| Representing: | | | |
| Continuing operations | 1,573,290 | 54,249 | 1,627,539 |
| Discontinued operation | 7 | 1,816,794 | 1,816,801 |
| | 1,573,297 | 1,871,043 | 3,444,340 |
| As at 31st December 2005 | | | |
| 2006 | 248,103 | 45,050 | 293,153 |
| 2007 | 202,084 | 41,661 | 243,745 |
| 2008 | 190,560 | 37,608 | 228,168 |
| 2009 | 141,181 | 34,395 | 175,576 |
| 2010 | 108,562 | 32,987 | 141,549 |
| 2011 onwards | 762,690 | 363,012 | 1,125,702 |
| | 1,653,180 | 554,713 | 2,207,893 |

## 39. Commitments (Continued)

### Group (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 | 2006 | 2005 |
|---|---|---|
| 2006 | — | 19,770 |
| 2007 | **19,141** | 18,986 |
| 2008 | **18,706** | 18,071 |
| 2009 | **15,613** | 14,948 |
| 2010 | **12,477** | 11,061 |
| 2011 | **10,282** | 8,849 |
| 2012 onwards | **26,618** | 17,614 |
| | **102,837** | 109,299 |

## 40. Financial guarantees

### Group

The Group has given corporate guarantee of approximately US$43.1 million (2005: US$43.1 million) in respect of bank loan facilities extended to an investee company. At 31st December 2006, the amount utilised by the investee company was US$32.5 million (2005: US$33.9 million).

### Company

(a) The Company has given guarantees of approximately US$2,010.2 million (2005: US$1,287.1 million) for its subsidiaries and approximately US$43.1 million (2005: US$43.1 million) for an investee company in respect of loans, finance lease obligations and bank overdraft facilities. At 31st December 2006, the amounts utilised by the subsidiaries and the investee company were US$1,698.2 million (2005: US$1,283.7 million) and US$32.5 million (2005: US$33.9 million) respectively.

At 31st December 2006, guarantees given by the Company in relation to the Disposal Group amounted to US$84.3 million. At 31st December 2006, the amount utilised by the Disposal Group was US$84.3 million.

(b) The Company has given guarantees for its subsidiaries in respect of future payment of operating lease rentals amounting to US$608.6 million (2005: US$172.5 million), including guarantees in relation to the Disposal Group amounting to US$29.6 million.

The Directors consider that the subsidiaries, the investee company and the Disposal Group are financially resourceful in settling the obligations.

## 41. Notes to consolidated cash flow statement

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

| US$'000 | 2006 | 2005 |
|---|---|---|
| Operating profit from continuing operations | **621,364** | 693,563 |
| Operating profit from discontinued operation | **87,402** | 51,363 |
| Interest income | **(41,607)** | (32,827) |
| Dividend income from portfolio investments | **(1,458)** | (1,277) |
| Depreciation | **178,761** | 157,302 |
| Fair value gain from an investment property | **(100,000)** | — |
| Profit on disposal of property, plant and equipment | **(12,436)** | (8,709) |
| Income from available-for-sale financial assets | **(17)** | (18) |
| Profit on disposal of available-for-sale financial assets | **(16)** | (18) |
| Amortisation of intangible assets | **3,250** | 5,260 |
| Amortisation of prepayments of lease premiums and leasehold land and land use rights | **710** | 1,561 |
| Net gain on derivative financial instruments | **(7,033)** | (560) |
| (Decrease)/increase in net pension liabilities | **(2,921)** | 52 |
| Operating profit before working capital changes | **725,999** | 865,692 |
| Increase in properties under development and for sale | **(193,204)** | (32,124) |
| Increase in inventories | **(13,094)** | (14,503) |
| Increase in debtors and prepayments | **(55,945)** | (38,847) |
| Increase in creditors and accruals | **1,612** | 33,406 |
| Increase in net derivative financial instruments liabilities | **—** | 4,798 |
| Cash generated from operations | **465,368** | 818,422 |

## 41. Notes to consolidated cash flow statement (Continued)

### (b) Analysis of changes in financing

| US$'000 | Minority interests | Borrowings | Total |
|---|---|---|---|
| At 31st December 2004 | 7,808 | 1,581,414 | 1,589,222 |
| Currency translation adjustments | 109 | (3,420) | (3,311) |
| Inception of finance leases | — | 314,022 | 314,022 |
| Minority interests' share of profit | 437 | — | 437 |
| Dividend paid to minority interests | (225) | — | (225) |
| Net cash outflow from financing | — | (53,506) | (53,506) |
| At 31st December 2005 | 8,129 | 1,838,510 | 1,846,639 |
| Currency translation adjustments | 397 | 8,005 | 8,402 |
| Inception of finance leases | — | 202,619 | 202,619 |
| Minority interests' share of profit | 537 | — | 537 |
| Contribution from minority interests | 4,017 | — | 4,017 |
| Dividend paid to minority interests | (253) | — | (253) |
| Net cash inflow from financing | — | 119,694 | 119,694 |
| Liabilities directly associated with assets classified as held for sale (note 16) | — | (100,177) | (100,177) |
| At 31st December 2006 | 12,827 | 2,068,651 | 2,081,478 |

## 41. Notes to consolidated cash flow statement (Continued)

### (c) Acquisition of a subsidiary company

On 7th April 2005, the Group entered into a sale and purchase agreement to acquire 100% equity interest of Shanghai Waigaoqiao Xuhui Clubhouse Co Ltd ("SWXCCL"), which principally engaged in operating a clubhouse in Shanghai. It is the management's intention to redevelop the site to a service apartment and retail complex.

The consideration for the acquisition was US$35.4 million, comprising US$17.5 million, being the consideration for the purchase of the 100% equity interest of SWXCCL, and US$17.9 million, being the consideration for the purchase of the advances from the previous shareholders.

Particulars of the assets and liabilities acquired are as follows:

| US$'000 | Fair value | Carrying amount |
|---|---|---|
| Properties under development and for sale | 49,962 | 18,653 |
| Deferred income and other taxation liabilities | (14,649) | — |
| Debtors and prepayments | 77 | 77 |
| Cash and bank balances | 84 | 84 |
| Creditors and accruals | (93) | (93) |
| Net assets acquired | 35,381 | 18,721 |
| Purchase consideration settled in cash | 35,381 | |
| Cash and bank balances acquired | (84) | |
| Cash outflow on acquisition | 35,297 | |

### (d) Analysis of cash and cash equivalents

| US$'000 | 2006 | 2005 |
|---|---|---|
| Bank balances and deposits maturing within three months from the date of placement | **811,050** | 947,452 |
| Bank overdrafts | **(147)** | (82) |
| | **810,903** | 947,370 |

## 42. Approval of accounts

The accounts were approved by the Board of Directors on 9th March 2007.