

27. Commitments

Group

(a) Capital commitments

US\$'000	2000	1999
Contracted but not provided for	168,417	155,435
Authorised but not contracted for	14,202	11,697
	182,619	167,132

The commitments as at 31st December 2000 include the balance of the purchase cost of two 7,400 TEU container vessels (1999 : two 5,500 TEU container vessels) to be delivered in 2003.

In addition, the Group has a long-term investment plan in respect of the Beijing property development as set out in note 15(a).

(b) Operating lease commitments

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

US\$'000	Vessels and equipment	Land and buildings	Total
As at 31st December 2000			
2001	216,736	18,475	235,211
2002	193,307	14,742	208,049
2003	165,214	14,716	179,930
2004	149,696	23,008	172,704
2005	139,330	22,547	161,877
2006 onwards	400,886	352,963	753,849
	1,265,169	446,451	1,711,620
As at 31st December 1999			
2000	231,275	16,227	247,502
2001	195,196	14,080	209,276
2002	171,104	11,436	182,540
2003	129,925	11,943	141,868
2004	111,629	17,442	129,071
2005 onwards	333,164	318,915	652,079
	1,172,293	390,043	1,562,336

28. Contingent Liabilities

Group

- (a) Guarantees in respect of loan facilities given for :

US\$'000	Facilities		Utilised	
	2000	1999	2000	1999
Jointly controlled entities	57,000	80,000	24,700	43,000
Hui Xian (note 15)	43,100	–	1,353	–
	100,100	80,000	26,053	43,000

- (b) Certain jointly controlled entities, Orient Overseas Property (Hangzhou) Company Limited, Shanghai Orient Overseas Real Estates Company Limited, Shanghai Orient Overseas Xujiahui Real Estate Company Limited and Shanghai Orient Overseas Zhenning Real Estate Company Limited (together the "JVs") have entered into agreements with certain banks in China in relation to the mortgage financing arrangement for end purchasers of their property development project in Shanghai and Hangzhou. Pursuant to the terms of the agreements, the JVs have provided guarantees in respect of the outstanding loans and accrued interest owed by the purchasers to the financing banks. These guarantees will be discharged upon obtaining the legal title for each property unit and completion of mortgage registration by the financing banks. As at 31st December 2000, the outstanding guarantee for such mortgage loans amounted to US\$34.6 million (1999 : US\$8.2 million). The Group's share of the contingent liabilities of the JVs is US\$16.4 million (1999 : US\$4.1 million).

- (c) Contingent taxation liabilities

At 31st December 2000, there were unprovided deferred taxation (benefits)/liabilities which consisted of the following timing differences:

US\$'000	2000	1999
Accelerated depreciation allowances	9,032	7,162
Taxation losses and others	(19,383)	(28,382)
	(10,351)	(21,220)

In addition, if the Group's investment property in the USA were sold, a taxation liability would arise. Based on the carrying value of the property of US\$110.0 million and the available taxation losses of the relevant subsidiaries as at 31st December 2000, this taxation liability would amount to approximately US\$21.4 million. No provision has been made in the accounts for this liability as the property is held for long-term investment purposes.

28. Contingent Liabilities (Continued)

(d) Litigation

The Group joined the Trans-Atlantic Agreement, subsequently amended as the Trans-Atlantic Conference Agreement ("TACA"), in respect of its US East Coast/Northern Europe trade in 1992 and also entered into vessel sharing agreements with four other major operators in 1993. In October 1994, the European Commission ("EC") adopted a decision, which found the price agreements of the TACA infringed EC competition rules in a number of identified respects, including the rate-making authority in respect of the inland proportions within the European Union of through-intermodal transport services. Since then, the parties to the TACA have applied and taken various actions for the annulment and suspension of that decision.

In September 1998, the EC adopted a decision ("Decision") concerning the lawfulness of certain practices of the TACA. The Decision finds that the members of the TACA committed various infringements of the EC rules on competition, which prohibits agreements and practices restrictive of competition (Article 85 of the EC Treaty) and the abuse of a dominant position (Article 86 of the EC Treaty). The Decision also finds that the TACA parties infringed the equivalent provisions of the European Economic Area Agreement. The total fines imposed by EC on all the TACA parties for the infringement under Article 86 of the EC Treaty alone is Euro 272.9 million (approximately US\$257.0 million), of which the Group's share is Euro 20.6 million (approximately US\$19.4 million).

In December 1998, the TACA parties lodged an appeal to the European Court of First Instance for the annulment of the Decision. As security for the appeal, the Group has provided a bank guarantee in favour of the court for an amount equivalent to its share of the fine imposed. The exact liabilities of the Group are dependent upon the final outcome of the results of the appeal, which would expect to take at least several years. While the Directors cannot predict with certainty the final outcome of the appeal, it is their opinion, based on legal advice, that it is very likely that the court will annul or significantly reduce the fines imposed in the Decision. Accordingly, no provision has been made in the accounts.

Company

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

US\$'000	Facilities		Utilised	
	2000	1999	2000	1999
Subsidiaries	763,512	665,330	760,754	566,304
Jointly controlled entities	57,000	80,000	24,700	43,000
Hui Xian (note 15)	43,100	–	1,353	–
	863,612	745,330	786,807	609,304

28. Contingent Liabilities (Continued)

- (b) The Company has given guarantees for its subsidiaries in respect of future payment of operating lease rentals amounting US\$425.2 million (1999: US\$581.1 million).
- (c) The Company has given a guarantee for a subsidiary in respect of its commitment and obligations towards the Beijing Oriental Plaza project as set out in note 15(a).
- (d) The Company has given a guarantee to a bank in respect of the guarantee in favour of the European Court detailed in note 28(d).

29. Financial Instruments

US\$'000	Contract amount		Replacement cost	
	2000	1999	2000	1999
Interest rate swap agreements *	250,000	350,000	–	(1,752)
Forward foreign exchange contracts	–	16,961	–	(533)
Bunker fuel swap agreements	–	3,360	–	605
	250,000	370,321	–	(1,680)

* All interest rate agreements expired and closed in January 2001.

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

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

The replacement cost of contracts represents the mark to market value of all contracts, which is estimated by reference to indicative market rates for these contracts, at the balance sheet date. The majority of the results relating to the unexpired contracts are recognised with the underlying transactions. In accordance with the Group's accounting policies, any net unrealised loss on open exchange contracts at the balance sheet date is charged to the profit and loss account whereas a net gain is not recognised.

30. Pension And Retirement Benefits

The Group operates a number of retirement schemes in the main countries in which it operates. The total cost charged to the profit and loss account of these schemes was US\$7.9 million (1999: US\$7.9 million).

The principal defined benefit schemes are operated in the USA, United Kingdom and Canada. The defined benefit schemes cover approximately 10% of the Group's employees and are fully funded, with the exception of two smaller schemes for which provisions have been made (note 24). The assets of the funded schemes are held in trust funds separate from the Group. The pension charge relating to these schemes was US\$0.5 million (1999: US\$1.1 million with a refund from a scheme of US\$1.2 million), and is assessed in accordance with the advice of qualified actuaries in accordance 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 main actuarial assumptions made in the principal defined benefit schemes were rates of return ranging between 2.9% and 8.0%, price inflation ranging between 3.5% and 10.0%, and salary increases ranging between 3.4% and 8.0%. The total value of the assets of the principal defined benefit schemes at their latest available valuation dates is approximately US\$154 million. These valuations, which were made by independent professionally qualified actuaries between December 1999 and December 2000, also showed that in aggregate total surpluses amounted to US\$1.3 million and total deficits amounted to US\$0.4 million.

The principal defined contribution schemes are operated in Hong Kong, the USA and Canada. Contributions to the defined contribution schemes, all the assets of which are held in trust funds separate from the Group, are based on a percentage of employee salary, depending upon the length of service of the employee, but the Group's contributions to certain schemes may be reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in those contributions. The charge for the defined contribution schemes, which cover approximately 52% of the Group's employees, was US\$7.4 million (1999: US\$8.0 million), after netting off forfeitures of US\$0.3 million (1999: US\$0.3 million).

31. Notes To Consolidated Cash Flow Statement

(a) Reconciliation of operating profit before financing to net cash inflow from operating activities

US\$'000	2000	1999
Operating profit before financing	166,399	122,729
Depreciation	84,118	69,544
Profit on sales of fixed assets	(1,217)	(1,612)
Long-term investment income	(3,936)	(5,348)
Loss/(profit) on sale of long-term investments	175	(17)
(Write back)/provision for closure cost of subsidiaries	(2,435)	7,000
Provision for diminution in value of long-term investments	9,877	–
Revaluation deficit of the investment property	–	10,000
Amortisation of deferred expenditure	4,896	4,720
(Decrease)/increase in provisions	(394)	1,274
(Increase)/decrease in properties held for sales	(224)	883
Decrease/(increase) in debtors and prepayments	6,450	(13,881)
(Decrease)/increase in creditors and accruals	(8,960)	44,470
Net cash inflow from operating activities	254,749	239,762

31. Notes To Consolidated Cash Flow Statement (Continued)

(b) Disposal of subsidiaries

US\$'000	2000	1999
Net assets disposed		
Fixed assets	6,181	–
Non-current assets	182	–
Debtors and prepayments	1,407	–
Cash and bank balances	439	–
Creditors and accruals	(875)	–
Short-term loans	(2,295)	–
	5,039	–
Loss on disposal	(4,565)	–
Cash consideration	474	–
Cash and bank balances disposed	439	–
Net cash inflow on disposal of subsidiaries	35	–

(c) Acquisition of a subsidiary

US\$'000	2000	1999
Net assets acquired		
Fixed assets	–	82
Non-current assets	–	26
Debtors and prepayments	–	509
Cash and bank balances	–	773
Creditors and accruals	–	(458)
Interest held in a jointly controlled entity	–	(466)
	–	466
Capital reserve on acquisition	–	(68)
Cash consideration	–	398
Cash and bank balances acquired	–	773
Net cash inflow on acquisition of a subsidiary	–	375

31. Notes To Consolidated Cash Flow Statement (Continued)

(d) Analysis of changes in financing during the year

US\$'000	Share capital and premium	Minority interests	Loans and finance lease obligations	Total
At 31st December 1998	86,787	5,463	695,929	788,179
Changes in exchange rates	–	–	(121)	(121)
Inception of finance leases	–	–	10,291	10,291
Minority interests' share of profit	–	402	–	402
Dividends paid to minority interests	–	(357)	–	(357)
Net cash outflow from financing	–	–	(51,375)	(51,375)
At 31st December 1999	86,787	5,508	654,724	747,019
Changes in exchange rates	–	(129)	(769)	(898)
Inception of finance leases	–	–	212,246	212,246
Minority interests' share of profit	–	614	–	614
Dividends paid to minority interests	–	(433)	–	(433)
Disposal of subsidiaries	–	–	(2,295)	(2,295)
Net cash inflow/(outflow) from financing	–	(1,028)	21,435	20,407
At 31st December 2000	86,787	4,532	885,341	976,660

(e) Analysis of cash and cash equivalents

US\$'000	2000	1999
Bank balances and deposits maturing within three months from the date of placement	338,132	278,223
Portfolio investments	53,243	75,907
Overdrafts and bank loans repayable within three months from the date of advance	(66,712)	(78,312)
	324,663	275,818

32. Approval Of Accounts

The accounts were approved by the Board of Directors on 16th March 2001.