Financial Review

Analysis of Consolidated Profit and Loss Account

Summary of Group Results

US$'000	2002	2001	Variance
Operating results by activity:			
International transportation and logistics	**69,481**	116,735	(47,254)
Container terminals	**11,856**	9,788	2,068
Property investment and development	**19,631**	(711)	20,342
Investments and corporate services	**(5,921)**	(4,366)	(1,555)
Earnings before interest and tax	**95,047**	121,446	(26,399)
Interest income	**11,079**	11,218	(139)
Interest expense	**(36,932)**	(55,987)	19,055
Financing charges	**(6,292)**	(5,588)	(704)
Profit before taxation	**62,902**	71,089	(8,187)
Taxation	**(10,954)**	(9,280)	(1,674)
Minority interests	**(210)**	(522)	312
Profit attributable to shareholders	**51,738**	61,287	(9,549)

Comparative figures of 2001 have been restated or reclassified in accordance with the new and revised accounting standards issued by the Hong Kong Society of Accountants. The details of restatement and reclassification are included in Note 1 to the Accounts.

International Transportation and Logistics

Summary of Operating Results

US$'000	2002	2001	Variance
Turnover			
Asia	**1,439,984**	1,387,763	52,221
North America	**417,455**	400,002	17,453
Europe	**316,557**	309,064	7,493
Australia	**44,124**	37,783	6,341
	2,218,120	2,134,612	83,508
Cargo costs	**(1,013,763)**	(952,834)	(60,929)
Vessel and voyage costs	**(476,820)**	(437,214)	(39,606)
Equipment and repositioning costs	**(368,111)**	(340,650)	(27,461)
Gross profit	**359,426**	403,914	(44,488)
Business and administrative expenses	**(283,537)**	(289,124)	5,587
Other operating income, net	**2,510**	2,674	(164)
	78,399	117,464	(39,065)
Share of results of jointly controlled entities	**(8,918)**	(729)	(8,189)
Earnings before interest and tax	**69,481**	116,735	(47,254)

The operating results for international transportation and logistics include the operations of Long Beach Container Terminal in California USA and Kaohsiung Terminal in Taiwan which form an integral part of that business.

The international transportation and logistics business trades under the "OOCL" name and continues to be the principal revenue contributor to the Group and accounted for approximately 90% of the Group's revenue in 2002. Although the scale and operation of property development projects in China has gradually matured and income from that sector rises, international transportation and logistics will continue to be the core business of the Group in which the majority of operating assets will be deployed.

Asia

Asia is the largest revenue generating area for the international transportation and logistics business. Turnover categorised under this area is composed of the following:

- Eastbound freight of the Asia/North America West Coast service;
- Eastbound freight of the Asia/US East Coast service;
- Westbound freight of the Asia/Northern Europe service;
- Westbound freight of the Asia/Mediterranean service;
- Southbound freight of the Asia/Australia and New Zealand service;
- various Intra-Asia services; and
- the operation of Kaohsiung Terminal in Taiwan.

Turnover from the Asia area rose from US$1,387.8 million in 2001 to US$1,440.0 million in 2002 with a notable increase in the exports to North America across the Pacific, where a significant portion of the revenue was derived. Intra-Asia services maintained a healthy growth in terms of cargo volume but on the revenue side, freight rates declined during the year. The turnover growth achieved by other services was, in part, eroded by the drop in revenue from the Asia/Northern Europe segment.

Liftings on the Eastbound Asia/North America West Coast service increased by 18% while the Westbound leg of the Asia/Northern Europe service also recorded a 3% growth. However, the fall in average freight rates, by 12% and 13% respectively for the two trades, limited the revenue gain for the year.

Overall load factors as a percentage of the capacity available during 2002 rose by 4%, reflecting an increase in business activity on the Trans-Pacific and Europe bound routes. Results from this region will always be dependent upon the economic environment and consumption patterns in North America and Europe.

Kaohsiung Container Terminal in Taiwan forms an integral part of the international transportation and logistics business and its terminal facilities were mainly employed by OOCL and its alliance colleagues.

North America

Turnover categorised under the North America area is comprised primarily of the following:

- Westbound freight of the Asia/North America West Coast service;
- Westbound freight of the Asia/US East Coast service;
- Eastbound freight of the US East Coast/Northern Europe service;
- Eastbound freight of the Canada/Northern Europe service; and
- the operation of Long Beach Container Terminal in California, USA.

Revenue increased marginally by US$17.5 million for this area in 2002. Positive growth in liftings was achieved on the Trans-Pacific services but was, however, counteracted to a large extent by freight rate declines. The Eastbound trades to Europe displayed the same pattern with a pick up in liftings offset by a drop in average rates.

Westbound liftings on the Asia/North America West Coast service recorded a slight increase over last year while the Westbound trade of the Asia/US East Coast service via the Panama Canal achieved a notable improvement, taking advantage of the temporary work stoppage at US West Coast ports in the latter part of the year. The revenue gain from the growth in liftings on the Eastbound Canada/Northern Europe and US East Coast/Northern Europe was largely eroded by the two-digit decline in average freight rates during the year.

Average revenue per TEU on all outbound cargoes from North America fell by 8% in 2002 compared with 2001, with a notable decline in the Transatlantic routes.

With the growth in liftings outpacing the increase in capacity, overall load factors in the region recorded a 2% gain from last year.

Long Beach Container Terminal forms an integral part of the international transportation and logistics business with its terminal facilities mainly employed by OOCL and its alliance partners. The operating results of the terminal were comparable with those of 2001.

Europe

Turnover categorised under the Europe area is composed primarily of the following:

- Westbound freight of the US East Coast/Northern Europe service;
- Westbound freight of the Canada/Northern Europe service;
- Eastbound freight of the Asia/Northern Europe service;
- Eastbound freight of the Asia/Mediterranean service; and
- various Intra-European services.

Turnover for this area in 2002 slightly surpassed that of 2001 by US$7.5 million. The Eastbound leg of the Asia/Northern Europe services, being the largest source of revenue for the Europe area, suffered from a dramatic drop in freight rates, which was only alleviated, in part, by a moderate growth in liftings. The increase in turnover for 2002 was largely contributed by the various expanding Intra-European services.

The performance of the Westbound sectors of the Canada/Northern Europe and US East Coast/Northern Europe services were no better than the Asia bound leg under the influence of a strengthening Euro. The positive growth in liftings was largely eroded by an erosion of freight rates. The strategic expansion of various Intra-European services, on the other hand, recorded a commendable increase in both liftings and revenue for the year.

Overall load factors as a percentage of capacity available for cargo shipments from this region were 9% ahead of 2001 which is attributable to a stagnant growth in capacity against a moderate liftings increase for the year.

Average revenues per TEU on all outbound cargoes from Europe recorded a 9% reduction from the 2001 levels with both the Transatlantic trade lanes and the export market to Asia experiencing similar pressure on freight rates.

Australia

Turnover from this area is principally the Northbound freight of our Asia/Australia and New Zealand services. The East Asia/Australia service, operating in alliance with ZIM, ANL, K Line, MOL, NYK, P&O and China Shipping, expired in April 2002 and was replaced by a new consortium comprising ANL, China Shipping and ZIM from May 2002 onwards. The South East Asia/Australia service is operated in alliance with MISC, MOL and PIL. The New Zealand service is operated under a slot purchase agreement with Pacific International Lines and RCL.

Liftings on the Northbound Asia/Australia and New Zealand service increased by 37% in 2002, at the expense of a 14% drop in average revenue, resulting in a net gain in turnover of US$6.3 million for the year.

Operating Costs

Cargo costs mainly consist of terminal charges, inland transportation costs, commission and brokerage, cargo assessment and freight tax which were largely paid in the local currencies of the areas in which the activities were performed. With a 13% growth in liftings for 2002, total cargo costs also rose by US$60.9 million, a 6.4% increase. Although terminal and transportation costs grew at a higher rate, savings were recorded in items such as commission and brokerage.

Vessel costs include the operating costs and depreciation charges for the OOCL fleet as well as the net charter hire and slot hire expenses incurred in order to maintain the desired service level. Although the number of vessels, 47 vessels, either owned or chartered in and operated by OOCL remained unchanged from 2001, total carrying capacity increased from the 146,973 TEU of 2001 to 153,543 TEU in 2002 through the phase-in of larger vessels. Vessel costs only increased slightly in 2002 with the deployment of newer vessels which were more cost efficient and commanded less repair and maintenance expenses.

Voyage costs comprise mainly bunker costs, port charges, canal dues, cargo claims and insurance. The number of sailings in 2002 increased by 4% and bunker prices also rose from an average of US$130 per ton in 2001 to an average of US$143 per ton during 2002. Costs in this category were driven up by 12.1%, as a result.

Equipment costs principally represent maintenance and repair costs, rental payments, depot expenses and depreciation charges for the fleet of containers and chassis equipment while repositioning costs mainly arise from relocating empty containers from areas of low activity to high demand regions. Total equipment and repositioning costs increased by US$27.5 million in 2002, which was in line with the growing size of the container fleet from the 315,013 TEU of 2001 to 369,699 TEU in 2002.

Business and administrative expenses largely comprise staff costs, office expenses, selling and marketing costs and professional and information system expenses. Although business volumes increased, the successful implementation of IRIS-2 led to overall efficiency gains and business and administrative expenses decreased in 2002 by US$5.6 million as a result.

Share of Results of Jointly Controlled Entities

Investments include a jointly controlled entity which was formed by members of the former Global Alliance to engage in vessel chartering. Following the reorganisation of that alliance at the end of 1997, vessel chartering activities in this joint venture company were much reduced and resulted in operating losses in subsequent years. Losses from this joint venture enlarged to US$8.9 million in 2002 as chartering activities further deteriorated during the year.

Earnings Before Interest and Tax

Earnings before interest and tax of US$69.5 million for the international transportation and logistics business in 2002 was US$47.3 million lower than last year. The slowdown in global economic growth adversely affected our performance in the first half of 2002. However, the steadily improving business conditions from mid 2002 onwards and the recovery in freight rates over the last few months of 2002 served to improve the full year result and narrowed the variance.

Container Terminals

Summary of Operating Results

US$'000	2002	2001	Variance
Throughput (units)	**1,051,051**	1,012,341	38,710
Turnover	**215,748**	221,482	(5,734)
Terminal operating costs	**(171,542)**	(171,587)	45
Gross profit	**44,206**	49,895	(5,689)
Business and administrative expenses	**(32,350)**	(43,522)	11,172
Profit on disposal of an investment	**—**	3,415	(3,415)
Earnings before interest and tax	**11,856**	9,788	2,068

Container terminal activities include the Group's multi-user terminal operations namely:

TSI Terminal Systems Inc. ("TSI") a wholly owned terminal and management company which operates the Vanterm terminal in Vancouver, Canada and the Deltaport Terminal at Roberts Bank near Vancouver. OOCL and other Grand Alliance members are principal customers of the terminals. After a slight profit set back in 2001, TSI's profitability returned to a commendable level in 2002 and prospects for the coming year remained positive.

Howland Hook Container Terminal, Inc. ("HHCTI") operates a three berth terminal facility on Staten Island, New York, USA. The Group owned an 80% interest in this company when business operations commenced in 1996. The Grand Alliance services began calling at the terminal in late 1999 and have since became a major customer. In 2001, a major management change took place with the Group acquiring the remaining 20% equity from the minority shareholder and it thus became a wholly owned subsidiary of the Group.

Global Terminal and Container Services, Inc. ("Global") operates a two berth terminal facility in New Jersey, USA. These facilities are used by a number of third party carriers. In 2001, one of Global's two major customers was declared bankrupt and withdrew from business. Another major customer, in the light of service rationalisation, also ceased calling at the terminal in early 2002, resulting in Global incurring a significant loss for the year.

Turnover

Turnover dropped by US$5.7 million in 2002 as a result of the significant drop in the business volumes of Global. Although total throughput levels surpassed last year's and set a new record, turnover recorded a decrease due to a decline in average revenue per box handled.

Terminal Operating Costs

Terminal operating costs were maintained at the 2001 level despite a moderate growth in the number of boxes handled in 2002. Continual improvements in productivity achieved by the Deltaport Terminal in Vancouver and stringent cost controls successfully implemented in HHCTI principally accounted for the lower average operating cost per lift in 2002.

Business and Administrative Expenses

Business and administrative expenses in 2001 included a one-time compensation payment made in respect of management changes in HHCTI and provisions in respect of doubtful receivables. With these non-recurring charges having disappeared in 2002 and the stringent cost controls, business and administrative expenses were US$11.2 million lower than last year.

Profit on Disposal of an Investment

In 2001, the Group disposed of its approximately 38% equity interest in Vecon, a two berth terminal facility in Venice, Italy. A profit of US$3.4 million arose from the disposal. No further investment disposal was made in 2002.

Earnings Before Interest and Tax

Overall operating results improved in 2002 with profit growth at TSI and improved performance in HHCTI more than offsetting the poor results recorded by Global.

Property Investment and Development

Summary of Operating Results

US$'000	2002	2001	Variance
Rental income	**18,510**	20,092	(1,582)
Property management costs	**(8,556)**	(8,316)	(240)
Gross profit	**9,954**	11,776	(1,822)
Business and administrative expenses	**(3,027)**	(2,364)	(663)
Profit before exceptional items	**6,927**	9,412	(2,485)
Revaluation deficit	**—**	(20,000)	20,000
Profit/(loss) from property investment	**6,927**	(10,588)	17,515
Profit from property development	**12,704**	9,877	2,827
Earnings/(loss) before interest and tax	**19,631**	(711)	20,342

The Group owns an approximately 600,000 sq ft office and commercial property, Wall Street Plaza, located at 88 Pine Street, New York, USA, an area popularly referred to as the "Wall Street area". The building was constructed in 1972 and is operated as a multi-tenanted building. Approximately 20,000 sq ft is occupied by Group companies. The Group also owns an 8% interest in a modern comprehensive office, commercial, hotel and residential apartment complex known as "Beijing Oriental Plaza", with a gross floor area of approximately 570,000 sq m, on a site located at Wangfujing Dajie, Beijing.

In addition, the Group owns interests in a number of jointly controlled entities to participate in property development projects in China. The primary location of the property development projects is in Shanghai. The principal profit contributor for the year was the development project in Ziyang Lu ("Century Metropolis") Phase 1B, Shanghai. The major income source in 2001 were the development projects, Zhenning Lu (the "Courtyards") and Phase 1A of Century Metropolis. The Group also acquired a land site in Luwan, Shanghai in the second half of 2001 and resettlement work started in 2002.

Rental Income

Rental income for 2002, representing mainly the rental income derived from Wall Street Plaza, was lower than the 2001 level due mainly to the early return of the leased space by one tenant under Chapter XI protection.

Revaluation Deficit

Wall Street Plaza was acquired in 1987 by the Group for US$150.0 million but was progressively written down based on professional valuations to reflect the then current market values. The building was valued at US$110 million at the end of 2000, but revalued downward to US$90 million in 2001, resulting in a US$20 million revaluation deficit for that year. The building was valued at US$90 million at the end of 2002 on an open market basis and by the same valuer, representing no change from last year.

Profit From Property Development

A profit of US$12.7 million was recorded from property development in 2002 compared with US$9.9 million in 2001. A majority of the current year profit arose from the Century Metropolis project in Shanghai while the principal profit contributor in 2001 was the Courtyards project.

Investments and Corporate Services

US$'000	**2002**	2001	Variance
Portfolio investment income	**1,511**	4,743	(3,232)
Long-term investment income	**30**	1,704	(1,674)
Profit/(loss) on disposal of long-term investments	**31**	(92)	123
Provision release/(for) diminution in value of long-term investments	**507**	(2,000)	2,507
Others	**(8,000)**	(8,721)	721
Loss before interest and tax	**(5,921)**	(4,366)	(1,555)

Investments in portfolio and, on a longer term basis, in bonds were managed in 2002 largely by in-house managers operating under guidelines imposed by the Investment Committee of the Board. No investment in financial derivatives, where the Group is exposed to financial obligation larger than the amount invested, is allowed.

Portfolio investments recorded a profit of US$1.5 million for 2002, a drop of US$3.2 million as compared with 2001. The portfolio investment result reflected the generally lower levels of return in the financial markets during 2002.

The income generated from long-term investments was negligible for 2002 compared with US$1.7 million in 2001 as a majority of the bonds previously held matured during the year.

In 2001 a provision of US$2.0 million was made for the diminution in value of an investment fund. A release of provision of US$0.5 million was made in 2002.

"Others" include corporate business and administration overheads, the operating results of residual businesses, exchange, the research costs of financial projects and other miscellaneous income and expenses. With savings recorded for corporate business and administration overheads, the expenses level in 2002 was US$0.7 million lower than that of 2001.

Interest Income, Expense and Financing Charges

The Group invests surplus liquid funds, other than funds allocated for investments in bonds and listed equity securities, in cash and bank deposits. The Group incurs interest expenses on bank loans, finance leases and, to a very small extent, on bank overdrafts. These borrowings are variously secured against vessels, containers, chassis, terminal equipment and the investment property owned by the Group. The Group also incurs financing charges on its asset securitisation programme and fees as a result of finance arrangement and lease administration.

Interest Income

Interest income arises from the deposit of available Group cash balances on a short-term basis with banks and other financial institutions. Interest income may vary year to year with the cash flows of the business, the level of capital expenditure and new investments (particularly in relation to property development projects in China) and the amount which the Group commits to its investment portfolio. Despite the decline in average interest rates, total interest income for 2002 was maintained at a comparable level of 2001 as interest rates on certain restricted deposits were more favourable.

Interest Expense

In line with the general decline in interest rates, interest expense decreased by US$19.1 million in 2002. A lower level of indebtedness for the year, as a result of scheduled repayments being greater than new loans drawn, also contributed to the savings in interest costs. The average cost of finance dropped from 4.3% in 2001 to 3.8% in 2002.

Financing Charges

Financing charges mainly include loan arrangement fees, commitment fees, financing costs for loan stocks and charges for the asset securitisation programme. Although there were savings in the asset securitisation programme with the lower prevailing interest rates, total financing charges for the year showed an increase of US$0.7 million principally due to the financing costs associated with the loan stocks of a subsidiary.

Profit before Taxation

Pre-tax profit for the year fell to US$62.9 million compared with US$71.1 million in 2001. The year 2001 pre-tax profit included a revaluation deficit of US$20 million from our investment property Wall Street Plaza. The international transportation, logistics and terminals business showed a commendable result for a year which started under an extremely difficult operating environment. The Group's result was aided by contributions from the strategically planned property investment and development segment.

Taxation

US$'000	**2002**	2001	Variance
Current overseas taxation			
Company and subsidiaries:			
North America	**6,450**	8,066	1,616
Europe	**107**	279	172
China	**381**	689	308
Asia and others	**289**	157	(132)
Jointly controlled entities:			
Europe	**13**	11	(2)
China	**3,714**	78	(3,636)
Total	**10,954**	9,280	(1,674)

The Group's tax liabilities largely arise from profits on its terminal operations in North America. Tax was also incurred for agency and logistics activities carried on in other parts of the world. The lower tax liabilities in North America for the year principally reflected the loss of Global Terminal in New Jersey while the increase in tax amount for jointly controlled entities was attributable to profits derived from property development projects in China.

Review of Consolidated Balance Sheet

Summary of Consolidated Balance Sheet

US$'000	2002	2001	Variance
Fixed assets	**1,342,438**	1,365,378	(22,940)
Jointly controlled entities	**35,576**	47,250	(11,674)
Long-term investments	**100,763**	98,783	1,980
Intangible assets	**27,541**	32,568	(5,027)
Cash and portfolio investments	**412,446**	402,424	10,022
Accounts receivable and properties under development and for sale	**258,913**	192,986	65,927
Deferred assets	**11,663**	10,895	768
GROSS ASSETS	**2,189,340**	2,150,284	39,056
Accounts payable and accruals	**(383,550)**	(356,261)	(27,289)
Current taxation	**(3,870)**	(4,311)	441
GROSS ASSETS LESS TRADING LIABILITIES	**1,801,920**	1,789,712	12,208
Long-term liabilities	**682,759**	760,386	(77,627)
Bank loan, overdrafts and current portion of long-term liabilities	**212,849**	176,073	36,776
Total debt	**895,608**	936,459	(40,851)
Minority interests and deferred liabilities	**45,869**	40,329	5,540
Ordinary shareholders' funds	**860,443**	812,924	47,519
CAPITAL EMPLOYED	**1,801,920**	1,789,712	12,208
Debt to equity ratio	**1.0**	1.2	
Net debt to equity ratio	**0.6**	0.7	
Accounts payable as a % of turnover	**15.6**	15.0	
Accounts receivable as a % of turnover	**7.9**	7.4	
% return on average ordinary shareholders' funds	**6.2**	7.7	
Net asset value per ordinary share (US$)	**1.66**	1.57	
Cash and portfolio investments per ordinary share (US$)	**0.80**	0.78	
Share price at 31st December (US$)	**0.49**	0.43	
Price earnings ratio based on share price at 31st December	**4.9**	3.7	

Comparative figures of 2001 have been restated or reclassified in accordance with the new and revised accounting standards issued by the Hong Kong Society of Accountants. The details of restatement and reclassification are included in Note 1 to the Accounts.

Fixed Assets

US$'000	2002	2001	Variance
International transportation and logistics	**1,114,406**	1,143,527	(29,121)
Container terminals	**137,939**	131,850	6,089
Property investment and development	**90,093**	90,001	92
	1,342,438	1,365,378	(22,940)

International transportation and logistics remains the core business of the Group and the one in which the majority of fixed assets are deployed. The assets largely comprise container vessels, containers and chassis, property, terminal and computer equipment and systems. In 2002, the Group placed orders for another two new container vessels, in addition to the seven vessels ordered in 2000 to 2001. The decrease in fixed assets was due mainly to the annual depreciation charges for the year.

The increase in fixed assets in container terminals in 2002 included the additional terminal equipment acquired by TSI during the year more than offsetting the charges for depreciation.

Fixed assets in property investment and development activities mainly represent the commercial building, Wall Street Plaza, in New York. The book value of this building was maintained at a valuation of US$90.0 million at the end of 2002, unchanged from that at the end of 2001.

Jointly Controlled Entities

US$'000	2002	2001	Variance
International transportation and logistics	**4,185**	7,251	(3,066)
Property investment and development	**31,391**	38,702	(7,311)
Others	**—**	1,297	(1,297)
	35,576	47,250	(11,674)

The investment in jointly controlled entities by international transportation and logistics mainly represents the 25% interest in a joint venture company formed pursuant to arrangements of the old Global Alliance to own and then charter vessels to alliance partners, and an interest in a joint venture for the operation of a container depot and transportation business in Qingdao.

Due to the reorganisation of the old Global Alliance in late 1997, the chartering of vessels to the then alliance partners resulted in losses. A loss of US$8.9 million was incurred in 2002 and, offset by a further contribution of US$6.1 million by the Group during the year, accounted for the drop in net investment value at year end.

For property development activities, investments in jointly controlled entities mainly consist of:

— a 47.5% interest in a domestic housing project located at Nan Chang Lu, Shanghai ("Joffre Gardens"). The development consists of four residential towers with approximately 70,000 sq m of gross floor area. The project was completed in 2000 when a greater part of the profit was recorded. The majority of the remaining units was sold in 2001. Liquidation of the project is currently underway.

— a 47.5% interest in a domestic housing project located at Zhenning Lu, Shanghai (the "Courtyards"). The development consists of four residential towers with a total gross floor area of approximately 65,000 sq m. The project was completed in 2001 and all units were sold and handed over to their buyers during the year. Dividend distribution and capital repatriation in respect of the project were largely completed in 2002.

— a 47.5% interest in a domestic housing project located at Ziyang Lu, Shanghai ("Century Metropolis") with a total gross floor area of approximately 240,000 sq m. This project is being developed in phases. Phase 1A was completed and handed over to buyers at the end of 2001. Handover of Phase 1B began in 2002 and Phase 2A was topped out in December of the year. The project was the major profit contributor for 2002.

The decrease in the investment in jointly controlled entities for property development activities is mainly a reflection of the dividends and capital repatriations from the Zhenning Lu project, offset in part by the profit recorded for the Ziyang Lu project for the year.

Long-term Investments

US$'000	**2002**	2001	Variance
International transportation and logistics	**1,072**	1,054	18
Container terminals	—	3,370	(3,370)
Property investment and development	**93,888**	93,601	287
Others	**5,803**	758	5,045
	100,763	98,783	1,980

Long-term investments of the Group at 31st December 2002 amounted to US$100.8 million, principally represented by the Group's 8% interest in Beijing Oriental Plaza of US$93.6 million.

Intangible Assets

US$'000	2002	2001	Variance
International transportation and logistics	**21,576**	25,143	(3,567)
Container terminals	**755**	1,754	(999)
Property investment and development	**5,210**	5,671	(461)
	27,541	32,568	(5,027)

Intangible assets principally represent computer software development costs, deferred property leasing expenses and financing charges. Other than property leasing expenses, which will be written-off over the leasing period, intangible assets are to be amortised over five years.

Cash and Portfolio Investments

US$'000	2002	2001	Variance
International transportation and logistics	**169,876**	148,111	21,765
Container terminals	**11,738**	14,980	(3,242)
Property investment and development	**10,054**	7,631	2,423
Portfolio investment funds	**220,778**	231,702	(10,924)
	412,446	402,424	10,022

The Group adopts a central treasury system under which funds surplus to planned requirements are set aside for portfolio investments in fixed income bonds or equities managed by in-house managers under guidelines imposed by the Investment Committee of the Board. Cash outlays in addition to normal operations are funded through the planned liquidation of portfolio investment funds.

Cash and portfolio investments per ordinary share at 31st December 2002 amounted to US$0.80 compared with US$0.78 at 31st December 2001.

The Group's investment portfolios are largely invested in short to medium-term US dollar bonds and similar instruments and short-term cash deposits. No investments are made in derivative investment products.

Accounts Receivable and Properties under Development and for Sale

US$'000	2002	2001	Variance
International transportation and logistics	**145,098**	125,635	19,463
Container terminals	**37,476**	42,753	(5,277)
Property investment and development	**76,269**	24,469	51,800
Others	**70**	129	(59)
	258,913	192,986	65,927

Accounts receivable and properties under development and held for sale increased by US$65.9 million to US$258.9 million at the end of 2002, principally reflected by further investments in the Luwan development project, Shanghai.

Accounts Payable and Accruals

US$'000	2002	2001	Variance
International transportation and logistics	**340,713**	318,536	22,177
Container terminals	**38,898**	30,316	8,582
Property investment and development	**1,941**	1,676	265
Others	**1,998**	5,733	(3,735)
	383,550	356,261	27,289

Accounts payable at the end of 2002 were US$27.3 million higher than those at the end of 2001. Accounts payable as a percentage of turnover at 15.6% was also higher than for 2001.

Total Debt

US$'000	2002	2001	Variance
Bank loans	**590,788**	586,826	3,962
Other secured loans	**21,606**	28,153	(6,547)
Finance lease obligations	**239,200**	278,585	(39,385)
Bank overdrafts and short-term loans	**44,014**	42,895	1,119
	895,608	936,459	(40,851)

Total debt decreased during the year by US$40.9 million principally as a result of the scheduled repayment of loans and bank indebtedness, offset in part by indebtedness drawn in 2002 to finance the capital expenditure on asset acquisitions. The repayment profile of the Group's long-term liabilities is set out in Note 25 to the Accounts. Total debt is a mixture of fixed and floating rate indebtedness.

Debt Profile

As at the end of 2002, over 92% (2001 : 91%) of the Group's total debts were denominated in US dollars which effectively reduces the risk of exchange fluctuations. Loans in currencies other than US dollars are hedged with comparable amount of assets in local currencies.

Of the total US$895.6 million debt outstanding at the end of 2002, US$160.3 million was fixed rate debt comprised mainly of container and terminal equipment leases. The fixed rates range from 6.2% to 10.6% dependent upon the cost of money at the time each transaction was entered into. The remaining US$735.3 million of indebtedness was subject to floating interest rates at various competitive spreads over three months LIBOR (or equivalent) and relates principally to indebtedness on vessels and the investment property, Wall Street Plaza. In order to reduce the impact on the Group's profitability of fluctuating interest rates, the Group entered into interest rate collar contracts for US$100 million of its floating rate debt. The Group's average cost of debt at 31st December 2002 was 3.8%, inclusive of the interest rate hedging contracts.

Net Debt to Equity Ratio

This ratio was lower at 0.6 during 2002, as against 0.7 for 2001, with commendable profits recorded for the year. The ratio is expected to rise in 2003 following the delivery and financing of new vessels ordered. However, forecasts for the business over the next five years indicate that the Group's objective to keep this key ratio below the 1.0 threshold will be achieved.

Operating Leases and Commitments

In addition to the operating assets owned by the Company and its subsidiaries, the Group also manages and utilises assets through operating lease arrangements. The total rental payment in respect of these leases for 2003 amounted to US$236.8 million as detailed in Note 32(b) to the Accounts of this report. Assets under operating lease arrangements consist primarily of container boxes, chassis, container vessels and certain terminals in North America.

At the end of 2002, the Group had outstanding capital commitments amounting to US$719.6 million, principally represented by the orders placed for nine new container vessels to be delivered in 2003 to 2005.

Analysis of Consolidated Cash Flow Statement

Summary of Consolidated Cash Flow

US$'000	2002	2001	Variance
Net cash inflow from operations	**169,846**	255,535	(85,689)
Investing and financing inflow:			
Interest and investment income	**9,455**	18,099	(8,644)
Sale of fixed assets and investments	**2,566**	8,257	(5,691)
New loan drawdown	**94,763**	90,589	4,174
Cash from jointly controlled entities	**10,575**	12,795	(2,220)
Capital contribution from minority interests	**3,600**	—	3,600
Others	**527**	523	4
	121,486	130,263	(8,777)
Investing and financing outflow:			
Interest paid	**(43,202)**	(63,195)	19,993
Dividends paid to shareholders	**(7,757)**	(20,685)	12,928
Taxation paid	**(5,966)**	(17,555)	11,589
Purchase of fixed assets and investments	**(70,203)**	(182,361)	112,158
Loan repayments	**(149,609)**	(151,840)	2,231
Purchase of intangible assets	**(7,088)**	(4,579)	(2,509)
Others	**(470)**	(510)	40
	(284,295)	(440,725)	156,430
Net cash inflow/(outflow)	**7,037**	(54,927)	61,964
Beginning cash and portfolio balances	**402,424**	458,025	(55,601)
Changes in exchange rates	**2,985**	(674)	3,659
Ending cash and portfolio balances	**412,446**	402,424	10,022
Represented by:			
Unrestricted bank balances and deposits	**304,858**	264,938	39,920
Restricted bank balances and deposits	**53,312**	86,062	(32,750)
Portfolio investments	**54,276**	42,935	11,341
Debt securities held as long-term investments	**—**	8,489	(8,489)
	412,446	402,424	10,022

A net cash inflow of US$7.0 million was recorded for 2002 as compared with a net outflow of US$54.9 million for 2001. Operating cash inflow for the year was lower than that of 2001 due to the decrease in operating profit and a part of the working capital being invested in property under development. Lower interest and investment income in 2002 was more than compensated for by less outlay on interest paid while cash from jointly controlled entities mainly represented dividends and capital repatriations from completed property development projects in China. Capital contributions from minority interests were received from the minority shareholder of the Luwan development project in Shanghai. With no new vessel delivered in 2002, capital payments were substantially lower than in 2001.

Liquidity

As at 31st December 2002, the Group had total cash and portfolio investment balances of US$412.4 million compared with debt obligations of US$168.8 million repayable in 2003. Total current assets at the end of 2002 amounted to US$649.8 million against total current liabilities of US$600.3 million. The Group's shareholders' funds are entirely ordinary shareholders' equity and no loan capital is in issue. The Group prepares and updates cashflow forecasts for asset acquisitions, project development requirements, as well as working capital needs, from time to time with the objective of maintaining a proper balance between a conservative liquidity level and the efficient investment of surplus funds.