Notes to the Accounts

1. Principal accounting policies

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

In 2002, the Group adopted and implemented the new Statement of Standard Accounting Practice ("SSAP") 34 "Employees benefits" and the revised SSAP12 "Income taxes" issued by the Hong Kong Society of Accountants. The revised SSAP12 is applied in advance of its effective date. As a result, the Group has changed its accounting policies for defined benefit pension schemes and deferred taxation as detailed in notes (n) and (o) below. These changes in accounting policies have been applied retrospectively and accordingly, reserves of the Group as at 31st December 2001 have been reduced by US$20.4 million.

Following the adoption and implementation of the new and revised accounting standards, certain comparative figures have been restated or reclassified to conform with the current year presentation. Details of the restatement and reclassification to the 2001 comparative figures are as follows:

US$'000	
Profit attributable to shareholders	
Before restatement	59,648
SSAP12 Income taxes adjustments (note 1 (n))	1,639
After restatement	61,287
Shareholders' funds	
Before restatement	833,368
SSAP34 Employees benefits adjustments (note 1 (o))	(1,668)
SSAP12 Income taxes adjustments (note 1 (n))	(18,776)
After restatement	812,924

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

(a) Basis of consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. Subsidiaries are companies in which the Group has the power to exercise control governing the financial and operating policies of the company.

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

Results attributable to subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the date on which control is transferred to the Group or to the date that control ceases, as applicable.

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

1. Principal accounting policies (Continued)

(b) Goodwill and capital reserve

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

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

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

(c) Jointly controlled entities

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

(d) Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and provision for significant permanent impairment in values.

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

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

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

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

1. Principal accounting policies (Continued)

(d) Property, plant and equipment (Continued)

Major costs incurred in restoring assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group. The carrying amounts of assets are reviewed regularly. Where the estimated recoverable amounts have declined permanently below their carrying amounts, the carrying amounts are written down to their estimated recoverable amounts.

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

(e) Investments

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

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

Portfolio investments comprising mainly marketable securities, which are acquired principally for the purpose of generating a profit from short-term fluctuation in price and are readily convertible into cash, are included in the balance sheet under current assets and are carried at their realisable values. Income from portfolio investments, together with surplus or deficit, including exchange differences, arising from the sale or revaluation is included in the profit and loss account under net financing charges.

(f) Investments in finance leases

Assets leased to third parties under agreements that transfer substantially all the risks and rewards incident to ownership of the relevant assets to the lessees are classified as investments in finance leases. The present value of the lease payments is recognised as a receivable in the balance sheet. Gross earnings under finance leases are recognised over the term of the lease using the net investment method which reflects a constant periodic rate of return on the net investment in the leases.

1. Principal accounting policies (Continued)

(g) Leased assets

Assets leased from third parties under agreements that transfer substantially all the risks and rewards incident to ownership of the relevant assets to the Group are classified as finance leases. At the inception of a finance lease, the fair value of the asset or, if lower, the present value of the minimum lease payments, derived by discounting them at the interest rate implicit in the lease, is capitalised as an asset; the corresponding obligations, net of finance charges, is included under long-term liabilities. Assets held under finance leases are depreciated on the basis described in note (d) above. Gross rental payable in respect of finance leases are apportioned between interest charges and a reduction of the lease obligations based on the interest rates implicit in the relevant leases.

Leases where a significant portion of the risk and rewards of ownership are retained by the lessors are classified as operating leases. Rentals payable, net of incentives received from the lessors, under operating leases are charged to the profit and loss account over the periods of the respective leases on a straight line basis or another systematic basis which is representative of the time pattern of the benefit to the lessees.

(h) Vessel repairs and surveys

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

(i) Computer software development costs

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

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

(j) Deferred expenditure

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

(k) Properties held for sale

Properties under development for sale are included under current assets and comprise land at cost, construction costs and any interest capitalised, less provisions for foreseeable losses. Completed properties held for sale are carried at the lower of cost and net realisable value. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

1. Principal accounting policies (Continued)

(l) Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events. It is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where a provision is expected to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

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

(m) Cash and cash equivalents

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

(n) Deferred taxation

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

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

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

In previous years, deferred taxation was provided at the current tax rates using the liability method in respect of all significant timing differences, principally accelerated depreciation allowances, which was expected to reverse in the foreseeable future. This accounting policy has been changed to conform with the revised SSAP12 and as a result, reserves of the Group as at 31st December 2001 have been reduced by US$18.8 million.

1. Principal accounting policies (Continued)

(o) Employee benefits

The Group operates a number of defined benefit and defined contribution pension and retirement benefit schemes in the main countries in which the Group operates. These schemes are generally funded by payments from employees and by relevant group companies, taking into account of the recommendations of independent qualified actuaries where required.

Contributions under the defined contribution schemes are charged to the profit and loss account in the year to which the contributions relate.

For the defined benefit pension schemes, annual contributions are made in accordance with the advice of qualified actuaries for the funding of retirement benefits in order to build up reserves for each scheme member during the employee's service life and which are used to pay to the employee or dependent a pension after retirement. Such pension costs are assessed using the projected unit credit method, under which, the cost of providing pensions is charged to the profit and loss account so as to spread the regular cost over the service lives of employees in accordance with the advice of the actuaries with full valuation of the plans every two to three years. The pension obligations are measured as the present value of the estimated future cash outflows using interest rates of high quality corporate bonds which have terms to maturity approximating the terms of the related liabilities. Plan assets are measured at fair values. Actuarial gains and losses are recognised in the profit and loss account over the expected average remaining service lives of employees to the extent of the amount in excess of 10% of the greater of the present value of the plan obligations and the fair value of plan assets.

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

Provisions for bonus plans due wholly within twelve months after balance sheet date are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

In previous years, annual contributions to the defined benefit schemes were recognised in the profit and loss account on a systematic basis over the average remaining lives of the employees. This accounting policy has been changed to conform with the new SSAP34 and as a result, reserves of the Group as at 31st December 2001 have been reduced by US$1.7 million.

(p) Revenue recognition

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

1. Principal accounting policies (Continued)

(q) Borrowing costs

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

(r) Financial instruments

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

(s) Foreign currencies

The accounts are expressed in US dollars.

Transactions in other currencies during the year are converted at rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in other currencies at the balance sheet date are translated at rates of exchange ruling at that date. Exchange differences arising are dealt with in the profit and loss account.

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

2. Turnover

US$'000	2002	2001
International transportation and logistics	**2,218,120**	2,134,612
Container terminals	**215,748**	221,482
Property investment and development	**24,084**	22,856
	2,457,952	2,378,950

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

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

3. Operating costs

US$'000	2002	2001
Cargo	**1,013,763**	952,834
Vessel and voyage	**476,820**	437,214
Equipment and repositioning	**368,111**	340,650
Terminal operating	**171,542**	171,587
Property management and development	**8,676**	11,243
	2,038,912	1,913,528

4. Other operating income

US$'000	2002	2001
Long-term investment income, listed	**30**	1,704
Profit on disposal of long-term investments	**31**	3,323
Write back of provision for diminution in value of long-term investments	**222**	—
Profit on disposal of a jointly controlled entity	**4**	—
Profit on disposal of property, plant and equipment	**—**	2,280
Exchange gain and others	**2,535**	2,334
	2,822	9,641

5. Other operating expenses

US$'000	2002	2001
Business and administrative	**320,815**	337,175
Corporate	**7,815**	8,497
Loss on disposal of property, plant and equipment	**2,386**	—
Provision for diminution in value of long-term investments	**—**	2,000
	331,016	347,672

6. Operating profit before financing

US$'000	2002	2001
Operating profit before financing is arrived at after crediting:		
Operating lease rental income		
Land and buildings	**18,510**	20,092
Gross earnings on finance leases	**259**	291
Payment for early termination of property leases	**—**	307
and after charging:		
Depreciation		
Owned assets	**63,172**	54,875
Leased assets	**38,776**	33,352
Operating lease rental expense		
Vessels and equipment	**292,978**	280,728
Land and buildings	**27,919**	25,980
Staff costs		
General and administrative staff	**233,752**	228,437
Terminal workers	**105,164**	107,969
Crew and seamen	**18,257**	19,348
Amortisation of intangible assets	**12,120**	13,613
Auditors' remuneration	**1,679**	1,659

7. Directors' remuneration

US$'000	2002	2001
Fees	**266**	266
Salaries and other emoluments	**1,674**	1,672
Discretionary bonuses	**560**	559
Retirement benefits	**191**	198
	2,691	2,695

7. Directors' remuneration (Continued)

The emoluments of individual Directors fall within the following bands:

Emoluments bands (US$)		Number of directors 2002	2001
Nil ~ 128,200	(Nil~HK$1,000,000)	**3**	3
320,501 ~ 384,600	(HK$2,500,001~HK$3,000,000)	**1**	2
448,701 ~ 512,800	(HK$3,500,001~HK$4,000,000)	**1**	—
833,301 ~ 897,400	(HK$6,500,001~HK$7,000,000)	**1**	1
897,401 ~ 961,500	(HK$7,000,001~HK$7,500,000)	**1**	—
961,501 ~ 1,025,600	(HK$7,500,001~HK$8,000,000)	**—**	1
		7	7

None of the Directors has waived the right to receive their emoluments. Fees and other emoluments paid to non-executive directors amount to US$13,000 (2001: US$13,000) and US$32,000 (2001: US$32,000), respectively.

Details of the emoluments paid to the five individuals, including two (2001: two) Directors, whose emoluments were the highest in the Group are:

US$'000	2002	2001
Salaries and other emoluments	**2,262**	2,326
Discretionary bonuses	**1,012**	1,313
Retirement benefits	**303**	301
	3,577	3,940

7. Directors' remuneration (Continued)

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

Emoluments bands (US$)		Number of individuals 2002	2001
448,701 ~ 512,800	(HK$3,500,001~HK$4,000,000)	**1**	1
576,901 ~ 641,000	(HK$4,500,001~HK$5,000,000)	**1**	—
705,101 ~ 769,200	(HK$5,500,001~HK$6,000,000)	**—**	1
769,201 ~ 833,300	(HK$6,000,001~HK$6,500,000)	**1**	—
833,301 ~ 897,400	(HK$6,500,001~HK$7,000,000)	**1**	2
897,401 ~ 961,500	(HK$7,000,001~HK$7,500,000)	**1**	—
961,501 ~ 1,025,600	(HK$7,500,001~HK$8,000,000)	**—**	1
		5	5

8. Net financing charges

US$'000	2002	2001
Interest expense		
Bank loans, overdrafts and other loans wholly repayable within five years	**22,677**	35,138
Other loans not wholly repayable within five years	**—**	1,075
Finance lease obligations		
Wholly payable within five years	**11,798**	7,188
Not wholly payable within five years	**4,670**	13,017
	39,145	56,418
Amount capitalised under assets	**(2,213)**	(431)
	36,932	55,987
Interest income	**(11,079)**	(11,218)
Net interest expense	**25,853**	44,769
Dividend on preference shares (note 27)	**2,793**	—
Financing charges	**3,499**	5,588
Portfolio investment income	**(1,511)**	(4,743)
	30,634	45,614

Financing charges include the funding costs reimbursed to TAPCO (note 21) amounting to US$2.6 million (2001: US$4.3 million).

9. Taxation

US$'000	2002	2001
Current (overseas)		
Company and subsidiaries	**3,301**	10,830
Jointly controlled entities	**3,727**	89
	7,028	10,919
Deferred		
Company and subsidiaries	**3,926**	(1,639)
	10,954	9,280

Taxation has been provided at the appropriate tax rates prevailing in the countries in which the Group operates on the estimated assessable profits for the year. These rates range from 10% to 53% and the rate applicable for Hong Kong profits tax is 16% (2001: 16%).

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	2002	2001
Profit before taxation	**62,902**	71,089
Tax calculated at applicable tax rate	**16,585**	19,998
Income not subject to tax	**(16,322)**	(19,316)
Expenses not deductible for tax purposes	**6,807**	3,845
Tax losses not recognised	**2,010**	2,493
Temporary differences not recognised	**2,629**	2,820
Utilisation of previously unrecognised tax losses	**(113)**	—
Recognition of previously unrecognised deferred tax assets	**(26)**	(1,176)
Recognition of previously unrecognised temporary differences	**(403)**	(95)
Withholding tax	**415**	176
Other items	**(628)**	535
	10,954	9,280

10. Earnings per ordinary share

The calculation of earnings per ordinary share is based on the profit attributable to ordinary shareholders of US$51.7 million (2001: US$61.3 million) and 517.1 million ordinary shares in issue during the year.

11. Dividends

US$'000	**2002**	2001
Final dividend in respect of 2001 of US1.5 cents (2000: US3 cents) per ordinary share	**7,757**	15,514
Interim dividend in respect of 2001 of US1 cent per ordinary share	**—**	5,171
	7,757	20,685

The Board of Directors declares a final dividend in respect of 2002 of US2.5 cents (2001: US1.5 cents) per ordinary share amounting to US$12.9 million (2001: US$7.8 million). This amount will be accounted for as an appropriation of retained profit in the year ending 31st December 2003.

12. Property, plant and equipment

US$'000	Container vessels	Vessels under construction	Containers	Chassis	Terminal equipment	Land and buildings outside Hong Kong Freehold	Land and buildings outside Hong Kong Medium-term leasehold	Vehicles, furnitures, computer and other equipment	Total
Group									
Cost or valuation									
At 31st December 2001	928,771	132,766	335,933	110,348	206,785	142,407	28,188	98,342	**1,983,540**
Changes in exchange rates	—	—	—	25	748	50	57	930	**1,810**
Additions	482	32,070	25,192	510	17,072	911	332	6,216	**82,785**
Disposals	—	—	(16,748)	(952)	(1,552)	—	(148)	(2,661)	**(22,061)**
At 31st December 2002	929,253	164,836	344,377	109,931	223,053	143,368	28,429	102,827	**2,046,074**
Accumulated depreciation									
At 31st December 2001	250,793	—	115,182	70,774	72,995	21,437	6,964	80,017	**618,162**
Changes in exchange rates	—	—	—	8	244	20	33	691	**996**
Charge for the year	34,864	—	36,998	7,009	14,012	1,731	1,819	5,515	**101,948**
Disposals	—	—	(13,157)	(924)	(975)	—	(50)	(2,364)	**(17,470)**
At 31st December 2002	285,657	—	139,023	76,867	86,276	23,188	8,766	83,859	**703,636**
Net book amount									
At 31st December 2002	643,596	164,836	205,354	33,064	136,777	120,180	19,663	18,968	**1,342,438**
At 31st December 2001	677,978	132,766	220,751	39,574	133,790	120,970	21,224	18,325	**1,365,378**
Net book amount of leased assets									
At 31st December 2002	—	—	156,760	24,181	57,882	—	—	465	**239,288**
At 31st December 2001	—	—	169,045	32,250	66,190	—	—	480	**267,965**

(a) Freehold land and buildings include the investment property, "Wall Street Plaza", which is a commercial property located at 88 Pine Street, New York, USA. The property is situated on three parcels of land, of which two parcels, representing approximately 34% of the site, are under long-term leases expiring in the year 2066. The property is stated at Directors' valuation of US$90.0 million (2001: US$90.0 million), by reference to a professional valuation made in December 2002 on an open market basis.

12. Property, plant and equipment (Continued)

(b) Container vessels include three (2001: three) vessels which were previously operated under finance lease terms and direct ownership was acquired by the Group in May 1990. These vessels are carried at Directors' valuation, representing the then purchase consideration which was determined by reference to professional valuations on a cum-charter open market basis of US$87.0 million. Subsequent revaluations of these vessels are not required to be made in accordance with paragraph 72 of Hong Kong Statement of Standard Accounting Practice 17 "Property, plant and equipment". Had these vessels been carried at cost, the net book amount of the container vessels would have been reduced by US$3.1 million (2001: US$3.5 million).

(c) Following the adoption of Interpretation 19 "Intangible Assets - Website Costs" issued by the Hong Kong Society of Accountants, computer software costs previously included under property, plant and equipment have been transferred to intangible assets (note 17). The opening net book value of property, plant and equipment has accordingly been decreased by US$23.8 million.

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

(e) The aggregate net book amount of assets pledged as securities for loans amounts to US$976.7 million (2001: US$970.3 million). Specific charges on vessels of the Group include legal mortgages and assignments of insurance claims and charterhire income relating to these vessels.

(f) Interest costs of US$1.7 million (2001: US$ 0.4 million) during the year were capitalised as part of vessels under construction.

13. Subsidiaries

US$'000	2002	2001
Company		
Unlisted shares, at cost less provision	**169,482**	169,482
Amounts receivable	**465,994**	437,813
Amounts payable	**(217,098)**	(203,134)
	418,378	404,161

Particulars of the principal subsidiaries at 31st December 2002 are shown on pages 102 to 112. The amounts receivable and payable are unsecured, interest free and have no specific repayment terms.

14. Jointly controlled entities

US$'000	2002	2001
Group		
Unlisted shares, at cost less provision	**22,520**	8,314
Share of retained post-acquisition profits	**2,111**	12,474
Share of net assets	**24,631**	20,788
Amounts receivable	**10,945**	26,462
	35,576	47,250

Particulars of the principal jointly controlled entities at 31st December 2002 are shown on pages 112 to 113. The amounts receivable are unsecured, interest free and have no specific repayment terms.

15. Long-term investments

US$'000	2002	2001
Group		
Investment in Hui Xian, at cost (note (a))	**93,601**	93,601
Debt securities, at cost less provisions		
Listed outside Hong Kong (note (b))	**—**	2,617
Unlisted	**—**	5,872
Investments in finance leases (note 16)	**—**	3,370
Unlisted, at cost less provisions	**7,162**	1,812
	100,763	107,272

(a) The investment in Hui Xian represents the Group's approximately 8% (2001: 8%) unlisted equity interest in and advances to Hui Xian Holdings Limited ("Hui Xian"), incorporated in Hong Kong and the holding company for the Beijing Oriental Plaza, which comprises a commercial, retail and residential complex of approximately six million square feet, the development of which is expected to complete in mid 2003.

The major shareholder of Hui Xian, which holds approximately 52% of the issued equity, has also been appointed the project manager of the development. Under the Hui Xian shareholders' agreement, the shareholders agreed to finance the development costs up to US$1.9 billion in proportion to their shareholdings. If the development costs exceed US$1.9 billion and any shareholders decide not to provide their share of the finance, the Group's percentage of shareholding in Hui Xian will be adjusted in accordance with the proportion of finance provided by the shareholders. In addition to the finance from the shareholders, Hui Xian has arranged bank loan facilities amounting to RMB3,460 million and US$120 million, over which the Group has provided a proportionate guarantee (note 33 (a)).

(b) Market value of listed debt securities at 31st December 2001 was US$3.6 million.

16. Investments in finance leases

US$'000	2002	2001
Group		
Gross rental receivable	—	4,370
Gross earnings allocated to future periods	—	(473)
	—	3,897
Current portion included in current assets	—	(527)
	—	3,370

The cost of assets acquired for finance lease purposes at 31st December 2001 amounted to US$6.4 million.

17. Intangible assets

US$'000	2002	2001
Group		
Computer software development costs	**42,123**	38,606
Property leasing expenses	**20,129**	18,058
Financing charges	**3,287**	1,782
	65,539	58,446
Accumulated amortisation	**(37,998)**	(25,878)
Net book value	**27,541**	32,568
Net book value at beginning of year	**32,568**	41,620
Additions	**7,088**	4,579
Amortisation	**(12,120)**	(13,613)
Changes in exchange rates	**5**	(18)
Net book value at end of year	**27,541**	32,568

Following the adoption of Interpretation 19 "Intangible Assets - Website Costs" issued by the Hong Kong Society of Accountants, computer software costs previously included under property, plant and equipment have been transferred to intangible assets. The opening net book value of intangible assets shown above has accordingly been increased by US$23.8 million (2001: US$31.9 million).

18. Other non-current assets

US$'000	2002	2001
Group		
Restricted bank balances and deposits (note 22)	**21,580**	43,992
Deferred taxation assets (note 28)	**6,541**	7,648
Pension and retirement assets (note 29)	**5,122**	3,247
	33,243	54,887
Company		
Restricted bank balances and deposits (note 22)	**55**	22,752

19. Properties under development and for sale

Interest costs of US$0.5 million (2001: nil) during the year were capitalised as part of properties under development.

20. Debtors and prepayments

US$'000	2002	2001
Group		
Trade debtors (note 21)	**81,865**	61,720
Other debtors	**28,027**	23,998
Prepayments	**36,501**	36,092
Utility and other deposits	**21,681**	31,290
Bunker	**19,483**	16,911
Tax recoverable	**6,804**	4,580
	194,361	174,591
Company		
Other debtors	**2**	5
Prepayments	**55**	91
	57	96

21. Trade debtors

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

As at 31st December 2002, trade debtors of the Group include the following trade receivables:

US$'000	2002	2001
Gross trade receivables assigned to Rhino	**128,350**	105,261
Less non-returnable proceeds received from TAPCO	**(99,500)**	(99,000)
	28,850	6,261

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

US$'000	2002	2001
Below one month	**152,137**	132,317
Two to three months	**24,621**	23,726
Four to six months	**4,329**	3,550
Over six months	**278**	1,127
	181,365	160,720

22. Bank balances and deposits

US$'000	2002	2001
Group		
Restricted	**153,312**	86,062
Not restricted	**304,858**	264,938
	458,170	351,000
Less restricted and included in		
Non-current assets (note 18)	**(21,580)**	(43,992)
Non-current liabilities (note 27)	**(100,000)**	—
	336,590	307,008
Company		
Restricted	**55**	22,752
Not restricted	**18,398**	17,998
	18,453	40,750
Less restricted and included in		
Non-current assets (note 18)	**(55)**	(22,752)
	18,398	17,998

Restricted bank balances and deposits are funds which are pledged as securities for banking facilities and performance under leasing arrangements or required to be utilised for specific purposes. A restricted deposit of the Group amounting to US$30.4 million (2001: US$42.1 million), which has been pledged as security for a short-term bank loan of the same amount (note 24), is not classified as a non-current asset.

23. Creditors and accruals

US$'000	2002	2001
Group		
Trade creditors	**118,613**	103,494
Other creditors	**26,177**	18,518
Accrued operating expenses	**223,263**	209,012
Deferred revenue	**15,497**	25,237
	383,550	356,261
Company		
Accrued operating expenses	**1,163**	1,399

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

US$'000	2002	2001
Below one month	**65,155**	47,296
Two to three months	**49,255**	53,538
Four to six months	**2,237**	1,465
Over six months	**1,966**	1,195
	118,613	103,494

24. Bank overdrafts and short-term loans

US$'000	2002	2001
Group		
Short-term loans		
Secured	**35,998**	42,416
Unsecured	**8,000**	—
Bank overdrafts		
Secured	**—**	49
Unsecured	**16**	430
	44,014	42,895

A secured bank loan of US$30.4 million (2001: US$42.1 million) is secured by a bank deposit of the same amount (note 22).

25. Long-term liabilities

US$'000	2002	2001
Group		
Bank loans		
Secured	**590,788**	586,826
Other secured loans		
Wholly repayable within five years	**21,606**	15,339
Not wholly repayable within five years	**—**	12,814
Finance lease obligations		
Wholly payable within five years	**189,079**	130,758
Not wholly payable within five years	**50,121**	147,827
	851,594	893,564
Current portion included in current liabilities	**(168,835)**	(133,178)
	682,759	760,386

25. Long-term liabilities (Continued)

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

US$'000	Bank loans	Other loans	Finance leases Present value	Finance leases Minimum payments
As at 31st December 2002				
2003	125,017	6,819	36,999	51,109
2004	124,643	7,882	45,249	56,993
2005	60,106	3,718	30,274	39,691
2006	51,652	3,150	68,349	75,308
2007	48,838	37	40,355	43,258
2008 onwards	180,532	—	17,974	19,859
	590,788	21,606	239,200	286,218
As at 31st December 2001				
2002	71,203	12,751	49,224	68,042
2003	92,934	5,197	35,557	50,894
2004	56,186	4,569	43,201	55,846
2005	60,716	3,075	28,212	38,448
2006	63,180	2,549	65,219	70,803
2007 onwards	242,607	12	57,172	62,259
	586,826	28,153	278,585	346,292

(b) The bank loans, other loans and finance lease obligations carry interest at fixed rates, ranging from 6.2% to 10.6% per annum, or variable rates, varying from 0.3% to 2.2% over stipulated market rates per annum.

26. Other non-current liabilities

US$'000	2002	2001
Group		
Redeemable preference shares (note 27)	—	—
Deferred taxation liabilities (note 28)	**29,141**	26,424
Pension and retirement liabilities (note 29)	**8,740**	9,258
	37,881	35,682

27. Redeemable preference shares

US$'000	2002	2001
Group		
Redeemable preference shares and premium	**100,000**	—
Less restricted deposits under the put options (note 22)	**(100,000)**	—
	—	—

In June 2002, the Group entered into, inter alia, a Shareholders Agreement 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 Euro150 each in this subsidiary and contributed an aggregate of US$100.0 million less the nominal value of the Preference Shares as share premium (the "Premium"). The Preference Shareholders are entitled to receive annual dividends of 7.08% per annum on the aggregate amount of the nominal value of the Preference Shares and Premium (collectively "Preference Shares Contributions") outstanding from time to time. To the extent permitted by local law, the Preference Shareholders may propose a repayment of the Premium annually, provided that such repayment does not exceed a maximum percentage specified in the Shareholders Agreement.

The Preference Shareholders have been granted irrevocable options to sell their Preference Shares to the Group under certain circumstances. As securities for the options, the Group has placed certain bank deposits (the "Deposits") equivalent to the outstanding Preference Shares Contributions, amounting to US$100.0 million as at 31st December 2002, and has pledged the Deposits in favour of the Preference Shareholders. The consideration for the Preference Shares under the options is equal to the Preference Shares Contributions outstanding plus the accrued interest from the Deposits. The Group has also given irrevocable instructions to the banks to pay the Deposits and accrued interest to the Preference Shareholders upon receiving relevant notices from them. In view of the various arrangements, the Directors consider it fair and appropriate to deduct the Deposits from the redeemable Preference Shares Contributions in the accounts.

28. Deferred taxation assets/(liabilities)

US$'000	2002	2001
Group		
Deferred taxation assets (note 18)	**6,541**	7,648
Deferred taxation liabilities (note 26)	**(29,141)**	(26,424)
	(22,600)	(18,776)

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	2002	2001
Group		
Deferred taxation assets to be recovered after more than twelve months	**5,771**	6,462
Deferred taxation liabilities to be settled after more than twelve months	**(28,291)**	(26,236)

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

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

US$'000	Accelerated depreciation allowances	Revenue expenditure	Tax losses	Pensions	Total
Deferred taxation assets					
At 31st December 2000 (as restated)	302	3,190	982	1,369	5,843
Changes in exchange rates	—	1	—	—	1
Credited to profit and loss account	288	1,886	1,055	488	3,717
At 31st December 2001 (as restated)	590	5,077	2,037	1,857	9,561
Changes in exchange rates	—	(2)	—	—	(2)
Credited/(charged) to profit and loss account	(497)	479	1,095	(905)	172
At 31st December 2002	93	5,554	3,132	952	9,731

US$'000	Accelerated depreciation allowances	Investment property	Pensions	Total
Deferred taxation liabilities				
At 31st December 2000 (as restated)	9,576	16,264	426	26,266
Changes in exchange rates	(7)	—	—	(7)
Charged to profit and loss account	732	1,098	248	2,078
At 31st December 2001 (as restated)	10,301	17,362	674	28,337
Changes in exchange rates	(104)	—	—	(104)
Charged to profit and loss account	2,490	1,474	134	4,098
At 31st December 2002	12,687	18,836	808	32,331

Deferred taxation assets of US$30.0 million (2001: US$28.1 million) arising from unused tax losses of US$145.5 million (2001: US$140.0 million) have not been recognised in the accounts. Unused tax losses of US$132.3 million have no expiry date and the balance will expire at various dates up to and including 2008.

Deferred taxation liabilities of US$5.4 million (2001: US$5.5 million) on temporary differences associated with investments in subsidiaries of US$93.4 million (2001: US$93.6 million) have not been recognised as there is no current intention of remitting the retained profits of these subsidiaries to the holding companies.

29. Pension and retirement benefits

The Group operates a number of defined benefits and defined contribution pension and retirement schemes in the main countries in which the Group operates. The total charges to the profit and loss account for the year was US$11.7 million (2001: US$11.1 million).

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

US$'000	2002	2001
Contributions to the schemes	**10,773**	8,916
Forfeitures utilised	**(89)**	(50)
	10,684	8,866

The principal defined benefit schemes are operated in the USA, United Kingdom and Canada. The defined benefit schemes cover approximately 15% of the Group's employees and are fully funded, with the exception of two smaller schemes and certain post retirement benefits. The assets of the funded schemes are held in trust funds separate from the Group. Contributions to these schemes are assessed in accordance with the advice of qualified actuaries in compliance with local practice and regulations. The actuarial assumptions used to calculate the projected benefit obligations of the Group's pension schemes vary according to the economic conditions of the country in which they are situated. Actuary valuations for these schemes are carried out by independent professionally qualified actuaries ranging between two to three years.

29. Pension and retirement benefits (Continued)

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

US$'000	2002	2001
Fair value of plan assets	**199,814**	194,615
Present value of funded obligations	**(223,779)**	(201,762)
Net funded obligations	**(23,965)**	(7,147)
Present value of unfunded obligations	**(3,447)**	(5,566)
Unrecognised actuarial losses	**22,183**	4,546
Unrecognised prior service cost	**1,012**	1,207
Unrecognised other assets	**599**	949
Net pension and retirement liabilities	**(3,618)**	(6,011)
Representing:		
Pension and retirement assets (note 18)	**5,122**	3,247
Pension and retirement liabilities (note 26)	**(8,740)**	(9,258)
	(3,618)	(6,011)

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

US$'000	2002	2001
Balance at beginning of year (as restated)	**(6,011)**	(6,000)
Changes in exchange rates	**(137)**	441
Net expense recognised in profit and loss account	**(975)**	(2,212)
Contributions paid	**3,505**	1,760
Balance at end of year	**(3,618)**	(6,011)

29. Pension and retirement benefits (Continued)

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

US$'000	2002	2001
Current service cost	**2,803**	2,263
Interest cost	**11,409**	12,113
Expected return on plan assets	**(11,757)**	(12,910)
Amortisation of past service cost	**193**	382
Net actuarial loss	**983**	54
(Gain)/loss on curtailments and settlements	**(2,656)**	310
Net expense recognised for the year	**975**	2,212

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

	2002	2001
Discount rate	**2 to 7%**	3 to 7%
Expected return on plan assets	**1 to 8%**	2 to 8%
Expected future salary increases	**3 to 9%**	3 to 10%
Actual return on plan assets (US$'000)	**(3,774)**	1,339

30. Share capital

US$'000	2002	2001
Authorised:		
900,000,000 ordinary shares of US$0.10 each	**90,000**	90,000
65,000,000 convertible redeemable preferred shares of US$1 each	**65,000**	65,000
50,000,000 redeemable preferred shares of US$1 each	**50,000**	50,000
	205,000	205,000
Issued and fully paid:		
517,141,632 ordinary shares of US$0.10 each	**51,714**	51,714

31. Reserves

US$'000	2002	2001
Group		
Share premium	**35,073**	35,073
Contributed surplus	**148,286**	148,286
Asset revaluation reserve	**9,948**	9,948
Retained profit	**615,422**	567,903
	808,729	761,210
Company		
Share premium	**35,073**	35,073
Contributed surplus	**148,286**	148,286
Retained profit	**200,652**	208,535
	384,011	391,894

The loss attributable to shareholders for the year is dealt with in the accounts of the Company to the extent of US$0.1 million (2001: profit of US$18.4 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$348.9 million (2001: US$356.8 million) as at 31st December 2002.

32. Commitments

Group

(a) Capital commitments

US$'000	**2002**	2001
Contracted but not provided for	**533,407**	420,586
Authorised but not contracted for	**186,173**	32,957
	719,580	453,543

The commitments as at 31st December 2002 include the balance of the purchase cost of eight 8,000 TEU and one 4,200 TEU ice-strengthened container vessels (2001: six 8,000 TEU and one 4,200 TEU ice-strengthened container vessels) to be delivered between 2003 to 2005. In March 2002, the Group entered into agreements under which two 8,000 TEU and one 4,200 TEU container vessels will be sold to third parties at considerations equal to the acquisition costs to the Group upon delivery in 2003. The Group also entered into agreements to bareboat charter these vessels under operating lease terms for minimum periods ranging from eight to twelve years from dates of delivery.

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

32. 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 2002			
2003	214,171	22,605	236,776
2004	170,958	32,629	203,587
2005	152,757	29,089	181,846
2006	117,473	25,290	142,763
2007	89,437	24,896	114,333
2008 onwards	215,085	399,868	614,953
	959,881	534,377	1,494,258
As at 31st December 2001			
2002	232,250	19,791	252,041
2003	183,039	18,610	201,649
2004	154,062	27,152	181,214
2005	138,143	24,227	162,370
2006	113,642	20,738	134,380
2007 onwards	297,663	350,689	648,352
	1,118,799	461,207	1,580,006

32. Commitments (Continued)

Group (Continued)

(c) Operating lease rental receivable

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

US$'000	Land and buildings
As at 31st December 2002	
2003	17,538
2004	17,689
2005	16,689
2006	15,199
2007	13,452
2008 onwards	36,126
	116,693
As at 31st December 2001	
2002	19,106
2003	20,565
2004	19,165
2005	12,431
2006	10,697
2007 onwards	31,890
	113,854

33. Contingent liabilities

Group

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

	Facilities		Utilised	
US$'000	**2002**	2001	**2002**	2001
Jointly controlled entities	**—**	40,000	**—**	11,700
Hui Xian (note 15)	**43,100**	43,100	**30,540**	25,131
	43,100	83,100	**30,540**	36,831

(b) A jointly controlled entity, Shanghai Orient Overseas Xujiahui Real Estate Company Limited ("SOOX"), has entered into agreements with certain banks in China in relation to the mortgage financing arrangements for end purchasers of its property development projects in Shanghai. Pursuant to the terms of the agreements, SOOX has 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 the property. As at 31st December 2002, the guarantee for such mortgage loans remained outstanding and amounted to US$18.9 million (2001 : US$2.5 million). The Group's share of such contingent liabilities is US$9.0 million (2001 : US$1.2 million).

(c) Litigation

The Group joined the Trans-Atlantic Agreement ("TAA") in respect of the US/Northern Europe trade in 1992. In 1994, the European Commission ("EC") adopted a decision which found that certain aspects of the TAA infringed EC competition rules, but no fines were imposed by the EC. The parties to the TAA, including the Group, challenged this decision in the European Courts. In 1994, the TAA was amended as the Trans-Atlantic Conference Agreement ("TACA"), of which the Group was also (and remains) a member. In 1997, the TACA parties, including the Group, challenged a further EC decision purporting to withdraw immunity from fines with respect to the TACA parties' intermodal rate-making in Europe. The judgements of the European Court of First Instance relating to both these cases were handed down on 28th February 2002 and dismissed the legal challenges brought by the TAA and TACA parties respectively. These judgements have no practical impact on the way in which the TACA parties currently operate and have not been appealed by the parties.

In September 1998, the EC adopted a further decision (the "TACA Decision") concerning the lawfulness of certain practices of the TACA. The TACA Decision found that the members of the TACA, including the Group, had committed certain infringements of the EC rules on competition, which prohibit agreements and practices restrictive of competition and the abuse of a dominant position. The TACA Decision also found that the TACA parties had infringed the equivalent provisions of the European Economic Area Agreement. The total fines imposed by the EC on all the TACA parties under Article 86 of the EC Treaty (the abuse of a dominant position) was Euro272.9 million (approximately US$285.6 million), of which the Group's share is Euro20.6 million (approximately US$21.6 million).

33. Contingent liabilities (Continued)

Group (Continued)

(c) Litigation (Continued)

In December 1998, the TACA parties lodged an appeal to the European Court of First Instance for the annulment of the TACA Decision. As security for the appeal, the Group provided a bank guarantee as required by the EC for an amount equivalent to its share of the fine imposed and interest accrued pending the Court's judgement. The case is still pending before the Court of First Instance and the oral hearing has been scheduled late March 2003. The exact liabilities of the Group are dependent upon the final outcome of the results of the appeal. The judgement of the Court of First Instance is expected during 2004; judgement on any further appeal to the European Court of Justice could be expected in 2006. While the Directors cannot predict with certainty the final outcome of the appeal, it is their opinion, based on legal advice, that it is likely 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:

	Facilities		Utilised	
US$'000	**2002**	2001	**2002**	2001
Subsidiaries	**1,096,260**	1,103,590	**785,371**	787,236
Jointly controlled entities	**—**	40,000	**—**	11,700
Hui Xian (note 15)	**43,100**	43,100	**30,540**	25,131
	1,139,360	1,186,690	**815,911**	824,067

(b) The Company has given guarantees for its subsidiaries in respect of future payment of operating lease rentals amounting to US$266.3 million (2001: US$307.3 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 33(c) above.

(e) The Company has provided an undertaking to the Foreign Investment Commission of Shanghai Municipal Government for a subsidiary in respect of its capital contribution for property development projects in the People's Republic of China. As at 31st December 2002, the outstanding contribution amounted to US$8.5 million (2001: US$13.0 million).

34. Financial instruments

	Contract amount		Replacement cost	
US$'000	**2002**	2001	**2002**	2001
Interest rate swap agreements	**100,000**	100,000	**(4,055)**	(2,378)
Forward foreign exchange contracts	**—**	19,511	**—**	(309)
Foreign exchange option contracts	**20,000**	39,888	**(12)**	(200)
	120,000	159,399	**(4,067)**	(2,887)

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.

35. Notes to consolidated cash flow statement

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

US$'000	2002	2001
Operating profit before financing	**90,846**	107,391
Depreciation	**101,948**	88,227
Loss/(profit) on disposal of property, plant and equipment	**2,386**	(2,280)
Long-term investment income	**(30)**	(1,704)
Profit on disposal of long-term investments	**(31)**	(3,323)
Profit on disposal of a jointly controlled entity	**(4)**	—
(Write back)/provision for diminution in value of long-term investments	**(222)**	2,000
Amortisation of intangible assets	**12,120**	13,613
Revaluation deficit of investment property	**—**	20,000
(Decrease)/increase in net pension liabilities	**(2,393)**	11
Operating profit before working capital changes	**204,620**	223,935
Increase in properties under development and for sale	**(46,152)**	(14,197)
(Increase)/decrease in debtors and prepayments	**(13,676)**	78,681
Increase/(decrease) in creditors and accruals	**25,054**	(32,884)
Cash generated from operations	**169,846**	255,535

(b) Analysis of changes in financing

US$'000	Share capital and premium	Minority interests	Loans and finance lease obligations	Total
At 31st December 2000	86,787	4,532	885,341	976,660
Changes in exchange rates	—	103	(3,330)	(3,227)
Inception of finance leases	—	—	48,987	48,987
Minority interests' share of profit	—	522	—	522
Dividends paid to minority interests	—	(510)	—	(510)
Net cash outflow from financing	—	—	(37,088)	(37,088)
At 31st December 2001	86,787	4,647	893,910	985,344
Changes in exchange rates	—	1	445	446
Inception of finance leases	—	—	13,550	13,550
Minority interests' share of profit	—	210	—	210
Dividends paid to minority interests	—	(470)	—	(470)
Net cash inflow/(outflow) from financing	—	3,600	(42,715)	(39,115)
At 31st December 2002	86,787	7,988	865,190	959,965

35. Notes to consolidated cash flow statement (Continued)

(c) Analysis of cash and cash equivalents

US$'000	2002	2001
Bank balances and deposits maturing within three months from the date of placement	**331,640**	331,205
Portfolio investments	**54,276**	42,935
Overdrafts and bank loans repayable within three months from the date of advance	**(30,418)**	(42,549)
	355,498	331,591

36. Approval of accounts

The accounts were approved by the Board of Directors on 14th March 2003.