Financial Review

Analysis of Consolidated Profit and Loss Account

Summary of Group Results

US$'000	**2003**	2002	Variance
Operating results by activity:			
International transportation and logistics	**323,123**	69,481	253,642
Container terminals	**35,034**	11,856	23,178
Property investment and development	**21,075**	19,631	1,444
Investments and corporate services	**238**	(5,921)	6,159
Earnings before interest and tax	**379,470**	95,047	284,423
Interest income	**14,020**	11,079	2,941
Interest expenses	**(30,892)**	(36,932)	6,040
Financing charges	**(9,292)**	(6,292)	(3,000)
Profit before taxation	**353,306**	62,902	290,404
Taxation	**(24,145)**	(10,954)	(13,191)
Minority interests	**(117)**	(210)	93
Profit attributable to shareholders	**329,044**	51,738	277,306

International Transportation and Logistics

Summary of Operating Results

US$'000	2003	2002	Variance
Liftings (TEUs)	**2,687,545**	2,264,882	422,663
Revenue per TEU (US$)	**1,025**	891	134
Turnover			
Asia	**2,042,717**	1,439,984	602,733
North America	**481,285**	417,455	63,830
Europe	**399,068**	316,557	82,511
Australia	**46,484**	44,124	2,360
	2,969,554	2,218,120	751,434
Cargo costs	**(1,253,669)**	(1,013,763)	(239,906)
Vessel and voyage costs	**(630,005)**	(476,820)	(153,185)
Equipment and repositioning costs	**(446,877)**	(368,111)	(78,766)
Gross profit	**639,003**	359,426	279,577
Business and administrative expenses	**(324,144)**	(283,537)	(40,607)
Other operating income, net	**10,449**	2,510	7,939
	325,308	78,399	246,909
Share of results of jointly controlled entities	**(2,185)**	(8,918)	6,733
Earnings before interest and tax	**323,123**	69,481	253,642

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 over 90% of the Group's revenue in 2003. International transportation and logistics will continue to be the core business of the Group in which the majority of operating assets will be deployed.

Financial Review

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$1,440.0 million in 2002 to US$2,042.7 million in 2003 with a notable increase in the volume of exports to North America across the Pacific, from which a significant portion of the revenue was derived. The Westbound leg of the Asia/Northern Europe service also recovered strongly from the poor market conditions prevailing in previous years with a 24% increase in liftings and a corresponding recovery in revenues. Together with the continuing volume increases in Intra-Asia services, all contributed to the revenue growth for the year.

Liftings on the Eastbound Asia/North America West Coast service increased by 14%, achieved without softening freight rates. Performance of the Westbound leg of the Asia/Northern Europe service followed a similar pattern with substantial gains in both liftings and revenue. Intra-Asia also recorded a 33% growth in liftings for the year, at the expense of a slight fall in average freight rates.

Overall load factors as a percentage of the capacity available during 2003 dropped slightly by 1% as compared with 2002, but compared with a 27% increase in available capacity during the year, notably in the Intra-Asia and Europe bound routes. Results from this region will always be dependent upon the economic environment and consumption patterns of 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 members.

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 by US$63.8 million for this area in 2003. With the exception of the Eastbound leg of the Canada/Northern Europe service, all routes from this region recorded positive revenue growth, especially the Westbound segment of the Asia/North America West Coast services which experienced a turnaround from the prolonged decline in freight rates since 1996.

Westbound liftings on the Asia/North America West Coast service recorded a 6% increase over last year while the Westbound trade of the Asia/US East Coast service via the Panama Canal also achieved a notable improvement of 18%. Performance of the Eastbound Canada/ Northern Europe and US East Coast/Northern Europe services barely attained 2002 level. The former achieved improvements in freight rates but at the expense of liftings while the latter's volume gain was largely offset by a corresponding rate decrease.

Average revenue per TEU on all outbound cargoes from North America rose by 9% in 2003 compared with 2002, with a notable recovery in the Trans-Pacific routes.

With the growth in capacity outpacing the increase in liftings, overall load factors in the region recorded a 6% drop 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 2002.

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 2003 greatly surpassed that of 2002 by US$82.5 million. The Eastbound leg of the Asia/Northern Europe service, being the largest volume source for the Europe area, performed exceptionally well during the year with a promising growth in volume and a comparable rebound in freight rates. The Westbound rates of the Transatlantic routes also received substantial increments to complement a notable revenue increase for the region.

Although liftings for the Westbound sectors of the Canada/Northern Europe and US East Coast/Northern Europe services were slightly better than those of 2002, average revenue per TEU improved by nearly 20% during the year. Comparatively, the Eastbound leg of the Asia/Northern Europe service experienced a rebound from the precarious market conditions of previous years. Liftings for this segment recorded a 21% rise in 2003 and per TEU revenue also registered a 17% gain.

Overall load factors as a percentage of capacity available for cargo shipments from this region were 4% lower than that of 2002 but balanced against a 12% capacity increase for the Europe area in year 2003.

Average revenues per TEU on all outbound cargoes from Europe recorded a 20% increase from the 2002 levels with both the Transatlantic trade lanes and the export market to Asia experiencing a similar recovery in 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 was operated in consortium with ANL, ZIM and China Shipping from May 2002 onwards. ZIM withdrew in May 2003 and was replaced by a new service jointly operated with China Shipping. 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 PIL and RCL.

Liftings on the Northbound Asia/Australia and New Zealand service increased by 22% in 2003, at the expense of a 12% drop in average revenue, resulting in a net gain in turnover of US$2.4 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 19% growth in liftings for 2003, total cargo costs also rose by US$239.9 million, a 24% increase. On a per TEU basis, savings were recorded in items such as transportation, commission and brokerage while terminal costs only grew at a marginal rate.

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. With the total number of vessels, either owned or chartered in and operated by OOCL, increasing from 47 in 2002 to 55 in 2003, total carrying capacity increased from the 153,543 TEU of 2002 to 184,781 TEU in 2003 through the phase-in of new and larger vessels. Consequently, vessel costs increased by 22% in 2003 with a notable rise in charter-hire expenses as charter-hire rates inflated significantly during the year.

Voyage costs comprise mainly bunker costs, port charges, canal dues, cargo claims and insurance. The number of sailings in 2003 increased by 8% and bunker prices also rose from an average of US$143 per ton in 2002 to an average of US$167 per ton during 2003. As a result, costs in this category were driven up by more than 40%.

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$78.8 million in 2003, which was in line with the growing size of the container fleet from the 369,699 TEU of 2002 to 420,004 TEU in 2003.

Business and administrative expenses largely comprise staff costs, office expenses, selling and marketing costs and professional and information system expenses. With the increasing business volumes, additional offices setup around the globe and a 7% headcount increase, business and administrative expenses also rose by US$40.6 million in 2003.

Share of Results of Jointly Controlled Entities

The share of the US$2.2 million loss from jointly controlled entities in 2003 was attributable to the provision for asset impairment for a depot joint venture in Qingdao. The US$8.9 million share of the loss in 2002 arose mainly from 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. The chartering arrangements ceased in 2003.

Earnings Before Interest and Tax

Earnings before interest and tax of US$323.1 million for the international transportation and logistics business in 2003 were US$253.6 million higher than last year due mainly to the freight rate and volume increases. Average revenue per TEU for 2003 was US$1,025 as compared with US$891 for 2002. Liftings also increased from 2.26 million TEU in 2002 to 2.69 million TEU in 2003.

Container Terminals

Summary of Operating Results

US$'000	**2003**	2002	Variance
Throughput (units)	**1,126,206**	1,051,051	75,155
Turnover	**251,025**	215,748	35,277
Terminal operating costs	**(180,727)**	(171,542)	(9,185)
Gross profit	**70,298**	44,206	26,092
Business and administrative expenses	**(35,264)**	(32,350)	(2,914)
Earnings before interest and tax	**35,034**	11,856	23,178

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 2003 consolidated that strength.

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 remaining 20% equity of the company was subsequently acquired from the minority shareholder in 2001 and it thus became a wholly owned subsidiary of the Group. Grand Alliance services began calling at the terminal in late 1999 and have since became a major user. In 2003, HHCTI successfully negotiated a new terminal lease agreement with the Port Authority with retrospective effect from January 2000, resulting in a one-off credit of US$14.3 million for rental charged in previous years.

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 rationalization, also ceased calling at the terminal in early 2002, resulting in Global incurring a significant loss for the year. In 2003, management of Global terminal successfully reestablished its customer base and as a result, the bottom line was much improved for the year.

Turnover

Turnover increased by US$35.3 million in 2003 as a result of the significant rebound in the business volumes of Global. Total throughput levels surpassed last year and successively set another record high in 2003. Average handling rate also showed an 11% growth over that of 2002.

Terminal Operating Costs

Including the one-off credit of rental charged in previous years for HHCTI, operating costs were US$9.2 million higher than 2002 level with an increased number of boxes handled in 2003. In addition, as TSI's operating costs were denominated in local currency, i.e. Canadian dollar, its strength against the weakening in US dollar during the year translated into much higher operating costs for the two terminals in Vancouver, in terms of US dollars, when compared with 2002.

Business and Administrative Expenses

Business and administrative expenses recorded a US$2.9 million rise in 2003 as compared with those of 2002. In line with the growth in business volumes, additional headcount and office expenses were incurred to handle the activity growth. In addition, the more than 20% appreciation of the Canadian dollar against the US dollar in 2003 inflated costs incurred by TSI which, in real terms, had been well contained.

Earnings Before Interest and Tax

Overall operating results improved in 2003 as Global returned to profit after suffering a substantial loss in 2002. While TSI continued to produce stable profits in 2003, performance for the year was enhanced by the one-off credit of rental accrued in previous years upon the conclusion of the new terminal lease agreement with the Port Authority by HHCTI.

Property Investment and Development

Summary of Operating Results

US$'000	**2003**	2002	Variance
Rental income	**20,046**	18,510	1,536
Property management costs	**(8,924)**	(8,556)	(368)
Gross profit	**11,122**	9,954	1,168
Business and administrative expenses	**(3,936)**	(3,027)	(909)
Profit from property investment	**7,186**	6,927	259
Profit from property developments	**13,889**	12,704	1,185
Earnings before interest and tax	**21,075**	19,631	1,444

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 these projects is Shanghai. The net rental from Wall Street Plaza provided a stable income source. The other principal profit contributor for the year was the development project in Ziyang Lu ("Century Metropolis") Phase 2A, Shanghai. In year 2002, the major profit contributor was Phase 1B of Century Metropolis.

Rental Income

Rental income for the year, representing mainly the rental income derived from Wall Street Plaza, was higher than that of last year as most of the leases vacated in 2002 were taken up in 2003, leaving a vacancy rate of less than 1% at the year end.

Profit From Property Developments

A profit of US$13.9 million was recorded from property developments in 2003 compared with US$12.7 million in 2002. A majority of the current year profit arose from Phase 2A of the Century Metropolis project in Shanghai and the principal profit contributor in 2002 was from Phase 1B of the same project.

Investments and Corporate Services

US$'000	**2003**	2002	Variance
Portfolio investment income	**7,424**	1,511	5,913
Provision write-back for diminution in value of long-term investments	**—**	507	(507)
Others	**(7,186)**	(7,939)	753
Earnings/(loss) before interest and tax	**238**	(5,921)	6,159

Investments in equities and, on a longer term basis, in bonds were managed largely by in-house managers 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$7.4 million for 2003, an increase of US$5.9 million as compared with 2002. The portfolio investment result reflected the general recovery of the global financial markets during 2003.

"Others" include corporate business and administration overheads, exchange differences, the research costs of financial projects and other miscellaneous income and expenses. With favourable exchange differences recorded for the year, the net expenses level of 2003 was US$0.8 million lower than that of 2002.

Interest Income, Expenses 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 arrangements 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. With the growth in average cash balances during the year, total interest income for 2003 was US$2.9 million higher than 2002.

Interest Expenses

Interest expenses decreased by US$6.0 million in 2003 as compared with 2002. With a further decline in general interest rates during 2003, interest expenses reduced correspondingly, but partly offset by the increase in indebtedness as a result of the new loans drawn upon the delivery of newbuildings during the year. The average cost of finance dropped from 3.8% in 2002 to 3.1% in 2003 as a whole.

Financing Charges

Financing charges mainly include loan arrangement fees, commitment fees, financing costs for loan stocks and charges for the asset securitisation programme. Total financing charges for the year increased by US$3.0 million principally due to the full year effect of the financing costs associated with the loan stocks of a subsidiary, offset in part by savings in the asset securitisation programme pursuant to the lower prevailing interest rates.

Profit before Taxation

Pre-tax profit for the year reached a record high of US$353.3 million compared with US$62.9 million in 2002. The international transportation and logistics business achieved a remarkable result for the year. The Group's result was further boosted by the timely recovery of terminal operations and continual contributions from the property investment and development segment.

Taxation

US$'000	**2003**	2002	Variance
Overseas taxation			
Company and subsidiaries:			
North America	**15,900**	6,450	(9,450)
Europe	**370**	107	(263)
China	**1,015**	381	(634)
Asia and others	**813**	289	(524)
Jointly controlled entities:			
Europe	**—**	13	13
China	**6,047**	3,714	(2,333)
Total	**24,145**	10,954	(13,191)

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 higher tax liabilities in North America for the year principally reflected the much improved profit level from terminal operations while the increase in tax in China was attributable to the increase of business operation in the growing logistics market.

Review of Consolidated Balance Sheet

Summary of Consolidated Balance Sheet

US$'000	**2003**	2002	Variance
Property, plant and equipment	**1,579,798**	1,342,438	237,360
Jointly controlled entities	**24,298**	35,576	(11,278)
Long-term investments	**99,218**	100,763	(1,545)
Intangible assets	**29,817**	27,541	2,276
Cash and portfolio investments	**680,806**	412,446	268,360
Accounts receivable and properties under development and for sale	**324,868**	258,913	65,955
Deferred assets	**16,105**	11,663	4,442
GROSS ASSETS	**2,754,910**	2,189,340	565,570
Accounts payable and accruals	**(486,244)**	(383,550)	(102,694)
Current taxation	**(3,159)**	(3,870)	711
GROSS ASSETS LESS TRADING LIABILITIES	**2,265,507**	1,801,920	463,587
Long-term liabilities	**840,677**	682,759	157,918
Bank loan, overdrafts and current portion of long-term liabilities	**257,485**	212,849	44,636
Total debt	**1,098,162**	895,608	202,554
Minority interests and deferred liabilities	**56,591**	45,869	10,722
Ordinary shareholders' funds	**1,110,754**	860,443	250,311
CAPITAL EMPLOYED	**2,265,507**	1,801,920	463,587
Debt to equity ratio	**1.0**	1.0	
Net debt to equity ratio	**0.4**	0.6	
Accounts payable as a % of turnover	**15.0**	15.6	
Accounts receivable as a % of turnover	**7.6**	7.9	
% return on average ordinary shareholders' funds	**33.4**	6.2	
Net asset value per ordinary share (US$)	**2.36**	1.66	
Cash and portfolio investments per ordinary share (US$)	**1.45**	0.80	
Share price at 31st December (US$)	**3.06**	0.49	
Price earnings ratio based on share price at 31st December	**4.7**	4.9	

Property, Plant and Equipment

US$'000	**2003**	2002	Variance
International transportation and logistics	**1,312,877**	1,114,406	198,471
Container terminals	**166,775**	137,939	28,836
Property investment and development	**100,146**	90,093	10,053
	1,579,798	1,342,438	237,360

International transportation and logistics remain the core business of the Group and the one in which the majority of property, plant and equipment are deployed. The assets largely comprise container vessels, containers and chassis, property, terminal and computer equipment and systems. In 2003, the Group placed orders for another four new container vessels of 8,063 TEU capacity. Together with the 8 vessels of the same size ordered in 2000 to 2002, there are 12 "SX" class vessels on order. Two were delivered in 2003, four will be delivered in 2004 and two each in 2005, 2006 and 2007. The increase in property, plant and equipment in 2003 principally reflected the delivery of two new "SX" class container vessels previously ordered, offset in part by the annual depreciation charges for the year.

The increase in property, plant and equipment in container terminals in 2003 includes the additional terminal equipment acquired by terminals during the year and favourable exchange differences arising from the appreciation of the Canadian dollar.

Property, plant and equipment in property investment and development activities mainly represent the commercial building, Wall Street Plaza, in New York. During 2003, the Group further acquired 36.5% of the land parcel on which the building resides at a cost of US$10.0 million. The building, including the land parcel acquired during the year, was valued at US$100.0 million at the end of 2003 by an independent valuer (2002 : US$90.0 million).

Jointly Controlled Entities

US$'000	**2003**	2002	Variance
International transportation and logistics	**2,777**	4,185	(1,408)
Property investment and development	**21,521**	31,391	(9,870)
	24,298	35,576	(11,278)

The investment in jointly controlled entities by international transportation and logistics for 2003 mainly represents an interest in a joint venture for the operation of a container depot and transportation business in Qingdao. During the year, provision has been made against certain assets of this joint venture company, resulting in the drop in the investment balance 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 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 that year. The project was the major profit contributor in 2002 and 2003.

The decrease in the investments in jointly controlled entities for property development activities is mainly a reflection of the dividends and progressive capital repatriations from the property development projects.

Long-term Investments

US$'000	2003	2002	Variance
International transportation and logistics	**1,149**	1,072	77
Property investment and development	**93,601**	93,888	(287)
Others	**4,468**	5,803	(1,335)
	99,218	100,763	(1,545)

Long-term investments of the Group at 31st December 2003 amounted to US$99.2 million, principally represented by the Group's 8% interest in Beijing Oriental Plaza of US$93.6 million.

Intangible Assets

US$'000	2003	2002	Variance
International transportation and logistics	**21,244**	21,576	(332)
Container terminals	**713**	755	(42)
Property investment and development	**7,860**	5,210	2,650
	29,817	27,541	2,276

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	**2003**	2002	Variance
International transportation and logistics	**169,142**	169,876	(734)
Container terminals	**8,038**	11,738	(3,700)
Property investment and development	**40,010**	10,054	29,956
Portfolio investment funds	**463,616**	220,778	242,838
	680,806	412,446	268,360

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 and portfolio investments per ordinary share at 31st December 2003 amounted to US$1.45 compared with US$0.80 at 31st December 2002.

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	**2003**	2002	Variance
International transportation and logistics	**187,631**	145,098	42,533
Container terminals	**46,091**	37,476	8,615
Property investment and development	**91,001**	76,269	14,732
Others	**145**	70	75
	324,868	258,913	65,955

Accounts receivable and properties under development and held for sale increased by US$66.0 million to US$324.9 million at the end of 2003, principally a reflection of an increase in trade receivables pursuant to the growth in business volumes of the international transportation, logistics and container terminal operations, plus further investments in the property development project in Luwan, Shanghai.

Accounts Payable and Accruals

US$'000	**2003**	2002	Variance
International transportation and logistics	**456,350**	340,713	115,637
Container terminals	**23,862**	38,898	(15,036)
Property investment and development	**4,300**	1,941	2,359
Others	**1,732**	1,998	(266)
	486,244	383,550	102,694

Accounts payable at the end of 2003 were US$102.7 million higher than those at the end of 2002. The increase in accounts payable was largely in line with the growth in business volumes of the international transportation and accounts payable, as a percentage of turnover at 15.0%, was slightly lower than that of 15.6% for 2002. The decrease in accounts payable and accrual balances for container terminals in 2003 mainly reflected the one-off credit received for rental accrued over previous years.

Total Debt

US$'000	**2003**	2002	Variance
Bank loans	**645,739**	590,788	54,951
Other secured loans	**18,121**	21,606	(3,485)
Finance lease obligations	**395,344**	239,200	156,144
Bank overdrafts and short-term loans	**38,958**	44,014	(5,056)
	1,098,162	895,608	202,554

Total debt increased during the year by US$202.6 million principally as a result of the financial obligation taken up pursuant to the delivery of new container vessels during the year, offset in part by scheduled repayment of loans and bank indebtedness. The repayment profile of the Group's long-term liabilities is set out in Note 24 to the Accounts.

Debt Profile

As at the end of 2003, over 96% (2002 : 92%) 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 a comparable amount of assets in local currencies.

Of the total US$1,098.2 million debt outstanding at the end of 2003, US$149.5 million was fixed rate debt comprised mainly of container and terminal equipment leases. The fixed rates range from 3.5% to 10.6% dependent upon the cost of money at the time each transaction was entered into. The remaining US$948.7 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 2003 was 3.1%, inclusive of the interest rate hedging contracts.

Shareholders' Funds

In September 2003, the Group completed an off-market share repurchase of 46,957,088 ordinary shares at a price of HK$9.8 per share. The repurchased shares were subsequently cancelled resulting in the number of issued and outstanding shares of the Company being reduced from 517,141,632 shares to 470,184,544 shares. Shareholders' funds also dropped by US$59.7 million as a result. However, with the favourable profit reported for the year, the Group's shareholders' funds increased by US$250.3 million to US$1,110.8 million at the end of 2003 with a net asset value per ordinary share of US$2.36 (2002 : US$1.66).

Net Debt to Equity Ratio

This ratio was lower at 0.4 as at the end of 2003, as against 0.6 for 2002, with the profits recorded for 2003, offset in part by the share repurchase during the year. This ratio has been closely monitored in the light of the delivery and financing of new vessels ordered and forecasts for the business over the next four years. It is the Group's objective to keep this key ratio below the 1.0 threshold.

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 2004 amounted to US$260.9 million as detailed in Note 31(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.

As at the end of 2003, the Group had outstanding capital commitments amounting to US$868.4 million, principally represented by the orders placed for ten new container vessels to be delivered between 2004 and 2007.

Analysis of Consolidated Cash Flow Statement

Summary of Consolidated Cash Flow

US$'000	2003	2002	Variance
Net cash inflow from operations	**520,696**	169,846	350,850
Investing and financing inflow:			
Interest and investment income	**19,149**	9,455	9,694
Sale of property, plant and equipment and investments	**92,757**	2,566	90,191
New loan drawdown	**189,706**	94,763	94,943
Cash from jointly controlled entities	**17,893**	10,575	7,318
Capital contribution from minority interests	**—**	3,600	(3,600)
Others	**—**	527	(527)
	319,505	121,486	198,019
Investing and financing outflow:			
Interest paid	**(41,827)**	(43,202)	1,375
Dividends paid to shareholders	**(31,028)**	(7,757)	(23,271)
Taxation paid	**(12,355)**	(5,966)	(6,389)
Purchase of property, plant and equipment and investments	**(236,421)**	(70,203)	(166,218)
Loan repayments	**(184,403)**	(149,609)	(34,794)
Purchase of intangible assets	**(10,547)**	(7,088)	(3,459)
Share repurchase	**(59,739)**	—	(59,739)
Others	**(255)**	(470)	215
	(576,575)	(284,295)	(292,280)
Net cash inflow	**263,626**	7,037	256,589
Beginning cash and portfolio balances	**412,446**	402,424	10,022
Changes in exchange rates	**4,734**	2,985	1,749
Ending cash and portfolio balances	**680,806**	412,446	268,360
Represented by:			
Unrestricted bank balances and deposits	**536,791**	304,858	231,933
Restricted bank balances and deposits	**35,850**	53,312	(17,462)
Portfolio investments	**108,165**	54,276	53,889
	680,806	412,446	268,360

A net cash inflow of US$263.6 million was recorded for 2003 as compared with an inflow of US$7.0 million for 2002. Operating cash inflow for the year was substantially higher than that of 2002 pursuant to the level of operating profits recorded for the year. In 2003, the new vessels previously ordered were delivered, which accounted for the rise in capital payments and corresponding loan drawdown amounts while the sale of property, plant and equipment for the year largely represented the disposal of a container vessel pursuant to deployment plans and the sale-and-lease-back arrangement for one of the delivered vessels. The US$59.7 million share repurchase payment in 2003 reflected the off-market buy back of 46,957,088 ordinary shares of the Company in September 2003. Total cash and portfolio balances rose to US$680.8 million as at the end of 2003 compared with US$412.4 million in 2002.

Liquidity

As at 31st December 2003, the Group had total cash and portfolio investment balances of US$680.8 million compared with debt obligations of US$218.5 million repayable in 2004. Total current assets at the end of 2003 amounted to US$984.9 million against total current liabilities of US$746.9 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.