# Financial Review

## Analysis of Consolidated Profit and Loss Account

**Summary of Group Results**

| US$'000 | 2004 | 2003 | Variance |
|---|---|---|---|
| **Operating results by activity:** | | | |
| Container transport and logistics | **651,584** | 323,123 | 328,461 |
| Container terminals | **48,017** | 35,034 | 12,983 |
| Property investment and development | **23,816** | 21,075 | 2,741 |
| Investments and corporate services | **3,591** | 238 | 3,353 |
| Earnings before interest and tax | **727,008** | 379,470 | 347,538 |
| Interest income | **17,518** | 14,020 | 3,498 |
| Interest expenses | **(34,892)** | (30,892) | (4,000) |
| Financing charges | **(8,895)** | (9,292) | 397 |
| Profit before taxation | **700,739** | 353,306 | 347,433 |
| Taxation | **(30,141)** | (24,145) | (5,996) |
| Minority interests | **(149)** | (117) | (32) |
| Profit attributable to shareholders | **670,449** | 329,044 | 341,405 |

## Container Transport and Logistics

### Summary of Operating Results

| US$'000 | 2004 | 2003 | Variance |
|---|---|---|---|
| Liftings (TEUs) | **3,267,235** | 2,687,545 | 579,690 |
| Revenue per TEU (US$) | **1,100** | 1,025 | 75 |
| Turnover | | | |
| Asia | **2,709,681** | 2,042,717 | 666,964 |
| North America | **573,879** | 481,285 | 92,594 |
| Europe | **480,450** | 399,068 | 81,382 |
| Australia | **63,883** | 46,484 | 17,399 |
| | **3,827,893** | 2,969,554 | 858,339 |
| Cargo costs | **(1,546,856)** | (1,253,669) | (293,187) |
| Vessel and voyage costs | **(748,095)** | (630,005) | (118,090) |
| Equipment and repositioning costs | **(502,436)** | (446,877) | (55,559) |
| Gross profit | **1,030,506** | 639,003 | 391,503 |
| Business and administrative expenses | **(384,235)** | (324,144) | (60,091) |
| Other operating income, net | **4,399** | 10,449 | (6,050) |
| | **650,670** | 325,308 | 325,362 |
| Share of results of jointly controlled entities | **914** | (2,185) | 3,099 |
| Earnings before interest and tax | **651,584** | 323,123 | 328,461 |

The operating results for container transport 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 container transport 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 2004. Container transport and logistics will continue to be the core business of the Group in which the majority of operating assets will be deployed.

## Asia

Asia is the largest revenue generating area for the container transport 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$2,042.7 million in 2003 to US$2,709.7 million in 2004 as a result of the growth in the volume of exports from China to North America and Europe. This, together with the increased volumes carried by the Intra-Asia services, contributed to the commendable revenue growth as a whole for the year.

Liftings on the Eastbound Asia/North America West Coast services increased by 13% and freight rates recorded an 8% gain. Performance on the Westbound legs of the Asia/Northern Europe services improved from 2003 with a 29% increase in volumes and a 43% gain in revenue. Intra-Asia also recorded a 25% growth in liftings for the year and a 10% increase in average freight rates.

Overall load factors as a percentage of the capacity available during 2004 rose slightly by 2% as compared with 2003 despite a 20% increase in available capacity during the year. 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 container transport 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$92.6 million for this area in 2004. All routes from this region recorded double digit revenue growth, especially the Westbound segment of the Asia/North America West Coast services which accounted for over half of the increase in revenue for the year.

Westbound liftings on the Asia/North America West Coast service recorded a 22% increase over last year while the Westbound trade of the Asia/US East Coast service via the Panama Canal recorded a growth of 10%. Performance of the Eastbound Canada/Northern Europe and US East Coast/Northern Europe services recorded a healthy growth with an approximately 18% growth in volume and a 24% increase in revenue.

With a 20% growth in volumes for the year, the average revenue per TEU on all outbound cargoes from North America was higher than that of 2003 by a modest margin.

Despite a 10% increase in capacity during the year, overall load factors in the region recorded a 5% rise from last year.

Long Beach Container Terminal forms an integral part of the container transport 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 2003.

### 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 2004 surpassed that of 2003 by US$81.4 million. The Eastbound leg of the Asia/Northern Europe services, being the largest volume source for the Europe area, performed well during the year with an impressive growth in volume, albeit at the expense of a minor set back in freight rates. The Westbound rates of the Transatlantic routes, on the other hand, progressed further in 2004.

The Eastbound leg of the Asia/Northern Europe service sustained a healthy growth following on from the recovery experienced during 2003. Liftings for this segment recorded a 32% rise in 2004 although per TEU revenue registered a 2% drop. Liftings for the Westbound sectors of the Canada/Northern Europe and US East Coast/Northern Europe services were better than those of 2003 and average revenue per TEU for the two services improved by 8% and 9% respectively.

Overall load factors as a percentage of capacity available for cargo shipments from this region were maintained at the same level as in 2003 notwithstanding an 18% capacity increase for the Europe area during 2004.

Average revenues per TEU on all outbound cargoes from Europe recorded a 2% increase from the 2003 levels with gains on both the Transatlantic trade lanes more than compensated for the softening of rates in the Asia bound market.

## Australia

Turnover from this area is principally the Northbound freight of our Asia/Australia and New Zealand services. The East Asia/Australia service is operated in consortium with ANL and 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 21% in 2004 which, together with a 14% rise in revenue per TEU, resulted in a net gain in turnover of US$17.4 million for the year.

## Operating Costs

Cargo costs mainly consist of terminal charges, inland transportation costs, commission and brokerage, cargo assessment and freight tax all of which were largely paid in the local currencies of the areas in which the activities were performed. With a 22% growth in liftings for 2004, total cargo costs rose by US$293.2 million, a comparable 23% increase.

Vessel costs include the operating costs and depreciation charges relating to the OOCL fleet as well as the net charter hire and slot hire expenses incurred in order to maintain the desired service levels. With the deployment of new and larger vessels, total carrying capacity increased from the 184,781 TEU of 2003 to 219,779 TEU in 2004 and the total number of vessels, either owned or chartered in and operated by OOCL, increased from 55 in 2003 to 65 in 2004. With strong charter-hire rates prevailing throughout the year, total vessel costs increased by 13% for 2004.

Voyage costs comprise mainly bunker costs, port charges, canal dues, cargo claims and insurance. The number of sailings in 2004 increased by 4% and bunker prices also rose from an average of US$167 per ton in 2003 to an average of US$174 per ton during 2004. As a result, costs in this category were driven up by more than 25%.

Equipment costs principally represent maintenance and repair costs, rental payments, depot expenses and depreciation charges relating to the fleet of containers and chassis equipment, while repositioning costs arise mainly from the relocation of empty containers from areas of low activity to high demand regions. Total equipment and repositioning costs increased by US$55.6 million in 2004 in line with the growing size of the container fleet from the 420,004 TEU of 2003 to 514,964 TEU in 2004.

Business and administrative expenses largely comprise staff costs, office expenses, selling and marketing costs and professional and information system expenses. With the increase in business volumes, additional offices established around the globe and headcount increases, business and administrative expenses increased by US$60.1 million in 2004 as compared with 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. A modest share of profit from jointly controlled entities was recorded for 2004.

## Earnings Before Interest and Tax

Earnings before interest and tax of US$651.6 million for the container transport and logistics business in 2004 were US$328.5 million higher than in 2003 due mainly to freight rate and volume increases. Average revenue per TEU for 2004 was US$1,100 as compared with US$1,025 for 2003. Liftings also increased from 2.69 million TEU in 2003 to 3.27 million TEU in 2004.

## Container Terminals

**Summary of Operating Results**

| US$'000 | 2004 | 2003 | Variance |
|---|---|---|---|
| Throughput (units) | **1,242,997** | 1,126,206 | 116,791 |
| Turnover | **289,185** | 251,025 | 38,160 |
| Terminal operating costs | **(206,298)** | (180,727) | (25,571) |
| Gross profit | **82,887** | 70,298 | 12,589 |
| Business and administrative expenses | **(34,870)** | (35,264) | 394 |
| Earnings before interest and tax | **48,017** | 35,034 | 12,983 |

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 and 2004 further consolidated that strength.

**Howland Hook Leasing Corporation** ("HHLC") (formerly Howland Hook Container Terminal, Inc.) 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. After concluding negotiations during the first half of 2003 in relation to a restructured operating lease resulting in a one-off credit to profit of US$14.3 million, HHLC has in 2004 concluded negotiations and received a government grant of US$10.4 million. Starting from 31st December 2004, HHLC transferred the majority of its assets to New York Container Terminal Inc., another wholly owned subsidiary of the Group, which then became the operator of the terminal.

**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 and further improvement was attained in 2004.

Turnover

Turnover increased by US$38.2 million in 2004 as a result of the significant rebound in the business volumes of Global. Total throughput levels surpassed last year and set another record high in 2004. Average handling rate per box also showed a 4% growth over that of 2003.

Terminal Operating Costs

Operating costs were US$25.6 million higher than 2003 level with an increased number of boxes handled in 2004. The 2003 operating costs included a one-off rental credit of US$14.3 million received by HHLC and in 2004, a US$10.4 million government grant to HHLC was recorded as a reduction to operating costs for the year.

Business and Administrative Expenses

Business and administrative expenses in 2004 were comparable with those of 2003. The level of business and administrative expenses was contained at a commendable level despite the steady growth in volumes and business activities during the year.

Earnings Before Interest and Tax

Overall operating results improved in 2004 as Global consolidated its performance after returning to profit last year. While TSI continued to produce stable profits in 2004, performance for the year was further enhanced by HHLC's favourable operating results.

## Property Investment and Development

**Summary of Operating Results**

| US$'000 | 2004 | 2003 | Variance |
|---|---|---|---|
| Rental income | **22,262** | 20,046 | 2,216 |
| Property management costs | **(9,073)** | (8,924) | (149) |
| Gross profit | **13,189** | 11,122 | 2,067 |
| Business and administrative expenses | **(4,024)** | (3,936) | (88) |
| Profit from property investment | **9,165** | 7,186 | 1,979 |
| Profit from property developments | **14,651** | 13,889 | 762 |
| Earnings before interest and tax | **23,816** | 21,075 | 2,741 |

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 585,000 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. During the year 2004, the Group successfully bid for land contracts relating to a residential and commercial plot in Kunshan, Jiangsu and for two parcels of commercial land in Huangpu, Shanghai.

The net rental from Wall Street Plaza provided a stable income source. The other profit contributor for the year was the development project "Century Metropolis" Phase 2B, Shanghai. In year 2003, the profit contributor from the development project was Phase 2A 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 the building was almost fully let during 2004 with a vacancy rate of less than 1% at the year end.

### Profit From Property Developments

A profit of US$14.7 million was recorded from property developments in 2004 compared with US$13.9 million in 2003. A majority of the current year profit arose from Phase 2B of the Century Metropolis project in Shanghai and the principal profit contributor in 2003 was from Phase 2A of the same project.

## Investments and Corporate Services

| US$'000 | 2004 | 2003 | Variance |
|---|---|---|---|
| Portfolio investment income | **12,627** | 7,424 | 5,203 |
| Profit on disposal of long-term investments | **3,720** | 47 | 3,673 |
| Provision for diminution in value of long-term investments | **(288)** | — | (288) |
| Others | **(12,468)** | (7,233) | (5,235) |
| Earnings before interest and tax | **3,591** | 238 | 3,353 |

Investments in equities and, on a longer term basis, in bonds were managed largely by in-house managers under guidelines imposed by the Board. No investment in financial derivatives, where the Group is exposed to financial obligations larger than the amount itself invested, is allowed.

Portfolio investments recorded a profit of US$12.6 million for 2004, an increase of US$5.2 million as compared with 2003. The portfolio investment result reflected the gradual recovery of the global financial markets and out-performance against target benchmarks during 2004.

Others include business and administration expenses for corporate services, exchange differences, the research costs of financial projects and other miscellaneous income and expenses. With an exchange loss recorded for the year, as opposed to the gain in 2003, the net expenses level of 2004 was US$5.2 million higher than that of 2003.

## 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 and the higher interest rates pertaining during the year, total interest income for 2004 was US$3.5 million higher than 2003.

### Interest Expenses

With a gradual rise in interest rates during 2004, interest expenses increased correspondingly by US$4.0 million compared with 2003. The increase in indebtedness as a result of the new loans drawn upon the delivery of newbuildings in 2004 also accounted for the higher interest cost for the year. The average cost of finance rose from 3.1% in 2003 to 3.7% in 2004 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 in 2004 were comparable with those in 2003.

## Profit before Taxation

Pre-tax profit for the year reached another record of US$700.7 million in succession to last year's record profit of US$353.3 million. The container transport and logistics business achieved another remarkable result for the year. The Group's result was further boosted by the sustained improvement in terminal operations and continual contributions from the property investment and development segment.

## Taxation

| US$'000 | 2004 | 2003 | Variance |
|---|---|---|---|
| Current overseas taxation | | | |
| Company and subsidiaries: | | | |
| North America | **24,024** | 15,900 | (8,124) |
| Europe | **(142)** | 370 | 512 |
| China | **1,363** | 1,015 | (348) |
| Asia and others | **494** | 813 | 319 |
| Jointly controlled entities: | | | |
| China | **4,402** | 6,047 | 1,645 |
| Total | **30,141** | 24,145 | (5,996) |

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 reflect the much improved profit level from terminal operations. The growth of business activities in China also increased the tax exposures there.

## Review of Consolidated Balance Sheet

### Summary of Consolidated Balance Sheet

| US$'000 | 2004 | 2003 | Variance |
|---|---|---|---|
| Property, plant and equipment | **2,235,176** | 1,579,798 | 655,378 |
| Jointly controlled entities | **31,255** | 24,298 | 6,957 |
| Long-term investments | **95,938** | 99,218 | (3,280) |
| Intangible assets | **33,315** | 29,817 | 3,498 |
| Cash and portfolio investments | **1,021,446** | 680,806 | 340,640 |
| Accounts receivable and properties under development and for sale | **399,789** | 324,868 | 74,921 |
| Deferred assets | **21,148** | 16,105 | 5,043 |
| GROSS ASSETS | **3,838,067** | 2,754,910 | 1,083,157 |
| Accounts payable and accruals | **(553,535)** | (486,244) | (67,291) |
| Current taxation | **(8,044)** | (3,159) | (4,885) |
| GROSS ASSETS LESS TRADING LIABILITIES | **3,276,488** | 2,265,507 | 1,010,981 |
| Long-term liabilities | **1,258,953** | 840,677 | 418,276 |
| Bank loan, overdrafts and current portion of long-term liabilities | **146,011** | 257,485 | (111,474) |
| Total debt | **1,404,964** | 1,098,162 | 306,802 |
| Minority interests and deferred liabilities | **62,115** | 56,591 | 5,524 |
| Ordinary shareholders' funds | **1,809,409** | 1,110,754 | 698,655 |
| CAPITAL EMPLOYED | **3,276,488** | 2,265,507 | 1,010,981 |
| Debt to equity ratio | **0.8** | 1.0 | |
| Net debt to equity ratio | **0.2** | 0.4 | |
| Accounts payable as a % of turnover | **13.4** | 15.0 | |
| Accounts receivable as a % of turnover | **7.3** | 7.6 | |
| % return on average ordinary shareholders' funds | **45.9** | 33.4 | |
| Net asset value per ordinary share (US$) | **3.18** | 2.15 | |
| Cash and portfolio investments per ordinary share (US$) | **1.80** | 1.32 | |
| Share price at 31st December (US$) | **3.78** | 3.06 | |
| Price earnings ratio based on share price at 31st December | **3.2** | 4.7 | |

## Property, Plant and Equipment

| US$'000 | 2004 | 2003 | Variance |
|---|---|---|---|
| Container transport and logistics | **1,944,743** | 1,312,877 | 631,866 |
| Container terminals | **190,229** | 166,775 | 23,454 |
| Property investment and development | **100,204** | 100,146 | 58 |
| | **2,235,176** | 1,579,798 | 655,378 |

Container transport and logistics remains 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. Since 2000, the Group has ordered a total of 12 "SX" class vessels of 8,063 TEU capacity. The first two were delivered in 2003 and four were received in 2004. Two each will be delivered in 2005, 2006 and 2007. In 2004, the Group placed orders for six new container vessels of approximately 4,500 TEU capacity for delivery between 2006 and 2008. The increase in property, plant and equipment in 2004 principally reflected the delivery of four new "SX" class container vessels during the year, the stage payments on new vessels under construction and new container equipment acquired, offset in part by the annual depreciation charges for the year.

The increase in property, plant and equipment in container terminals in 2004 represents the additional terminal equipment acquired by terminals during the year.

Property, plant and equipment in property investment and development activities mainly represent the commercial building, Wall Street Plaza, in New York. The building was valued at US$100.0 million at the end of 2004 by an independent valuer (2003 : US$100.0 million).

## Jointly Controlled Entities

| US$'000 | 2004 | 2003 | Variance |
|---|---|---|---|
| Container transport and logistics | **2,957** | 2,777 | 180 |
| Property investment and development | **28,298** | 21,521 | 6,777 |
| | **31,255** | 24,298 | 6,957 |

The investment in jointly controlled entities by container transport and logistics for 2004 mainly represents an interest in a joint venture for the operation of a container depot and transportation business in Qingdao.

For property development activities, investments in jointly controlled entities mainly represents a 47.5% interest in a 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. Block 1 and Block 2 of Phase 2B were topped out in 2004.

The increase in the investments in jointly controlled entities for property development activities is attributable to the share of profit for the year, offset in part by the dividends and progressive capital repatriations from the property development projects.

## Long-term Investments

| US$'000 | 2004 | 2003 | Variance |
|---|---|---|---|
| Container transport and logistics | **1,237** | 1,149 | 88 |
| Property investment and development | **93,601** | 93,601 | — |
| Others | **1,100** | 4,468 | (3,368) |
| | **95,938** | 99,218 | (3,280) |

Long-term investments of the Group at 31st December 2004 amounted to US$95.9 million, principally represented by the Group's 8% interest in Beijing Oriental Plaza of US$93.6 million.

## Intangible Assets

| US$'000 | 2004 | 2003 | Variance |
|---|---|---|---|
| Container transport and logistics | **22,295** | 21,244 | 1,051 |
| Container terminals | **2,513** | 713 | 1,800 |
| Property investment and development | **8,507** | 7,860 | 647 |
| | **33,315** | 29,817 | 3,498 |

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 respective lease period, intangible assets are to be amortised over three to five years.

## Cash and Portfolio Investments

| US$'000 | 2004 | 2003 | Variance |
|---|---|---|---|
| Container transport and logistics | **176,620** | 169,142 | 7,478 |
| Container terminals | **19,560** | 8,038 | 11,522 |
| Property investment and development | **19,119** | 40,010 | (20,891) |
| Cash and portfolio investments | **806,147** | 463,616 | 342,531 |
| | **1,021,446** | 680,806 | 340,640 |

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 Board.

Cash and portfolio investments per ordinary share at 31st December 2004 amounted to US$1.80 compared with US$1.32 at 31st December 2003.

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 | 2004 | 2003 | Variance |
|---|---|---|---|
| Container transport and logistics | **214,279** | 187,631 | 26,648 |
| Container terminals | **65,779** | 46,091 | 19,688 |
| Property investment and development | **119,289** | 91,001 | 28,288 |
| Others | **442** | 145 | 297 |
| | **399,789** | 324,868 | 74,921 |

Accounts receivable and properties under development and held for sale increased by US$74.9 million to US$399.8 million at the end of 2004, principally a reflection of an increase in trade receivables pursuant to the growth in business volumes of the container transport, logistics and container terminal operations, plus further investments in the property development projects around Shanghai.

As at 31st December 2004, the Group had an 88% interest in a development project at Luwan district, Shanghai, a 100% interest in a development project at Huangpu district, Shanghai and a 100% interest in a residential and hotel project at Kunshan, Jiangsu.

## Accounts Payable and Accruals

| US$'000 | 2004 | 2003 | Variance |
|---|---|---|---|
| Container transport and logistics | **516,295** | 456,350 | 59,945 |
| Container terminals | **31,467** | 23,862 | 7,605 |
| Property investment and development | **3,385** | 4,300 | (915) |
| Others | **2,388** | 1,732 | 656 |
| | **553,535** | 486,244 | 67,291 |

Accounts payable at the end of 2004 were US$67.3 million higher than those at the end of 2003. The increase in accounts payable was largely in line with the growth in business volumes of the container transport and container terminals businesses in 2004, in the latter case mainly as a result of the growth in business activities at Global terminal.

## Total Debt

| US$'000 | 2004 | 2003 | Variance |
|---|---|---|---|
| Bank loans | **720,219** | 645,739 | 74,480 |
| Other secured loans | **12,541** | 18,121 | (5,580) |
| Finance lease obligations | **672,119** | 395,344 | 276,775 |
| Bank overdrafts and short-term loans | **85** | 38,958 | (38,873) |
| | **1,404,964** | 1,098,162 | 306,802 |

Total debt increased during the year by US$306.8 million principally as a result of the financial obligations taken on pursuant to the delivery of new container vessels during the year, but 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 2004, over 97% (2003 : 96%) of the Group's total debt was 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$1,405.0 million debt outstanding at the end of 2004, US$119.6 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 that each transaction was entered into. The remaining US$1,285.4 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. The Group's average cost of debt at 31st December 2004 was 3.7% (2003 : 3.1%).

## Shareholders' Funds

In February 2004, the Company issued 47,000,000 new ordinary shares at a price of HK$25.75 pursuant to a placing and subscription agreement entered into on 13 February 2004, resulting in the number of issued and outstanding shares of the Company being increased from 470,184,544 shares to 517,184,544 shares. Shareholders' funds also increased by US$152.9 million as a result. In April 2004, the Company issued bonus shares to its shareholders on the basis of one (1) bonus share for every ten (10) ordinary shares held, thereby increasing the number of issued and outstanding shares of the Company from 517,184,544 shares to 568,902,998 shares. With the favourable operating results for the year, the Group's shareholders' funds rose by US$698.7 million to US$1,809.4 million as at the end of 2004 with a net asset value per ordinary share of US$3.18 (2003 : US$2.15).

## Net Debt to Equity Ratio

This ratio was lower at 0.2 as at the end of 2004, as against 0.4 for 2003, with the profits recorded for 2004 and proceeds from the issue of new shares in February, offset in part by dividends paid 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 2005 amounted to US$327.2 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 2004, the Group had outstanding capital commitments amounting to US$843.1 million, principally represented by the orders placed for new container vessels to be delivered between 2005 and 2008 and further investments in terminal facilities.

## Analysis of Consolidated Cash Flow Statement

### Summary of Consolidated Cash Flow

| US$'000 | 2004 | 2003 | Variance |
|---|---|---|---|
| Net cash inflow from operations | **847,092** | 520,696 | 326,396 |
| Investing and financing inflow: | | | |
| Interest and investment income | **30,375** | 19,149 | 11,226 |
| Sale of property, plant and equipment and investments | **14,975** | 92,757 | (77,782) |
| New loan drawdown | **338,658** | 189,706 | 148,952 |
| Cash from jointly controlled entities | **3,261** | 17,893 | (14,632) |
| Issue of new share | **152,945** | — | 152,945 |
| | **540,214** | 319,505 | 220,709 |
| Investing and financing outflow: | | | |
| Interest paid | **(44,973)** | (41,827) | (3,146) |
| Dividends paid to shareholders | **(134,585)** | (31,028) | (103,557) |
| Taxation paid | **(27,784)** | (12,355) | (15,429) |
| Purchase of property, plant and equipment and investments | **(426,024)** | (236,421) | (189,603) |
| Loan repayments | **(407,008)** | (184,403) | (222,605) |
| Purchase of intangible assets | **(12,539)** | (10,547) | (1,992) |
| Share repurchase | **—** | (59,739) | 59,739 |
| Others | **(191)** | (255) | 64 |
| | **(1,053,104)** | (576,575) | (476,529) |
| Net cash inflow | **334,202** | 263,626 | 70,576 |
| Beginning cash and portfolio balances | **680,806** | 412,446 | 268,360 |
| Changes in exchange rates | **6,438** | 4,734 | 1,704 |
| Ending cash and portfolio balances | **1,021,446** | 680,806 | 340,640 |
| Represented by: | | | |
| Unrestricted bank balances and deposits | **749,245** | 536,791 | 212,454 |
| Restricted bank balances and deposits | **22,367** | 35,850 | (13,483) |
| Portfolio investments | **249,834** | 108,165 | 141,669 |
| | **1,021,446** | 680,806 | 340,640 |

A net cash inflow of US$334.2 million was recorded for 2004 as compared with an inflow of US$263.6 million for 2003. Operating cash inflow for the year was substantially higher than that of 2003 pursuant to the level of operating profits recorded for the year. In 2004, four new previously ordered vessels were delivered accounting for the rise in capital payments and corresponding loan drawdown amounts. 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 and the proceeds of US$152.9 million from new shares issued in 2004 represented the issue of 47,000,000 ordinary shares of the Company at a price of HK$25.75 pursuant to a placing and subscription agreement entered into on 13th February 2004. Total cash and portfolio balances rose to US$1,021.4 million as at the end of 2004 compared with US$680.8 million as at the end of 2003.

## Liquidity

As at 31st December 2004, the Group had total cash and portfolio investment balances of US$1,021.4 million compared with debt obligations of US$146.0 million repayable in 2005. Total current assets at the end of 2004 amounted to US$1,398.9 million against total current liabilities of US$707.6 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.