Financial Review

Analysis of Consolidated Profit and Loss Account

Summary of Group Results

US$'000	2005	2004	Variance
Operating results by activity:			
Container transport and logistics	**650,221**	645,769	4,452
Container terminals	**56,375**	53,641	2,734
Property investment and development	**13,745**	19,556	(5,811)
Unallocated items	**31,451**	21,158	10,293
Earnings before finance costs and tax	**751,792**	740,124	11,668
Finance costs	**(61,659)**	(43,787)	(17,872)
Profit before taxation	**690,133**	696,337	(6,204)
Taxation	**(38,842)**	(25,739)	(13,103)
Minority interests	**(437)**	(149)	(288)
Profit attributable to shareholders	**650,854**	670,449	(19,595)

Container Transport and Logistics

Summary of Operating Results

US$'000	2005	2004	Variance
Liftings (TEUs)	**3,523,218**	3,267,235	255,983
Revenue per TEU (US$)	**1,143**	1,100	43
Turnover			
Asia	**3,022,239**	2,709,681	312,558
North America	**578,522**	494,400	84,122
Europe	**556,054**	480,450	75,604
Australia	**73,122**	63,883	9,239
	4,229,937	3,748,414	481,523
Cargo costs	**(1,683,380)**	(1,487,425)	(195,955)
Vessel and voyage costs	**(965,406)**	(748,095)	(217,311)
Equipment and repositioning costs	**(537,912)**	(499,756)	(38,156)
Gross profit	**1,043,239**	1,013,138	30,101
Business and administrative expenses	**(422,080)**	(372,495)	(49,585)
Other operating income, net	**27,670**	4,354	23,316
	648,829	644,997	3,832
Share of results of jointly controlled entities and associated company	**1,392**	772	620
Earnings before finance costs and tax	**650,221**	645,769	4,452

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 2005. 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; and
- various Intra-Asia services.

Turnover from the Asia area rose from US$2,709.7 million in 2004 to US$3,022.2 million in 2005 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.

Overall liftings on the Trans-Pacific Eastbound services increased by 11% and freight rates remained comparable with that of 2004. Performance on the Westbound legs of the Asia/Northern Europe services continued to improve against 2004 with a 9% increase in volumes and a 7% growth in revenue. Intra-Asia also recorded an 8% 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 2005 remained unchanged as compared with 2004 despite a 9% 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.

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; and
- Eastbound freight of the Canada/Northern Europe service.

Revenue increased by US$84.1 million for this area in 2005. All routes from this region recorded double digit revenue growth, especially for the Westbound segments of the Trans-Pacific services which accounted for over half of the increase in revenue for the year.

Westbound liftings on the Asia/North America West Coast service grew by 4% over last year while the Westbound trade of the Asia/US East Coast service via the Panama Canal recorded a 47% increase. The Eastbound Canada/Northern Europe and US East Coast/Northern Europe services continued to perform well with a 6% growth in volume and an 18% increase in revenue.

Overall volumes grew by 8% during 2005 while the average revenue per TEU on all outbound cargoes from North America recorded a 7% increase as compared with last year.

Given a 13% increase in capacity during the year, overall load factors in the region was 3% lower than 2004.

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 2005 surpassed that of 2004 by US$75.6 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 a 5% growth in volume and a moderate increase in freight rates. The Westbound rates of the Transatlantic routes progressed further in 2005, thereby contributing to the revenue increase.

The Eastbound leg of the Asia/Northern Europe services sustained a healthy growth following the notable recovery experienced during 2004. Liftings for the Westbound sectors of the Canada/Northern Europe and US East Coast/Northern Europe services were better than those of 2004 and average revenue per TEU for both services recorded a 14% increase.

Overall load factors as a percentage of capacity available for cargo shipments from this region maintained the same level as recorded in 2004 notwithstanding a further capacity increase for the Europe area during 2005.

Average revenues per TEU on all outbound cargoes from Europe recorded an 11% increase from the 2004 levels with the continued strength demonstrated on both the Transatlantic trade lanes and a moderate recovery 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 10% in 2005 which, together with a 4% rise in revenue per TEU, resulted in a net gain in turnover of US$9.2 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. The surge in oil prices in 2005 caused significant increases in terminal/transportation related costs. Consequently, although there was only an 8% growth in liftings recorded for 2005, total cargo costs rose by US$196.0 million, or a 13% increase as a result.

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 219,779 TEU of 2004 to 232,536 TEU in 2005 although the total number of vessels, either owned or chartered in and operated by OOCL, remained unchanged at 65. However, with the continued strong charter-hire rates prevailing throughout the year, total vessel costs increased by 22% for 2005.

Voyage costs comprise mainly bunker costs, port charges, canal dues, cargo claims and insurance. With bunker prices rising from an average of US$174 per ton in 2004 to an average of US$250 per ton during 2005, costs in this category were driven up by more than 48%.

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. Although the container fleet size was slightly reduced from the 514,964 TEU of 2004 to 503,945 TEU in 2005 with the disposal of retiring equipment, total equipment and repositioning costs nevertheless increased by US$38.2 million during the year as a result of higher repositioning costs incurred to maintain the equipment flow against trade imbalances in major routes.

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$49.6 million in 2005 as compared with 2004.

Other Operating Income

Compared with 2004, other operating income increased by US$23.3 million in 2005 which principally reflected exchange gains arising from foreign currency transactions and profits on the disposal of retiring container equipment.

Share of Results of Jointly Controlled Entities and Associated Company

The share of the US$1.4 million profit from jointly controlled entities and an associated company was attributable to the depot joint venture in Qingdao and income from jointly controlled entities engaging in agency activities. A share of US$0.8 million profit from jointly controlled entities was recorded for 2004.

Earnings Before Finance Costs and Tax

Earnings before finance costs and tax of US$650.2 million for the container transport and logistics business in 2005 slightly exceeded that achieved in 2004. The sharp rise in various cost items, especially bunker cost, was matched by a small increase in freight rate and the volume growth.

Container Terminals

Summary of Operating Results

US$'000	2005	2004	Variance
Throughput (units)	**2,324,871**	2,116,126	208,745
Turnover	**443,275**	368,664	74,611
Terminal operating costs	**(337,161)**	(268,409)	(68,752)
Gross profit	**106,114**	100,255	5,859
Business and administrative expenses	**(49,739)**	(46,614)	(3,125)
Earnings before finance costs and tax	**56,375**	53,641	2,734

Container terminal activities include the Group's multi-user terminals and terminals which are used by OOCL and its alliance members namely:

TSI Terminal Systems Inc. ("TSI") a wholly owned terminal and management company which operates the Vanterm terminal with 3 berths in Vancouver, Canada and the Deltaport Terminal with 2 berths at Roberts Bank near Vancouver. These terminals are multi-user terminals and OOCL and other Grand Alliance members are their customers. In 2005 throughput handled by Vanterm and Deltaport were, respectively, 251,696 boxes and 569,859 boxes.

New York Container Terminal Inc. ("NYCTI") operates a three berth terminal facility on Staten Island, New York, USA. The terminal commenced operation in 1996 and Grand Alliance services began calling at the terminal in late 1999 and has since become a major user. Prior to 2005, the terminal was operated by the Group's subsidiary company, Howland Hook Leasing Corporation ("HHLC"). Starting from 31st December 2004, HHLC transferred the majority of its assets to NYCTI which then became the operator of the terminal. NYCTI recorded a throughput of 287,637 boxes in 2005.

Global Terminal and Container Services, Inc. ("Global") operates a two berth terminal facility in Jersey City, New Jersey, USA. These facilities are used by a number of third party carriers, OOCL and other Grand Alliance members. In 2005, Global handled a throughput of 288,519 boxes.

Long Beach Container Terminal Inc. ("LBCTI") a wholly owned subsidiary which operates a three berth terminal in Long Beach, California USA. OOCL and other Grand Alliance members are the principal customers of the terminal. LBCTI reported a throughput of 382,959 boxes for 2005.

Kaohsiung Container Terminal ("KAOCT") operates a two berth terminal facility in Kaohsiung, Taiwan. Grand Alliance members are the principal customers of the terminal. KAOCT handled a total of 544,201 throughput boxes in 2005.

Turnover

Turnover increased by US$74.6 million in 2005 aided by the sustained recovery in the business volumes of Global. Total throughput levels surpassed last year and set another record high in 2005.

Terminal Operating Costs

Operating costs were US$68.8 million higher than the 2004 level with an increased number of boxes handled in 2005. 2004 operating costs benefited from a US$10.4 million government grant to HHLC which did not recur this year.

Business and Administrative Expenses

Business and administrative expenses in 2005 were US$3.1 million above those of 2004. 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 Finance Costs and Tax

Overall operating results improved in 2005 as Global further enhanced its performance. Despite some disruption to operational fluidity, TSI successfully managed to out perform expectations in 2005, and performance for the year was further enhanced by NYCTI's continued favourable operating results.

Property Investment and Development

Summary of Operating Results

US$'000	2005	2004	Variance
Rental income	**21,974**	22,262	(288)
Property management costs	**(10,443)**	(9,073)	(1,370)
Gross profit	**11,531**	13,189	(1,658)
Business and administrative expenses	**(3,328)**	(3,982)	654
Profit from property investment	**8,203**	9,207	(1,004)
Profit from property developments	**5,542**	10,349	(4,807)
Earnings before finance costs and tax	**13,745**	19,556	(5,811)

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. In 2005, another two parcels of land, one in Hengshan Lu and the other in Changning Lu, in central Shanghai were acquired.

The net rental from Wall Street Plaza provided a stable income source. The other major profit contributor was the development project "Century Metropolis", Shanghai which constituted the majority of profit in both 2004 and 2005.

Rental Income

Rental income for the year, representing mainly the rental income derived from Wall Street Plaza, was comparable with that of last year as the building remained almost fully let in 2005 with a vacancy rate of less than 1%. The slight decrease in rental income was mainly due to the loss of income resulting from the move in and out of tenants.

Profit From Property Developments

A profit of US$5.5 million was recorded from property developments in 2005 compared with US$10.3 million in 2004. The majority of profit from both years arose from the Century Metropolis project in Shanghai which has now been completed and future profits from this project will be much reduced.

Unallocated Items

US$'000	2005	2004	Variance
Portfolio investment income	**14,343**	11,684	2,659
Interest income	**30,105**	18,461	11,644
Profit on disposal of available-for-sale financial assets	**29**	3,720	(3,691)
Provision for impairment in available-for-sale financial assets	**—**	(288)	288
Others	**(13,026)**	(12,419)	(607)
Earnings before finance costs and tax	**31,451**	21,158	10,293

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.

The Group invests surplus liquid funds, other than funds allocated for investments in bonds and listed equity securities, in cash and bank deposits.

Portfolio investments recorded a profit of US$14.3 million for 2005, an increase of US$2.7 million as compared with 2004. The portfolio investment result reflected out-performance against target benchmarks during 2005.

Interest income was US$11.6 million higher in 2005 which was attributable to the rise in interest rates and the availability of a greater average cash balance.

Others include business and administration expenses for corporate services, exchange differences, the research costs of financial projects and other miscellaneous income and expenses.

Finance Costs

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. Finance costs also include financing charges on the asset securitisation programme, dividends on loan stocks and fees on lease administration.

With a gradual rise in interest rates during 2005, finance costs increased correspondingly by US$17.9 million compared with 2004. The increase in indebtedness as a result of the new loans drawn upon the delivery of newbuildings in 2005 also accounted for the higher cost for the year. The average cost of finance rose from 3.7% in 2004 to 5.2% in 2005 as a whole.

Profit before Taxation

Pre-tax profit for the year was US$690.1 million compared with last year's record profit of US$696.3 million. The container transport and logistics business achieved yet another remarkable result for the year. The Group's result was further boosted by the sustained improvement in terminal operations and continued contributions from the property investment and development segment.

Taxation

US$'000	2005	2004	Variance
Company and subsidiaries:			
North America	**30,554**	24,024	(6,530)
Europe	**4,458**	(142)	(4,600)
China	**1,048**	1,363	315
Asia and others	**2,782**	494	(2,288)
Total	**38,842**	25,739	(13,103)

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 further improved profit level from terminal operations. The growth of business activities in Europe also increased the tax exposures there.

Review of Consolidated Balance Sheet

Summary of Consolidated Balance Sheet

US$'000	2005	2004	Variance
Property, plant and equipment	**2,593,946**	2,132,066	461,880
Investment property and land lease premiums	**107,787**	103,110	4,677
Jointly controlled entities and associated company	**27,773**	31,255	(3,482)
Intangible assets	**21,030**	16,927	4,103
Cash and portfolio investments	**1,286,579**	1,105,011	181,568
Accounts receivable and assets held for sale	**739,999**	583,402	156,597
Other non-current assets	**37,802**	42,831	(5,029)
TOTAL ASSETS	**4,814,916**	4,014,602	800,314
Accounts payable and accruals	**(607,637)**	(553,535)	(54,102)
Current taxation	**(10,944)**	(8,044)	(2,900)
TOTAL ASSETS LESS TRADING LIABILITIES	**4,196,335**	3,453,023	743,312
Long-term borrowings	**1,650,044**	1,427,690	222,354
Short-term borrowings, overdrafts and current portion of long-term borrowings	**188,548**	153,809	34,739
Total debt	**1,838,592**	1,581,499	257,093
Minority interests and deferred liabilities	**73,413**	62,115	11,298
Ordinary shareholders' funds	**2,284,330**	1,809,409	474,921
CAPITAL EMPLOYED	**4,196,335**	3,453,023	743,312
Debt to equity ratio	**0.80**	0.87	
Net debt to equity ratio	**0.24**	0.26	
Accounts payable as a % of turnover	**12.8**	13.4	
Accounts receivable as a % of turnover	**8.8**	8.7	
% return on average ordinary shareholders' funds	**31.8**	45.9	
Net asset value per ordinary share (US$)	**3.65**	2.89	
Cash and portfolio investments per ordinary share (US$)	**2.06**	1.77	
Share price at 31st December (US$)	**3.37**	3.78	
Price earnings ratio based on share price at 31st December	**3.2**	3.2	

Property, Plant and Equipment

US$'000	2005	2004	Variance
Container transport and logistics	**2,293,813**	1,892,122	401,691
Container terminals	**300,009**	239,740	60,269
Property investment and development	**124**	204	(80)
	2,593,946	2,132,066	461,880

Container transport and logistics remains the core business of the Group and the one in which the majority of property, plant and equipment is 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 with the first two delivered in 2003. Four were received in 2004 and two in 2005. Two each will be delivered in 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. During 2005, the Group placed orders for two more new container vessels of similar capacity. The increase in property, plant and equipment in 2005 principally reflects the delivery of two new "SX" Class container vessels during the year, the stage payments and capitalization of lease obligations 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 2005 represents the additional terminal equipment, principally gantry cranes, acquired by terminals during the year.

Investment Property and Land Lease Premiums

US$'000	2005	2004	Variance
Investment property	**100,000**	100,000	—
Prepayments of land lease premiums	**7,787**	3,110	4,677
	107,787	103,110	4,677

Investment property represents the Group's commercial building, Wall Street Plaza, in New York. The building was valued at US$100.0 million at the end of 2005 by an independent valuer (2004 : US$100.0 million).

Jointly Controlled Entities and Associated Company

US$'000	**2005**	2004	Variance
Container transport, logistics and terminals	**12,345**	2,957	9,388
Property investment and development	**15,428**	28,298	(12,870)
	27,773	31,255	(3,482)

The investment in jointly controlled entities and associated company by Container Transport, Logistics and Terminals for 2005 mainly comprises a 20% interest in an associated company for the development of a new container terminal in Tianjin and the interest in a joint venture for the operation of a container depot and transportation business in Qingdao. The increase in the investments in jointly controlled entities and associated company for Container Transport, Logistics and Terminals represents the capital injection to the new terminal project in Tianjin.

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 230,000 sq m. This project was developed in phases with the first phase completed in 2001. The final phase was completed and units were mostly handed over to buyer in 2005. The reduced balances in jointly controlled entities and associated company is attributable to the dividends and progressive capital repatriations from the property development projects, offset in part by the share of profit for the year.

Intangible Assets

US$'000	**2005**	2004	Variance
Container transport and logistics	**18,720**	15,085	3,635
Container terminals	**2,310**	1,842	468
	21,030	16,927	4,103

Intangible assets represent computer software development costs which will be written-off over a period of five years.

Cash and Portfolio Investments

US$'000	2005	2004	Variance
Container transport and logistics	**289,455**	260,185	29,270
Container terminals	**57,577**	19,560	38,017
Property investment and development	**73,873**	19,119	54,754
Cash and portfolio investments	**865,674**	806,147	59,527
	1,286,579	1,105,011	181,568

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 2005 amounted to US$2.06 compared with US$1.77 at 31st December 2004.

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

Accounts Receivable and Assets Held for Sale

US$'000	2005	2004	Variance
Container transport and logistics	**347,166**	293,436	53,730
Container terminals	**75,688**	75,534	154
Property investment and development	**307,568**	212,890	94,678
Others	**9,577**	1,542	8,035
	739,999	583,402	156,597

Accounts receivable and assets held for sale increased by US$156.6 million to US$740.0 million at the end of 2005, principally a reflection of an increase in trade receivables pursuant to the growth in business volumes of the container transport and logistics operations, plus further investments in the property development projects in China.

As at 31st December 2005, 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, a 100% interest in a residential and hotel project at Kunshan, Jiangsu, a 95% interest in a serviced apartment and commercial project at Changning Lu, Shanghai and a 100% interest in a serviced apartment and retail project at Hengshan Lu, Shanghai. Accounts receivables and assets held for sale in property investment and development activities also included the Group's 8% interest in Beijing Oriental Plaza.

Accounts Payable and Accruals

US$'000	2005	2004	Variance
Container transport and logistics	**535,522**	516,295	19,227
Container terminals	**55,160**	31,467	23,693
Property investment and development	**14,510**	3,385	11,125
Others	**2,445**	2,388	57
	607,637	553,535	54,102

Accounts payable and accruals at the end of 2005 were US$54.1 million higher than those at the end of 2004. The increase in accounts payable and accruals was largely in line with the growth in business volumes of the container transport and logistics and container terminals businesses in 2005.

Total Debt

US$'000	2005	2004	Variance
Bank loans	**477,764**	719,582	(241,818)
Other secured loans	**191,507**	195,303	(3,796)
Finance lease obligations	**1,169,239**	666,529	502,710
Bank overdrafts	**82**	85	(3)
	1,838,592	1,581,499	257,093

Total debt increased during the year by US$257.1 million principally as a result of the financial obligations taken on pursuant to the delivery of new container vessels during the year and the capitalization of lease obligations undertaken for new vessels under construction, offset in part by scheduled repayment of loans and bank indebtedness. The repayment profile of the Group's borrowings is set out in Note 36 to the Accounts.

Debt Profile

As at the end of 2005, over 92% (2004 : 93%) 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$1,838.6 million debt outstanding at the end of 2005, US$99.3 million was fixed rate debt comprised mainly of container and terminal equipment leases. The fixed rates range from 3.4% to 9.7% dependent upon the cost of money at the time that each transaction was entered into. The remaining US$1,739.3 million of indebtedness was subject to floating interest rates at various competitive spreads over three months LIBOR (or equivalent) and relates principally to indebtedness on vessels and the investment property, Wall Street Plaza. The Group's average cost of debt at 31st December 2005 was 5.2% (2004 : 3.7%).

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 13th 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. A similar bonus share issue was made in April 2005 which further increased the outstanding shares of the Company to 625,793,297 shares. With the continued favourable operating results for the year, the Group's shareholders' funds rose by US$474.9 million to US$2,284.3 million as at the end of 2005 with a net asset value per ordinary share of US$3.65 (2004 : US$2.89).

Net Debt to Equity Ratio

This ratio was lower at 0.24 as at the end of 2005, as against 0.26 for 2004, with the profits recorded for 2005, 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 2006 amounted to US$293.2 million as detailed in Note 38(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 2005, the Group had outstanding capital commitments amounting to US$744.5 million, principally represented by the orders placed for new container vessels to be delivered between 2006 and 2008 and further investments in terminal facilities.

Analysis of Consolidated Cash Flow Statement

Summary of Consolidated Cash Flow

US$'000	2005	2004	Variance
Net cash inflow from operations	**818,422**	852,123	(33,701)
Investing and financing inflow:			
Interest and investment income	**34,043**	22,192	11,851
Sale of property, plant and equipment and investments	**15,439**	14,975	464
New loans drawdown	**485,540**	338,658	146,882
Cash from jointly controlled entities	**18,673**	3,261	15,412
Issue of new share	**—**	152,945	(152,945)
Others	**8,719**	—	8,719
	562,414	532,031	30,383
Investing and financing outflow:			
Interest paid	**(63,576)**	(44,973)	(18,603)
Dividends paid to shareholders	**(177,595)**	(134,585)	(43,010)
Taxation paid	**(40,225)**	(27,784)	(12,441)
Purchase of property, plant and equipment and investments	**(357,935)**	(426,024)	68,089
Loan repayments	**(539,049)**	(417,419)	(121,630)
Purchase of intangible assets	**(9,239)**	(6,992)	(2,247)
Others	**(3,225)**	(585)	(2,640)
	(1,190,844)	(1,058,362)	(132,482)
Net cash inflow	**189,992**	325,792	(135,800)
Beginning cash and portfolio balances	**1,105,011**	772,781	332,230
Changes in exchange rates	**(8,424)**	6,438	(14,862)
Ending cash and portfolio balances	**1,286,579**	1,105,011	181,568
Represented by:			
Unrestricted bank balances and deposits	**962,541**	755,049	207,492
Restricted bank balances and deposits	**87,034**	100,128	(13,094)
Portfolio investments	**237,004**	249,834	(12,830)
	1,286,579	1,105,011	181,568

A net cash inflow of US$190.0 million was recorded for 2005 as compared with an inflow of US$325.8 million for 2004. Operating cash inflow of US$818.4 million for the year was US$33.7 million less than that of 2004. The capital payments and corresponding loan drawdown amounts in 2005 mainly reflected the delivery of two "SX" Class vessels and further investments in terminal equipment and property development projects. 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$1,286.6 million as at the end of 2005 compared with US$1,105.0 million as at the end of 2004.

Liquidity

As at 31st December 2005, the Group had total cash and portfolio investment balances of US$1,286.6 million compared with debt obligations of US$188.5 million repayable in 2006. Total current assets at the end of 2005 amounted to US$1,841.0 million against total current liabilities of US$807.1 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.