Notes to the Consolidated Accounts

1. General information

Orient Overseas (International) Limited ("the Company") is a limited liability company incorporated in Bermuda. The address of its registered office is 33rd floor, Harbour Centre, No. 25 Harbour Road, Wanchai, Hong Kong.

The Company has its listing on the Main Board of The Stock Exchange of Hong Kong Limited.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated accounts are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated accounts have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated accounts have been prepared under the historical cost convention, as modified by the revaluation of investment properties, certain plant and equipment, available-for-sale financial assets, and financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of accounts in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated accounts, are disclosed in note 4.

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

The adoption of new/revised HKFRS

In 2005, the Group adopted the new/revised standards and interpretations of new HKFRS below, which are relevant to its operations. The 2004 comparatives are amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKAS-Int 3	Revenue – Pre-completion Contracts for the sale of Development Properties
HKAS-Int 12	Consolidation – Special Purpose Entities
HKAS-Int 15	Operating Leases – Incentives
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciated Assets
HKAS-Int 27	Evaluating the substance of Transaction involving the Legal Form of a Lease
HKFRS 3	Business Combinations

(a) The adoption of new/revised HKASs 1, 2, 7, 8, 10, 21, 23, 24, 27, 28, 31, 33, 36 and HKAS-Int 3, 12, 15, 21, 27 and HKFRS 3 does not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interests, share of net after-tax results of jointly controlled entities and associated company and other disclosures. Interest and investment income previously included under net financing charges are classified under other operating income, whereas non-returnable proceeds received from assignment of trade debtors previously presented under net trade receivables and restricted bank deposits under the put options of the redeemable preference shares and premium previously presented in net balance are both reclassified to borrowings.

- HKASs 2, 7, 8, 10, 21, 23, 27, 28, 31, 33, 36 and HKAS-Int 12, 15, 21 and 27 have no material effect on the Group's policies.

- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(b) The adoption of HKAS 16 has resulted in a change in the accounting policy relating to recognition of dry-docking costs as a component of vessels and depreciated over the period to the next estimated dry-docking date. In previous years, dry-docking costs for vessels were charged to the profit and loss account as incurred. Since the resulting impact is not material as a whole, this change has not been applied retrospectively and a prior period adjustment has not been made.

In addition, HKAS 16 has required that residual value and the useful life of a fixed asset shall be reviewed at least at each financial year end and, if expectations differ from previous estimates, the change shall be accounted for as a change in an accounting estimate prospectively.

(c) The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment and properties under development and for sale to operating leases. The up-front payments made for the leasehold land and land use rights are expensed in the profit and loss account on a straight-line basis over the period of the lease unless the property is under development or when there is an impairment, the impairment is expensed in the profit and loss account. In previous years, for those classified as leasehold land and buildings included in property, plant and equipment, they were depreciated over the period of the lease, whereas those properties under development and for sale were stated at cost, including land and construction costs, less provisions for foreseeable losses. The resulting impact is not material and therefore a prior period adjustment has not been made.

(d) The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets and portfolio investments and change in the recognition and measurement of loans and receivables, held-to-maturity investments, borrowings and hedging activities. In addition, derivative financial instruments are categorised as trading unless they are designated as hedges. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently stated at amortised cost using effective interest method.

In previous years, the Group classified its investments, other than subsidiaries and jointly controlled entities, as long-term investments and portfolio investments. Long-term investments and portfolio investments were carried at cost less provision and realisable values, respectively. In addition, financing charges related to long-term borrowings were deferred and amortised on a straight-line basis over the relevant tenure of the loan. The resulting impact from this change is not material and therefore a prior period adjustment has not been made.

(e) The adoption of revised HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values of investment properties are recorded in the profit and loss account. In previous years, a deficit in valuation was charged to the profit and loss account; an increase was first credited to the profit and loss account to the extent of valuation deficit previously charged and thereafter was credited to the assets revaluation reserve. As at 31st December 2004, the valuation of investment properties was less than their original costs and the revaluation deficits had already been charged to the profit and loss account in previous years and there was no investment properties revaluation reserve. Consequently, no prior period adjustment on the retained profit and investment properties revaluation reserve is required.

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(f) The adoption of HKAS-Int 3 has resulted in a change in accounting policy of which sales of properties are recognised when the risk and rewards of the property have been passed to the customers. In previous years, sales of properties under construction were recognised over the course of the development based on the proportion of construction work completed or if lower, the proportion of sales proceeds received. The Group has elected to adopt the transitional provision and change the recognition policy in relation to sales of properties occurred on or after 1st January 2005.

(g) The adoption of HKFRS 3 and HKAS 38 results in a change in the accounting policy for excess of fair value of net assets acquired over the cost of acquisition. In previous years, goodwill was amortised using the straight line method over its estimated useful life of not more than twenty years. Where the fair values ascribed to the net assets exceed the purchase consideration, such differences were recognised as income in the year of acquisition or over the weighted average useful life of the acquired non-monetary assets. The carrying amount of goodwill was reviewed annually and provision was only made where, in the opinion of the Directors, there was impairment in value other than temporary in nature. Effective from 1st January 2005, goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. On the other hand, the excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of business combination is recognised immediately in the profit and loss account. HKFRS 3 has been applied to the Group's acquisitions occurred on or after 1st January 2005.

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective HKFRS. All standards adopted by the Group require retrospective application other than HKFRS 3 and HKAS-Int 3 which is applied prospectively on or after 1st January 2005.

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

The following table discloses the adjustments made in accordance with the transitional provisions of the respective HKFRS as set out in (a) to (g) above to each of the items of the consolidated balance sheet as previously reported as at 31st December 2004.

Consolidated balance sheet as at 31st December 2004:

US$'000	As previously reported	HKAS 1 Note (a)	HKAS 17 Note (c)	HKAS 39 Note (d)	HKAS 40 Note (e)	As restated
ASSETS						
Non-current assets						
Property, plant and equipment	2,235,176		(3,110)		(100,000)	2,132,066
Investment property	—				100,000	100,000
Prepayments of lease premiums	—		3,110			3,110
Jointly controlled entities	31,255					31,255
Long-term investments	95,938			(95,938)		—
Intangible assets	33,315	(9,858)		(6,530)		16,927
Deferred taxation assets	—	15,352				15,352
Pension and retirement assets	—	5,796				5,796
Available-for-sale financial assets	—			3,508		3,508
Restricted bank balances and other deposits	—	111,953				111,953
Other non-current assets	43,515	(33,657)		92,430		102,288
	2,439,199					**2,522,255**
Current assets						
Properties under development and for sale	97,959					97,959
Inventories	—	30,008				30,008
Debtors and prepayments	301,830	57,667				359,497
Portfolio investments	249,834					249,834
Cash and bank balances	749,245	5,804				755,049
	1,398,868					**1,492,347**
Total assets	**3,838,067**					**4,014,602**

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

Consolidated balance sheet as at 31st December 2004:

US$'000	As previously reported	HKAS 1 Note (a)	HKAS 17 Note (c)	HKAS 39 Note (d)	HKAS 40 Note (e)	As restated
EQUITY						
Share capital	56,890					56,890
Reserves	1,752,519					1,752,519
Shareholders' funds	1,809,409					1,809,409
Minority interests	7,808					7,808
Total equity	**1,817,217**					**1,817,217**
LIABILITIES						
Non-current liabilities						
Borrowings	1,258,953	174,251		(5,514)		1,427,690
Deferred taxation liabilities	—	40,166				40,166
Pension and retirement liabilities	—	14,141				14,141
Other non-current liabilities	54,307	(54,307)				—
	1,313,260					**1,481,997**
Current liabilities						
Creditors and accruals	553,535					553,535
Borrowings	145,926	8,899		(1,016)		153,809
Bank overdrafts and short-term loans	85	(85)				—
Current taxation	8,044					8,044
	707,590					**715,388**
Total liabilities	**2,020,850**					**2,197,385**
Total equity and liabilities	**3,838,067**					**4,014,602**

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1st January 2006 or later periods but which the Group has not early adopted, as follows:

- HKAS 19 (Amendment), Employee Benefits (effective from 1st January 2006). This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group has not decided whether to change the accounting policy for recognition of actuarial gains and losses and does not participate in any multi-employer plans, the impact of adoption of this amendment cannot be ascertained for the time being. The Group will apply this amendment from accounting periods beginning 1st January 2006.

- HKAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1st January 2006). The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated accounts, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss. This amendment is not relevant to the Group's operations, as the Group does not have any intragroup transactions that would qualify as a hedged item in the consolidated accounts as at 31st December 2005 and 2004.

- HKAS 39 (Amendment), The Fair Value Option (effective from 1st January 2006). This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit or loss. The Group will apply this amendment from accounting periods beginning 1st January 2006.

- HKAS 39 and HKFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1st January 2006). This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. The Company regards its financial guarantees provided to its subsidiaries as insurance contracts.

- HKFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to HKAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1st January 2007). HKFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces HKAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in HKAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under HKFRS. The amendment to HKAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from accounting periods beginning 1st January 2007.

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

- HKFRS-Int 4, Determining whether an Arrangement contains a Lease (effective from 1st January 2006). HKFRS-Int 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of HKFRS-Int 4 on the Group's operations.

2.2 Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December.

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

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated profit and loss account.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are recognised by the Company on the basis of dividend received and receivable.

(b) Jointly controlled entities

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

2. Summary of significant accounting policies (Continued)

2.2 Consolidation (Continued)

(c) Associated companies

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associated companies includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associated companies' post-acquisition profits or losses is recognised in the consolidated profit and loss account, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Property, plant and equipment

All property, plant and equipment are stated at historical cost or valuation less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

No depreciation is provided for vessels under construction and freehold land.

Depreciation of other property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Container vessels	25 years
Containers	5 to 12 years
Chassis	10 to 12 years
Terminal equipment and improvements	10 to 15 years
Freehold buildings	Not exceeding 75 years
Leasehold buildings	Over period of the lease
Vehicles, furniture, computer and other equipment	3 to 10 years

The residual values of the assets and their useful lives are reviewed and adjusted if appropriate, at each balance sheet date.

The carrying amount of an asset is written down immediately to its recoverable amount if the carrying amount of the asset is greater than its estimated recoverable amount.

2. Summary of significant accounting policies (Continued)

2.3 Property, plant and equipment (Continued)

During the year, the residual values of property, plant and equipment were reassessed, and accordingly, depreciation charge of property, plant and equipment for the year ended 31st December 2005 has been calculated based on the revised estimated residual values. This represents a change in accounting estimate and the depreciation charge for the year has been reduced by US$26.2 million.

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

2.4 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the Group, is classified as investment property. Investment property comprises freehold land, land held under operating leases and buildings held under finance leases. Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Fair value is based on valuation carried out annually by Directors or independent external valuers. Changes in fair values are recognised in the profit and loss account.

Investment property held for sale without redevelopment is classified within non-current assets held for sale, under HKFRS 5.

2.5 Vessel repairs and surveys

Upon acquisition of a vessel, the components of the vessel which are required to be replaced at the next dry-docking are identified and their costs are depreciated over the period to the next estimated dry-docking date, usually ranging from three to five years. Costs incurred on subsequent dry-docking of vessels are capitalised and depreciated over the period to the next estimated dry-docking date. When significant dry-docking costs incurred prior to the expiry of the depreciation period, the remaining costs of the previous dry-docking are written off immediately.

2.6 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary company, associated company or jointly controlled entity at the effective date of acquisition and, in respect of an increase in holding in a subsidiary company, the excess of the cost of acquisition and the carrying amount of the proportion of the minority interests acquired. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies or jointly controlled entities is included in investments in associated companies or jointly controlled entities. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

2. Summary of significant accounting policies (Continued)

2.6 Intangible assets (Continued)

(b) Computer software

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are stated at cost less accumulated amortisation. Amortisation is calculated on the straight-line basis over their estimated useful life of five years.

2.7 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value of an asset less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

2.8 Investments

The Group classifies its investments in the following categories: portfolio investments, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) Portfolio investments

Portfolio investments include financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

2. Summary of significant accounting policies (Continued)

2.8 Investments (Continued)

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and portfolio investments are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Realised and unrealised gains and losses arising from changes in the fair value of the portfolio investments are included in the profit and loss account in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the profit and loss account as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit and loss account is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account.

2.9 Properties under development and for sale

The cost of acquiring land held under operating leases is amortised on a straight-line basis over the lease term. If the property is in the course of development or re-development, the amortisation charge is included as part of the costs of the property under development. In all other cases the amortisation charge for the period is recognised in profit and loss account immediately. In all other respects, inventories in respect of property development activities are carried at the lower of cost and net realisable value.

2.10 Inventories

Inventories mainly comprise bunkers and consumable stores. Inventories are stated at the lower of cost and net realisable value. Cost is calculated on first-in-first out basis. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

2. Summary of significant accounting policies (Continued)

2.11 Debtors and prepayments

Debtors and prepayments are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of debtors and prepayments is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

2.12 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and net of bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.13 Share capital

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs, net of income taxes, is deducted from equity attributable to the equity holders of the Company and all the shares are cancelled.

2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds net of transaction costs and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the profit and loss account as finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

2. Summary of significant accounting policies (Continued)

2.15 Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated accounts. However, if the deferred taxation arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred taxation is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred taxation asset is realised or the deferred taxation liability is settled.

Deferred taxation assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

2.16 Employee benefits

(a) Pension obligations

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

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

Contributions under the defined contribution schemes are recognised as employee benefit expense when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2. Summary of significant accounting policies (Continued)

2.16 Employee benefits (Continued)

(b) Other post-employment obligations

Some Group companies provide post-retirement healthcare benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions, are recognised in the profit and loss account over the expected average remaining working lives of the related employees. These obligations are valued annually by independent qualified actuaries.

(c) Bonus plans

The Group recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.17 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

2.18 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.19 Foreign currency translation

(a) Functional and presentation currency

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated accounts are presented in US dollars, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

2. Summary of significant accounting policies (Continued)

2.19 Foreign currency translation (Continued)

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.20 Revenue recognition

Revenue comprises the fair value for the sale of services, net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(a) Freight revenues from the operation of the container transport and logistics business are recognised on a percentage of completion basis, which is determined on the time proportion method of each individual vessel voyage.

(b) Revenues from the operation of container terminals and provision of other services are recognised when services are rendered or on an accruals basis.

(c) Rental income under operating leases is recognised over the periods of the respective leases on a straight-line basis.

(d) Sales of properties are recognised when the risk and rewards of the property have been passed to the customers.

(e) Interest income is recognised on a time-proportion basis using the effective interest method.

(f) Dividend income is recognised when the right to receive payment is established.

2. Summary of significant accounting policies (Continued)

2.21 Leases

(a) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the profit and loss account on a straight-line basis over the period of the lease.

The up-front prepayments made for the leasehold land and land use rights are expensed in the profit and loss account on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the profit and loss account.

(b) Finance lease

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased assets and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is recognised in the profit and loss account over the lease period so as to produce a constant periodic rate of interest on the remaining balances of the liability for each period.

2.22 Borrowing costs

Borrowing costs are expensed in the profit and loss account in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying assets commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

2.23 Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Changes in fair value are recognised in the profit and loss account.

2.24 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's accounts in the period in which the dividends are approved by the Company's shareholders.

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to fluctuation in the exchange rate of foreign currencies to the US dollar. Foreign currency exposures are covered by forward contracts and options whenever appropriate.

(ii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified either as available-for-sale financial assets or as portfolio investments. The Group is not exposed to commodity price risk.

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that services are provided to customers with an appropriate credit history. Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group aims to maintain flexibility in funding by keeping sufficient cash and cash equivalents.

(d) Cash flow and fair value interest rate risk

The Group has a policy to place surplus funds with creditable financial institutions which offer the best return for the Group on a short-term basis.

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing borrowings. These exposures are managed through the use of derivative financial instruments such as interest rate swap.

3. Financial risk management (Continued)

3.2 Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

Unlisted investments have been valued by reference to the market prices of the underlying investments or by reference to the current market value of similar investments or by reference to the discounted cash flows of the underlying net assets.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of foreign exchange forward contracts is determined using forward exchange market rates at the balance sheet date.

The fair values of debtors and prepayments, cash and cash equivalents, creditors and accruals and current borrowings are assumed to approximate their carrying amount due to the short-term maturities of these assets and liabilities.

The fair values of long-term borrowings are estimated using the expected future payments discounted at market interest rates.

4. Critical accounting estimates and judgements

Estimates and judgements used in preparing the accounts are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Recognition of deferred tax assets, which principally relate to tax losses, depends on the management's expectation of future taxable profit that will be available against which tax losses can be utilised. The outcome of their actual utilisation may be different.

(b) Investment property

The fair values of investment properties are determined by independent valuers on an open market for existing use basis. In making the judgement, consideration has been given to assumptions that are mainly based on market conditions existing at the balance sheet date and appropriate capitalisation rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

4. Critical accounting estimates and judgements (Continued)

(c) Pension

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost or income for pensions include the expected long-term rate of return on the relevant plans assets and the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The expected return on plan assets assumptions is determined on an uniform basis, taking into consideration long-term historical returns, asset allocation and future estimates of long-term investment returns.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximately the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions.

(d) Property, plant and equipment and intangible assets

Management determines the estimated useful lives and residual values for the Group's property, plant and equipment and intangible assets. Management will revise the depreciation charge where useful lives and residual values are different to previously estimated, or it will write off or write down technically obsolete or non-strategy assets that have been abandoned or sold.

(e) Provision of operating cost

Operating costs, which mainly comprise cargo, vessel and voyage costs, equipment repositioning cost and terminal operating cost, are recognised on a percentage of completion basis as set out in note 2.20(a). Invoices in relation to these expenses are received approximately up to six months after the expenses have been incurred. Consequently, recognition of operating costs is based on the rendering of services as well as the latest tariff agreed with vendors.

If the actual expenses of a voyage differ from the estimated expenses, this will have an impact on operating cost in future periods. Historically, the Group has not experienced significant deviation from the actual expenses.

5. Turnover and segment information

(a) Turnover

US$'000	2005	2004
Container transport and logistics	**4,229,937**	3,748,414
Container terminals	**443,275**	368,664
Property investment and development	**23,029**	23,250
	4,696,241	4,140,328

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

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

(b) Segment reporting

The principal activities of the Group are container transport and logistics, container terminal, property investment and development. Container transport and logistics include global containerised shipping services in major trade lanes, covering Trans-Pacific, Transatlantic, Asia/Europe, Asia/Australia and Intra-Asia trades, and integrated services over the management and control of effective storage and flow of goods. In accordance with the Group's internal financial reporting and operating activities, the primary segment reporting is by business segments and the secondary segment reporting is by geographical segments.

For the geographical segment reporting, freight revenues from container transport and logistics are analysed based on the outbound cargoes of each geographical territory. The Directors consider that the nature of the container transport and logistics activities, which cover the world's major shipping lanes, and the way in which costs are allocated precludes a meaningful allocation of operating profit to specific geographical segments. Accordingly, geographical segment results for container transport and logistics business are not presented.

Unallocated assets under business segment reporting primarily include available-for-sale financial assets, portfolio investments, derivative financial instruments, deferred taxation assets, tax recoverable and cash and bank balances. While unallocated segment liabilities include borrowings, derivative financial instruments, current and deferred taxation liabilities.

5. Turnover and segment information (Continued)

(b) Segment reporting (Continued)

Primary reporting – business segment

The segment results for the year ended 31st December 2005 are as follows:

US$'000	Container transport and logistics	Terminal	Property investment and development	Unallocated	Elimination	Group
Turnover	4,229,937	486,711	23,932	—	(44,339)	4,696,241
Operating profit	648,829	56,375	8,271	31,451	—	744,926
Finance costs (note 12)						(61,659)
Share of profits less losses of jointly controlled entities (note 20)						6,950
Share of loss of an associated company (note 21)						(84)
Profit before taxation						690,133
Taxation						(38,842)
Profit for the year						651,291
Capital expenditure	540,934	94,489	71	—	—	635,494
Depreciation	122,638	34,607	57	—	—	157,302
Amortisation	4,529	1,234	1,058	—	—	6,821

5. Turnover and segment information (Continued)

(b) Segment reporting (Continued)

Primary reporting – business segment (Continued)

The segment results for the year ended 31st December 2004 are as follows:

US$'000	Container transport and logistics	Terminal	Property investment and development	Unallocated	Elimination	Group
Turnover	3,748,414	402,837	23,933	—	(34,856)	4,140,328
Operating profit	644,997	53,641	9,212	21,158	—	729,008
Finance costs (note 12)						(43,787)
Share of profits less losses of jointly controlled entities (note 20)						11,116
Profit before taxation						696,337
Taxation						(25,739)
Profit for the year						670,598
Capital expenditure	761,114	45,286	91	—	—	806,491
Depreciation	120,645	24,124	91	—	—	144,860
Amortisation	5,594	572	174	—	—	6,340

Inter-segment transfers or transactions are conducted at prices and terms mutually agreed amongst those business segments.

5. Turnover and segment information (Continued)

(b) Segment reporting (Continued)

Primary reporting – business segment (Continued)

The segment assets and liabilities at 31st December 2005 are as follows:

US$'000	Container transport and logistics	Terminal	Property investment and development	Unallocated	Group
Segment assets					
Property, plant and equipment	2,293,813	300,009	124	—	2,593,946
Jointly controlled entities	4,429	—	15,428	—	19,857
Associated company	—	7,916	—	—	7,916
Other assets	380,232	74,363	411,315	1,327,287	2,193,197
Total assets					4,814,916
Segment liabilities					
Creditors and accruals	(530,930)	(55,160)	(14,510)	(2,445)	(603,045)
Other liabilities	(11,352)	(3,728)	—	(1,904,332)	(1,919,412)
Total liabilities					(2,522,457)

5. Turnover and segment information (Continued)

(b) Segment reporting (Continued)

Primary reporting – business segment (Continued)

The segment assets and liabilities at 31st December 2004 are as follows:

US$'000	Container transport and logistics	Terminal	Property investment and development	Unallocated	Group
Segment assets					
Property, plant and equipment	1,892,122	239,740	204	—	2,132,066
Jointly controlled entities	2,957	—	28,298	—	31,255
Other assets	322,232	79,830	321,330	1,127,889	1,851,281
Total assets					4,014,602
Segment liabilities					
Creditors and accruals	(504,335)	(43,427)	(3,385)	(2,388)	(553,535)
Other liabilities	(10,706)	(3,435)	—	(1,629,709)	(1,643,850)
Total liabilities					(2,197,385)

5. Turnover and segment information (Continued)

(b) Segment reporting (Continued)

Secondary reporting – geographical segment

The Group's three business segments operate in four main geographical areas, even though they are managed on a worldwide basis.

US$'000	Turnover	Operating profit/(loss)	Capital expenditure
Year ended 31st December 2005			
Asia	3,023,294	468	39,333
North America	1,043,771	66,908	90,888
Europe	556,054	—	751
Australia	73,122	—	337
Unallocated*	—	677,550	504,185
	4,696,241	744,926	635,494
Year ended 31st December 2004			
Asia	2,710,669	(1,668)	20,811
North America	885,326	67,571	61,069
Europe	480,450	—	1,715
Australia	63,883	—	70
Unallocated*	—	663,105	722,826
	4,140,328	729,008	806,491

5. Turnover and segment information (Continued)

(b) Segment reporting (Continued)

Secondary reporting – geographical segment (Continued)

US$'000	31st December 2005	31st December 2004
Total assets		
Asia	**379,907**	240,211
North America	**540,467**	497,820
Europe	**21,262**	15,308
Australia	**627**	342
Unallocated*	**3,872,653**	3,260,921
	4,814,916	4,014,602

* Operating profit comprises results from container transport and logistics and investment activities. Whereas total assets mainly comprise vessels, containers, intangible assets, available-for-sale financial assets, portfolio investments, derivative financial instruments, inventories, deferred taxation assets, tax recoverable, cash and bank balances while capital expenditure mainly comprises additions to vessels, containers and intangible assets.

6. Operating costs

US$'000	2005	2004
Cargo	**1,683,380**	1,487,425
Vessel and voyage	**965,406**	748,095
Equipment and repositioning	**537,912**	499,756
Terminal operating	**337,161**	268,409
Property management and development	**10,443**	9,073
	3,534,302	3,012,758

7. Other operating income

US$'000	2005	2004
Income from available-for-sale financial assets		
- profit on disposal	**18**	1,862
- dividend income	**18**	49
Interest income from banks	**30,105**	18,461
Portfolio investment income		
- fair value gain (realised and unrealised)	**10,344**	8,183
- interest income	**2,722**	2,277
- dividend income	**1,277**	1,224
Gain on interest rate swap contracts	**5,152**	—
Profit on disposal of a jointly controlled entity	**—**	770
Profit on disposal of property, plant and equipment	**8,709**	1,768
Exchange gain	**13,287**	1,587
Others	**4,662**	909
	76,294	37,090

The investment income from listed and unlisted investments for the year are US$2.7 million (2004: US$2.7 million) and US$1.3 million (2004: US$0.8 million), respectively.

8. Other operating expenses

US$'000	2005	2004
Business and administrative	**476,870**	423,759
Corporate	**11,845**	11,893
Loss on foreign exchange forward contracts	**4,592**	—
	493,307	435,652

9. Employee benefit expense

US$'000	2005	2004
Wages and salaries		
- General and administrative staff	**302,303**	295,526
- Terminal workers	**268,439**	226,158
- Crew and seamen	**25,696**	21,547
	596,438	543,231
Pension and retirement benefits		
- Defined contribution plans (note 24)	**15,296**	14,309
- Defined benefit plans (note 24)	**7,410**	6,908
	619,144	564,448

10. Directors' and management's emoluments

(a) Directors' emoluments

The remuneration of every Director is set out below:

Name of Director US$'000	Fees	Salary	Discretionary bonuses	Other benefits	Employer's contribution to provident fund scheme	Total
For the year ended 31st December 2005						
Mr C C Tung	106	539	995	—	154	1,794
Mr Tsann Rong Chang	—	64	—	—	—	64
Mr Roger King	—	54	—	—	5	59
Mr Nicholas D Sims	115	136	697	108	53	1,109
Mr Philip Chow	—	456	2,396	—	285	3,137
Mr Alan Tung	—	160	—	—	16	176
Mr Simon Murray	19	—	—	—	—	19
Dr Victor K Fung	32	—	—	—	—	32
Prof Richard Wong	26	—	—	—	—	26

10. Directors' and management's emoluments (Continued)

(a) Directors' emoluments (Continued)

Name of Director US$'000	Fees	Salary	Discretionary bonuses	Other benefits	Employer's contribution to provident fund scheme	Total
For the year ended 31st December 2004						
Mr C C Tung	106	539	428	—	97	1,170
Mr Tsann Rong Chang	—	299	1,167	—	141	1,607
Mr Roger King	—	54	—	—	6	60
Mr Nicholas D Sims	115	126	277	108	31	657
Mr Philip Chow	—	450	1,167	120	141	1,878
Mr Robert Suan	—	229	113	—	16	358
Mr Simon Murray	19	—	—	—	—	19
Dr Victor K Fung	26	—	—	—	—	26
Prof Richard Wong	19	—	—	—	—	19

None of the Directors has waived the right to receive their emoluments.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2004: three) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2004: two) individuals are as follows:

US$'000	2005	2004
Basic salaries, housing allowances, other allowances and benefits in kind	**921**	653
Discretionary bonuses	**3,834**	1,167
Pension costs - defined contribution plans	**475**	182
	5,230	2,002

10. Directors' and management's emoluments (Continued)

(b) Five highest paid individuals (Continued)

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

		Number of individuals	
Emolument bands (US$)		2005	2004
833,301 ~ 897,400	(HK$6,500,001 ~ HK$7,000,000)	—	1
1,153,801 ~ 1,218,000	(HK$9,000,001 ~ HK$9,500,000)	—	2
1,602,501 ~ 1,666,600	(HK$12,500,001 ~ HK$13,000,000)	**2**	1
1,730,701 ~ 1,794,900	(HK$13,500,001 ~ HK$14,000,000)	**1**	—
1,858,901 ~ 1,923,000	(HK$14,500,001 ~ HK$15,000,000)	—	1
1,923,001 ~ 1,987,100	(HK$15,000,001 ~ HK$15,500,000)	**1**	—
3,076,901 ~ 3,141,000	(HK$24,000,001 ~ HK$24,500,000)	**1**	—
		5	5

(c) Key management compensation

US$'000	2005	2004
Salaries and other short-term employee benefits	**11,792**	8,563
Pension costs - defined contribution plans	**1,109**	757
	12,901	9,320

The Group usually determines and pays discretionary bonuses to employees (including Directors) around April/May each year based on the actual financial results of the Group for the preceding year. The discretionary bonuses shown above therefore represent actual payments to the Directors and individuals during the current financial year in relation to performance for the preceding year.

11. Operating profit

US$'000	2005	2004
Operating profit is arrived at after crediting:		
Operating lease rental income		
Land and buildings	**21,974**	22,262
and after charging:		
Depreciation		
Owned assets	**117,413**	95,076
Leased assets	**39,889**	49,784
Operating lease rental expense		
Vessels and equipment	**405,442**	399,126
Land and buildings	**47,473**	43,402
Rental outgoings in respect of an investment property	**14,223**	11,231
Amortisation of intangible assets	**5,260**	5,844
Amortisation of prepayments of lease premiums	**1,561**	496
Less: Amount capitalised under properties under development and for sale	**(1,057)**	(58)
	504	438
Auditors' remuneration		
Audit	**2,327**	1,960
Non-audit	**1,559**	926

12. Finance costs

US$'000	2005	2004
Interest expense		
Bank loans, overdrafts and other loans		
Wholly repayable within five years	**17,133**	13,122
Not wholly repayable within five years	**12,994**	8,641
Finance lease obligations		
Wholly payable within five years	**9,528**	11,201
Not wholly payable within five years	**23,484**	7,272
	63,139	40,236
Amount capitalised under assets	**(7,082)**	(2,661)
Net interest expense	**56,057**	37,575
Dividend on preference shares	**5,602**	6,212
	61,659	43,787

The borrowing cost of the loans to finance the vessels under construction (note 16) and properties under development and for sale (note 28) represents an average capitalisation rate of approximately 3.9% (2004: 2.8%).

13. Taxation

US$'000	2005	2004
Current taxation		
Hong Kong profits tax	**1,026**	—
Overseas taxation	**25,509**	28,784
	26,535	28,784
Deferred taxation		
Hong Kong profits tax	**1,866**	(1,981)
Overseas taxation	**10,441**	(1,064)
	38,842	25,739

13. **Taxation** (Continued)

Taxation has been provided at the appropriate tax rates prevailing in the countries in which the Group operates on the estimated assessable profits for the year. These rates range from 3% to 52% (2004: 10% to 53%) and the rate applicable for Hong Kong profits tax is 17.5% (2004: 17.5%).

The tax of the Group's profit before taxation differs from the theoretical amount that would arise using the applicable tax rate, being the weighted average of rates prevailing in the territories in which the Group operates, as follows:

US$'000	2005	2004
Profit before taxation	**690,133**	696,337
Share of profits less losses of jointly controlled entities	**(6,950)**	(11,116)
Share of loss of an associated company	**84**	—
	683,267	685,221
Tax calculated at applicable tax rate	**149,084**	134,033
Income not subject to tax	**(119,911)**	(112,470)
Expenses not deductible for tax purposes	**18,100**	9,913
Tax losses not recognised	**2,193**	2,768
Temporary differences not recognised	**(2,640)**	(57)
Utilisation of previously unrecognised tax losses	**(4,434)**	(7,403)
Utilisation of previously unrecognised temporary differences	**(2,761)**	(665)
Recognition of previously unrecognised deferred tax assets	**—**	(1,981)
Recognition of previously unrecognised temporary differences	**11**	(156)
Change in tax rates	**(793)**	—
Withholding tax	**198**	1,381
Other items	**(205)**	376
	38,842	25,739

14. Earnings per ordinary share

The calculation of basic and diluted earnings per ordinary share is based on the profit attributable to equity holders of US$650.9 million (2004: US$670.4 million) and the weighted average number of 625.8 million (2004: 618.0 million after adjusting for the bonus issue) ordinary shares in issue during the year.

The basic and diluted earnings per ordinary share are the same since there are no potential dilutive shares.

15. Dividends

US$'000	2005	2004
Interim paid of US12.00 cents (2004: US10.91 cents) per ordinary share	**75,261**	68,354
Proposed final of US15.00 cents (2004: US16.36 cents) per ordinary share	**93,869**	102,334
	169,130	170,688

The Board of Directors proposes a final dividend in respect of 2005 of US15.00 cents per ordinary share (2004: US16.36 cents after adjusting for the bonus issue). This dividend will be accounted for as an appropriation of retained profit in the year ending 31st December 2006.

16. Property, plant and equipment

US$'000	Container vessels and capitalised dry-docking costs	Vessels under construction	Containers	Chassis	Terminal equipment and improvements	Freehold land and buildings outside Hong Kong	Buildings under medium-term leasehold land outside Hong Kong	Vehicles, furnitures, computer and other equipment	Total
Group									
Cost or valuation									
At 31st December 2004	1,364,106	380,250	618,983	137,758	334,674	53,633	19,799	126,523	3,035,726
Currency translation adjustments	—	—	—	272	6,727	(73)	439	(244)	7,121
Additions	18,099	389,789	87,311	13,462	78,927	2,437	4,704	26,608	621,337
Reclassification	145,026	(145,026)	—	—	—	—	—	—	—
Disposals	—	—	(16,953)	(1,458)	(10,504)	(167)	(67)	(6,828)	(35,977)
At 31st December 2005	1,527,231	625,013	689,341	150,034	409,824	55,830	24,875	146,059	3,628,207
Accumulated depreciation									
At 31st December 2004	354,361	—	212,507	92,595	128,729	26,777	7,163	81,528	903,660
Currency translation adjustments	—	—	—	134	2,745	(33)	138	(88)	2,896
Charge for the year	60,352	—	40,945	7,916	28,134	1,974	1,274	16,707	157,302
Disposals	—	—	(14,151)	(385)	(8,381)	—	(67)	(6,613)	(29,597)
At 31st December 2005	414,713	—	239,301	100,260	151,227	28,718	8,508	91,534	1,034,261
Net book amount									
At 31st December 2005	1,112,518	625,013	450,040	49,774	258,597	27,112	16,367	54,525	2,593,946
At 31st December 2004	1,009,745	380,250	406,476	45,163	205,945	26,856	12,636	44,995	2,132,066
Net book amount of leased assets									
At 31st December 2005	510,307	534,749	54,982	17,708	76,768	—	—	1,819	1,196,333
At 31st December 2004	384,188	144,620	61,608	23,449	68,071	—	—	352	682,288

16. Property, plant and equipment (Continued)

US$'000	Container vessels and capitalised dry-docking costs	Vessels under construction	Containers	Chassis	Terminal equipment and improvements	Freehold land and buildings outside Hong Kong	Buildings under medium-term leasehold land outside Hong Kong	Vehicles, furnitures, computer and other equipment	Total
Group									
Cost or valuation									
At 31st December 2003	1,043,812	172,284	442,865	120,178	287,861	53,607	20,359	108,319	2,249,285
Currency translation adjustments	—	—	—	485	10,300	26	90	2,155	13,056
Additions	—	528,260	189,946	17,610	38,916	—	—	24,767	799,499
Reclassification	320,294	(320,294)	—	—	—	—	—	—	—
Disposals	—	—	(13,828)	(515)	(2,403)	—	(650)	(8,718)	(26,114)
At 31st December 2004	1,364,106	380,250	618,983	137,758	334,674	53,633	19,799	126,523	3,035,726
Accumulated depreciation									
At 31st December 2003	307,446	—	168,538	84,485	105,672	24,872	6,425	75,448	772,886
Currency translation adjustments	—	—	—	194	4,489	16	32	1,386	6,117
Charge for the year	46,915	—	55,518	8,187	20,085	1,889	1,356	10,910	144,860
Disposals	—	—	(11,549)	(271)	(1,517)	—	(650)	(6,216)	(20,203)
At 31st December 2004	354,361	—	212,507	92,595	128,729	26,777	7,163	81,528	903,660
Net book amount									
At 31st December 2004	1,009,745	380,250	406,476	45,163	205,945	26,856	12,636	44,995	2,132,066
At 31st December 2003	736,366	172,284	274,327	35,693	182,189	28,735	13,934	32,871	1,476,399
Net book amount of leased assets									
At 31st December 2004	384,188	144,620	61,608	23,449	68,071	—	—	352	682,288
At 31st December 2003	153,073	—	125,867	26,913	77,620	—	—	607	384,080

16. Property, plant and equipment (Continued)

(a) Container vessels include three (2004: three) vessels which were previously operated under finance lease terms and direct ownership was acquired by the Group in May 1990. These vessels are carried at Directors' valuation, representing the then purchase consideration which was determined by reference to professional valuations on a cum-charter open market basis of US$87.0 million. Subsequent revaluations of these vessels are not required to be made in accordance with paragraph 80A of Hong Kong Accounting Standard 16 "Property, plant and equipment". Had these vessels been carried at cost, the net book amount of the container vessels would have been reduced by US$1.9 million (2004: US$2.3 million).

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

(c) The aggregate net book amount of assets pledged as securities for loans amounts to US$447.0 million (2004: US$906.3 million). Specific charges on vessels of the Group include legal mortgages and assignments of insurance claims and charterhire income relating to these vessels.

(d) Interest costs of US$4.5 million (2004: US$1.3 million) during the year were capitalised as part of vessels under construction.

(e) Depreciation charge of US$137.4 million (2004: US$130.7 million) during the year has been expensed in operating cost and US$19.9 million (2004: US$14.2 million) in business and administrative expenses.

17. Investment property

Group

US$'000	2005	2004
Balance at beginning and end of year	**100,000**	100,000

The investment property, "Wall Street Plaza", a commercial property located at 88, Pine Street, New York, USA. The property is situated on three parcels of freehold land, two of which are wholly owned by the Group. The freehold interest in the third parcel, representing approximately 10% of the site, is owned 50% by the Group and under a long-term lease to the Group expiring in the year 2066. The property is stated at Directors' valuation of US$100.0 million (2004: US$100.0 million), by reference to a professional valuation made by an independent valuer, in December 2005 on an open market basis.

The investment property is pledged for bank borrowings for 2004 and 2005.

18. Prepayments of lease premiums

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

US$'000	2005	2004
Group		
Medium-term lease outside Hong Kong	**7,787**	3,110
Balance at beginning of year	**3,110**	3,399
Currency translation adjustments	**263**	286
Additions	**4,918**	—
Disposals	**—**	(137)
Amortisation	**(504)**	(438)
Balance at end of year	**7,787**	3,110

Amortisation of US$0.5 million (2004: US$0.4 million) is included in "other operating expenses" in the profit and loss account.

19. Subsidiaries

US$'000	2005	2004
Company		
Unlisted shares, at cost less provision	**169,482**	169,482
Amounts due from subsidiaries	**1,195,708**	1,012,308
Amounts due to subsidiaries	**843,900**	707,225

The amounts due from and to subsidiaries are interest free, unsecured and have no specific terms of repayment.

Particulars of the principal subsidiaries at 31st December 2005 are shown on pages 155 to 165.

20. Jointly controlled entities

US$'000	2005	2004
Group		
Beginning of the year	**14,796**	12,558
Share of jointly controlled entities' results		
- Profit before taxation	**10,043**	15,518
- Taxation	**(3,093)**	(4,402)
	21,746	23,674
Currency translation adjustments	**138**	(1)
Additions	**187**	98
Disposals	**—**	9,546
Dividend received	**(508)**	(18,521)
End of the year	**21,563**	14,796
Share of net assets	**21,563**	14,796
Amounts (payable)/receivable	**(1,706)**	16,459
	19,857	31,255

The amounts payable and receivable are unsecured, interest free and have no specific repayment terms.

20. Jointly controlled entities (Continued)

The Group's share of assets, liabilities and results of the jointly controlled entities is summarised below :

US$'000	2005	2004
Non-current assets	**870**	957
Current assets	**53,755**	63,121
Current liabilities	**(33,062)**	(48,247)
Non-current liabilities	**—**	(1,035)
	21,563	14,796
Income	**22,584**	44,565
Expenses	**(15,634)**	(33,449)
Capital commitment	**28**	34

Particulars of the principal jointly controlled entities at 31st December 2005 are shown on page 166.

21. Associated company

US$'000	2005	2004
Group		
Share of net assets		
Additions	**8,000**	—
Share of associated company's results		
- Loss for the year	**(84)**	—
End of the year	**7,916**	—

21. Associated company (Continued)

The Group's share of assets, liabilities and results of the associated company is summarised as follows :

US$'000	2005	2004
Non-current assets	6,905	—
Current assets	1,020	—
Current liabilities	(9)	—
	7,916	—
Income	4	—
Expenses	(88)	—
Capital commitment	20,422	—

Particulars of the associated company at 31st December 2005 are shown on page 166.

22. Intangible assets

US$'000	Computer software development costs
Group	
At 1st January 2004	
Cost	48,336
Accumulated amortisation	(32,516)
Net book amount	15,820
Year ended 31st December 2004	
Opening net book amount	15,820
Currency translation adjustments	1
Additions	6,992
Write-off	(42)
Amortisation	(5,844)
Closing net book amount	16,927

22. Intangible assets (Continued)

US$'000	Computer software development costs
At 31st December 2004	
Cost	55,287
Accumulated amortisation	(38,360)
Net book amount	16,927
Year ended 31st December 2005	
Opening net book amount	16,927
Currency translation adjustments	124
Additions	9,239
Amortisation	(5,260)
Closing net book amount	21,030
At 31st December 2005	
Cost	64,339
Accumulated amortisation	(43,309)
Net book amount	21,030

Computer software development costs mainly comprise internally generated capitalised software development costs.

Amortisation of US$5.3 million (2004: US$5.8 million) is included in "other operating expenses" in the profit and loss account.

23. Deferred taxation assets/(liabilities)

US$'000	2005	2004
Group		
Deferred taxation assets	**8,203**	15,352
Deferred taxation liabilities	**(50,204)**	(40,166)
	(42,001)	(24,814)

Deferred taxation assets and liabilities are offset when there is a legal right to set off current taxation assets with current taxation liabilities and when the deferred taxation relates to the same authority. The above assets/(liabilities) shown in the consolidated balance sheet are determined after appropriate offsetting of the relevant amounts and include the following:

US$'000	2005	2004
Deferred taxation assets to be recovered after more than twelve months	**3,568**	10,178
Deferred taxation liabilities to be settled after more than twelve months	**(49,913)**	(39,699)

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

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

US$'000	Revenue expenditure	Tax losses	Pensions	Total
Deferred taxation assets				
At 31st December 2003	7,330	3,880	1,541	12,751
Currency translation adjustments	140	(83)	—	57
Credited/(charged) to profit and loss account	5,880	1,112	(333)	6,659
At 31st December 2004	13,350	4,909	1,208	19,467
Currency translation adjustments	(336)	(184)	—	(520)
Change in tax rates	85	—	23	108
Credited/(charged) to profit and loss account	(6,118)	(3,672)	662	(9,128)
At 31st December 2005	6,981	1,053	1,893	9,927

US$'000	Depreciation allowances	Revaluation	Pensions	Total
Deferred taxation liabilities				
At 31st December 2003	19,271	19,413	731	39,415
Currency translation adjustments	1,193	—	59	1,252
Charged/(credited) to profit and loss account	3,319	384	(89)	3,614
At 31st December 2004	23,783	19,797	701	44,281
Currency translation adjustments	1,350	—	—	1,350
Change in tax rates	(685)	—	—	(685)
Acquisition of a subsidiary	—	3,803	—	3,803
Charged to profit and loss account	1,759	1,420	—	3,179
At 31st December 2005	26,207	25,020	701	51,928

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

Deferred taxation assets of US$19.9 million (2004: US$21.0 million) arising from unused tax losses of US$100.1 million (2004: US$101.2 million) have not been recognised in the accounts. Unused tax losses of US$91.7 million (2004: US$94.8 million) have no expiry date and the balance will expire at various dates up to and including 2010.

Deferred taxation liabilities of US$18.5 million (2004: US$11.5 million) on temporary differences associated with investments in subsidiaries of US$180.1 million (2004: US$133.8 million) have not been recognised as there is no current intention of remitting the retained profit of these subsidiaries to the holding companies.

24. Pension and retirement benefits

The Group operates a number of defined benefits and defined contribution pension and retirement schemes in the main countries in which the Group operates. The total charges to the profit and loss account for the year were US$22.7 million (2004: US$21.2 million).

Defined contribution schemes

The principal defined contribution schemes are operated in Hong Kong, the USA and Canada. These schemes cover approximately 76% of the Group's employees. Contributions to the defined contribution schemes, all the assets of which are held in trust funds separate from the Group, are based on a percentage of employee's salary, depending upon the length of service of the employee, but the Group's contributions to certain schemes may be reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in those contributions. The charges for the defined contribution schemes to the profit and loss account during the year are as follows:

US$'000	2005	2004
Group		
Contributions to the schemes	**15,364**	14,346
Forfeitures utilised	**(68)**	(37)
	15,296	14,309

Contributions totalling US$2.8 million (2004: US$2.2 million) were payable to the fund at the balance sheet date.

Defined benefit schemes

The principal defined benefit schemes are operated in the USA, United Kingdom and Canada. The defined benefit schemes cover approximately 11% of the Group's employees and are fully funded, with the exception of two smaller schemes and certain post retirement benefits. The assets of the funded schemes are held in trust funds separate from the Group. Contributions to these schemes are assessed in accordance with the advice of qualified actuaries in compliance with local practice and regulations. The actuarial assumptions used to calculate the projected benefit obligations of the Group's pension schemes vary according to the economic conditions of the country in which they are situated. Actuary valuations for these schemes are carried out by independent professionally qualified actuaries ranging between two to three years.

24. Pension and retirement benefits (Continued)

Defined benefit schemes (Continued)

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

US$'000	2005	2004
Group		
Fair value of plan assets	**244,176**	251,100
Present value of funded obligations	**(302,554)**	(299,283)
Net funded obligations	**(58,378)**	(48,183)
Present value of unfunded obligations	**(9,677)**	(8,943)
Unrecognised actuarial losses	**56,218**	45,059
Unrecognised prior service cost	**3,205**	3,476
Unrecognised other assets	**235**	246
Net pension and retirement liabilities	**(8,397)**	(8,345)
Representing:		
Pension and retirement assets	**6,683**	5,796
Pension and retirement liabilities	**(15,080)**	(14,141)
	(8,397)	(8,345)

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

US$'000	2005	2004
Balance at beginning of year	**(8,345)**	(5,972)
Currency translation adjustments	**235**	(159)
Net expense recognised in profit and loss account	**(7,410)**	(6,908)
Contributions paid	**7,123**	4,694
Balance at end of year	**(8,397)**	(8,345)

24. Pension and retirement benefits (Continued)

Defined benefit schemes (Continued)

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

US$'000	2005	2004
Current service cost	**4,417**	4,188
Interest cost	**14,257**	15,029
Expected return on plan assets	**(13,035)**	(14,175)
Amortisation of past service cost	**379**	390
Net actuarial loss	**1,392**	602
Loss on curtailments and settlements	**—**	874
Net expense recognised for the year	**7,410**	6,908

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

	2005	2004
Discount rate	**2 to 6%**	2 to 8%
Expected return on plan assets	**1 to 8%**	1 to 8%
Expected future salary increases	**3 to 5%**	3 to 8%
Actual return on plan assets (US$'000)	**25,955**	16,862

25. Available-for-sale financial assets

US$'000	2005	2004
Group		
Beginning of the year	**3,508**	6,788
Currency translation adjustments	**(32)**	(199)
Additions	**6,743**	163
Disposals	**(332)**	(3,244)
Change in fair value transferred to equity	**3,134**	—
End of the year	**13,021**	3,508

Available-for-sale financial assets include the following:

US$'000	2005	2004
Listed equity securities :		
Hong Kong	**7,833**	—
Overseas	**7**	7
Market value of listed equity securities	**7,840**	7
Unlisted equity securities	**2,991**	1,278
Unlisted debt securities	**3**	4
Others	**2,187**	2,219
	13,021	3,508

26. Restricted bank balances and other deposits

US$'000	2005	2004
Group		
Restricted bank balances	**87,034**	100,128
Other deposits	**14,825**	11,825
	101,859	111,953

The restricted bank balances of US$87.0 million (2004: US$100.1 million) which are funds pledged as securities for banking facilities, redeemable preference shares redemption (note 36) and performance under leasing arrangements or required to be utilised for specific purposes.

The effective interest rate on restricted bank balances was 6.3% (2004: 6.5%); these balances have an average maturity of 4.7 years.

The carrying amounts of the Group's restricted bank balances are mainly denominated in US dollar.

27. Other non-current assets

Other non-current assets include an advance to an investee company of US$85.5 million (2004: US$92.4 million) which is interest free, unsecured and has no specific terms of repayment.

28. Properties under development and for sale

US$'000	2005	2004
Group		
Properties under development for sale	**178,698**	97,959
Completed properties held for sale	**2,847**	—
	181,545	97,959
Represented by :		
Leasehold land and land use rights	**71,199**	4,592
Development costs	**110,346**	93,367
	181,545	97,959

Interest costs of US$2.6 million (2004: US$1.4 million) during the year were capitalised as part of properties under development and for sale.

Amortisation of leasehold land and land use rights of US$1.1 million (2004: US$0.1 million) during the year was capitalised as part of development costs.

The properties under development are held at medium-term lease outside Hong Kong.

Bank borrowings are secured on properties under development with the carrying amount of US$85.3 million (2004: US$80.3 million).

29. Inventories

US$'000	2005	2004
Group		
Bunker	**35,546**	23,690
Consumable stores	**8,965**	6,318
	44,511	30,008

The cost of inventories recognised as expense and included in operating cost amounts to US$425.0 million (2004: US$285.6 million).

30. Debtors and prepayments

US$'000	2005	2004
Group		
Trade receivables	**284,319**	256,485
Less : provision for impairment	**(7,502)**	(9,334)
Trade receivables – net	**276,817**	247,151
Other debtors	**47,254**	42,663
Prepayments	**65,061**	54,122
Utility and other deposits	**3,384**	9,577
Tax recoverable	**22,574**	5,984
	415,090	359,497

30. Debtors and prepayments (Continued)

Trade receivables of US$219.2 million (2004: US$184.7 million) were assigned to a third party trustee company which holds these receivables in favour of the Group and an independent third party sponsored by a bank. Under the arrangement, trade receivables of US$110.0 million (2004: US$109.5 million) held in the trustee company were securities for a loan of US$100.0 million (2004: US$99.5 million).

Trade receivables are normally due for payment on presentation of invoices or granted with an approved credit period ranging mainly from 10 to 45 days. Trade receivables with overdue balances are requested to settle all outstanding balances before any further credit is granted.

The ageing analysis of the Group's trade receivables, net of provision for impairment, prepared in accordance with the due date of invoices, is as follows:

US$'000	2005	2004
Below one month	**246,099**	215,128
Two to three months	**25,912**	26,750
Four to six months	**4,797**	5,123
Over six months	**9**	150
	276,817	247,151

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers, internationally dispersed.

The carrying amounts of the Group's trade receivables are mainly denominated in US dollar.

The Group has recognised a loss of US$0.4 million (2004: US$5.1 million) in respect of the impairment of its trade receivables during the year ended 31st December 2005. The loss has been included in "other operating expenses" in the profit and loss account.

31. Portfolio investments

US$'000	2005	2004
Group		
Listed equity securities		
Hong Kong	**25,273**	14,183
Overseas	**4,435**	4,369
Market value of listed equity securities	**29,708**	18,552
Listed debt securities		
Hong Kong	**6,972**	2,080
Overseas	**43,978**	40,187
Unlisted debt securities	**3,588**	—
Unit trust	**3,325**	3,117
Money market instruments	**149,433**	185,898
	237,004	249,834

32. Derivative financial instruments

US$'000	2005	2004
Group		
Assets/(liabilities)		
Interest rate swap contracts	**354**	—
Foreign exchange forward contracts	**(4,592)**	—

33. Cash and bank balances

US$'000	2005	2004
Group		
Cash at bank and in hand	**342,099**	93,506
Short-term bank deposits	**620,442**	661,543
	962,541	755,049

The effective interest rate on short-term bank deposits was 4.3% (2004: 2.3%); these deposits have an average maturity of 12 days.

Short-term deposit of US$49.2 million (2004: US$8.8 million) are funds pledged for redeemable preference shares redemption and a bank loan (note 36).

The carrying amounts of the Group's cash and bank balances are mainly denominated in US dollar.

US$'000	2005	2004
Company		
Cash at bank and in hand	**796**	5,862
Short-term bank deposits	**1,709**	2,653
	2,505	8,515

34. Share capital

US$'000	2005	2004
Authorised:		
900,000,000 ordinary shares of US$0.10 each	**90,000**	90,000
65,000,000 convertible redeemable preferred shares of US$1 each	**65,000**	65,000
50,000,000 redeemable preferred shares of US$1 each	**50,000**	50,000
	205,000	205,000

	Number of shares (thousands)	Ordinary shares US$'000
Issued and fully paid :		
At 1st January 2004	470,185	47,018
- proceeds from shares issued	47,000	4,700
- bonus issue	51,718	5,172
At 31st December 2004	568,903	56,890
- bonus issue	56,890	5,689
At 31st December 2005	625,793	62,579

By an ordinary resolution passed on 5th May 2005, the issued share capital was increased by way of a bonus issue by applying US$5,689,030 charging to the share premium account in payment in full at par of 56,890,299 shares of US$0.10 each on the basis of one new share for every ten shares held on 5th May 2005.

All the new shares rank pari passu with the existing shares.

35. Reserves

Group

US$'000	Share premium	Contributed surplus	Capital redemption reserve	Asset revaluation reserve: Vessels	Asset revaluation reserve: Available-for-sale financial assets	Foreign exchange translation reserve (note)	Retained profit	Total
Balance at 31st December 2003	35,073	88,547	4,696	9,948	—	(45,137)	970,609	1,063,736
Currency translation adjustments								
- Group	—	—	—	—	—	9,847	—	9,847
- Jointly controlled entities	—	—	—	—	—	(1)	—	(1)
Issue of new shares	148,245	—	—	—	—	—	—	148,245
Bonus issue	(5,172)	—	—	—	—	—	—	(5,172)
Profit for the year	—	—	—	—	—	—	670,449	670,449
2003 final dividend	—	—	—	—	—	—	(66,231)	(66,231)
2004 interim dividend	—	—	—	—	—	—	(68,354)	(68,354)
Balance at 31st December 2004	178,146	88,547	4,696	9,948	—	(35,291)	1,506,473	1,752,519
Currency translation adjustments								
- Group	—	—	—	—	—	(1,610)	—	(1,610)
- Jointly controlled entities	—	—	—	—	—	138	—	138
Bonus issue	(5,689)	—	—	—	—	—	—	(5,689)
Change in fair value	—	—	—	—	3,134	—	—	3,134
Profit for the year	—	—	—	—	—	—	650,854	650,854
2004 final dividend	—	—	—	—	—	—	(102,334)	(102,334)
2005 interim dividend	—	—	—	—	—	—	(75,261)	(75,261)
Balance at 31st December 2005	172,457	88,547	4,696	9,948	3,134	(36,763)	1,979,732	2,221,751

Note :

Foreign exchange translation reserve was included in retained profit in prior years.

35. Reserves (Continued)

Company

US$'000	Share premium	Contributed surplus	Capital redemption reserve	Retained profit	Total
Balance at 31st December 2003	35,073	88,547	4,696	169,122	297,438
Issue of new shares	148,245	—	—	—	148,245
Bonus issue	(5,172)	—	—	—	(5,172)
Profit for the year	—	—	—	118,842	118,842
2003 final dividend	—	—	—	(66,231)	(66,231)
2004 interim dividend	—	—	—	(68,354)	(68,354)
Balance at 31st December 2004	178,146	88,547	4,696	153,379	424,768
Bonus issue	(5,689)	—	—	—	(5,689)
Profit for the year	—	—	—	218,289	218,289
2004 final dividend	—	—	—	(102,334)	(102,334)
2005 interim dividend	—	—	—	(75,261)	(75,261)
Balance at 31st December 2005	172,457	88,547	4,696	194,073	459,773

The profit attributable to shareholders for the year is dealt with in the accounts of the Company to the extent of US$218.3 million (2004: US$118.8 million).

Under the Companies Act of Bermuda and the Bye-laws of the Company, the contributed surplus is also distributable. Accordingly, total distributable reserves of the Company amount to US$282.6 million (2004: US$241.9 million) as at 31st December 2005, before the proposed final dividend of US$93.9 million (2004: 102.3 million) (note 15).

36. Borrowings

US$'000	2005	2004
Group		
Non-current		
Bank loans		
- secured	**356,870**	610,319
- unsecured	**—**	7,968
Other loans		
- secured	**106,020**	105,334
- unsecured	**—**	1,148
Redeemable preference shares and premium (note)	**65,514**	74,751
Finance lease obligations	**1,121,640**	628,170
	1,650,044	1,427,690
Current		
Bank overdrafts, unsecured	**82**	85
Bank loans		
- secured	**120,894**	98,639
- unsecured	**—**	2,656
Other loans		
- secured	**3,896**	4,063
- unsecured	**6,840**	1,496
Redeemable preference shares and premium (note)	**9,237**	8,511
Finance lease obligations	**47,599**	38,359
	188,548	153,809
Total borrowings	**1,838,592**	1,581,499

36. Borrowings (Continued)

The maturity of borrowings is as follows :

US$'000	Bank loans	Bank overdrafts	Other loans	Redeemable preference shares and premium	Finance leases Present value	Finance leases Minimum payments
As at 31st December 2005						
2006	120,894	82	10,736	9,237	47,599	82,096
2007	83,914	—	1,392	9,680	82,714	107,791
2008	52,383	—	1,362	10,145	48,304	89,869
2009	45,680	—	939	10,632	54,741	90,141
2010	93,271	—	100,932	11,142	35,593	73,120
2011 onwards	81,622	—	1,395	23,915	900,288	1,286,451
	477,764	82	116,756	74,751	1,169,239	1,729,468
Wholly repayable within five years	140,110	82	115,361	—	111,668	
Not wholly repayable within five years	337,654	—	1,395	74,751	1,057,571	
	477,764	82	116,756	74,751	1,169,239	
As at 31st December 2004						
2005	101,295	85	5,559	8,511	38,359	61,993
2006	104,778	—	4,945	9,237	62,078	83,308
2007	114,375	—	710	9,680	57,865	74,969
2008	83,958	—	654	10,145	18,796	33,537
2009	123,975	—	229	10,632	24,897	38,338
2010 onwards	191,201	—	99,944	35,057	464,534	615,018
	719,582	85	112,041	83,262	666,529	907,163
Wholly repayable within five years	348,228	85	12,097	—	141,682	
Not wholly repayable within five years	371,354	—	99,944	83,262	524,847	
	719,582	85	112,041	83,262	666,529	

36. Borrowings (Continued)

The effective interest rates at the balance sheet date were as follows :

	2005					2004			
	US$	**Can$**	**£**	**Rmb**	**Other**	US$	Can$	£	Other
Bank loans	**5.4%**	**5.0%**	**—**	**4.7%**	**—**	3.5%	—	—	—
Other loans	**4.8%**	**2.4%**	**—**	**—**	**—**	3.4%	2.4%	—	—
Redeemable preference shares and premium	**7.1%**	**—**	**—**	**—**	**—**	7.1%	—	—	—
Finance lease obligations	**5.0%**	**7.5%**	**4.9%**	**—**	**5.3%**	3.7%	6.0%	2.9%	5.0%

The carrying amounts and fair values of the non-current borrowings are as follows:

	Carrying amounts		Fair values	
US$'000	**2005**	2004	**2005**	2004
Bank loans	**356,870**	618,287	**356,870**	618,287
Other loans	**106,020**	106,482	**106,045**	106,682
Redeemable preference shares and premium	**65,514**	74,751	**68,169**	83,883
Finance lease obligations	**1,121,640**	628,170	**1,124,310**	637,458
	1,650,044	1,427,690	**1,655,394**	1,446,310

The fair values are based on cash flows discounted using a rate based on the borrowing rate of 5.8% (2004: 3.8%).

The carrying amounts of short-term borrowings approximate their fair values.

36. Borrowings (Continued)

The carrying amounts of the Group's borrowings are denominated in the following currencies :

US$'000	2005	2004
US dollar	**1,697,510**	1,480,542
Pound sterling	**59,080**	67,314
Canadian dollar	**45,938**	33,604
Renminbi	**35,935**	—
Other currencies	**129**	39
	1,838,592	1,581,499

Note:

In June 2002, the Group entered into, inter alia, a Shareholders Agreement, as subsequently amended, with, inter alios, two unrelated third parties (together the "Preference Shareholders") in relation to a subsidiary. Under the Shareholders Agreement, the Preference Shareholders acquired from the Group 90 cumulative preference shares (the "Preference Shares") of €150 each in this subsidiary and contributed an aggregate of US$100.0 million less the nominal value of the Preference Shares as share premium (the "Premium"). The Preference Shareholders are entitled to receive annual dividends of 7.08% per annum on the aggregate amount of the nominal value of the Preference Shares and Premium outstanding from time to time. To the extent permitted by local law, the Preference Shareholders may propose a repayment of the Premium annually, provided that such repayment does not exceed a maximum percentage specified in the Shareholders Agreement.

37. Creditors and accruals

US$'000	2005	2004
Group		
Trade payables	**160,927**	164,823
Other creditors	**52,296**	33,071
Accrued expenses	**365,730**	335,047
Deferred revenue	**24,092**	20,594
	603,045	553,535

37. Creditors and accruals (Continued)

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

US$'000	2005	2004
Below one month	**121,595**	132,763
Two to three months	**34,373**	25,906
Four to six months	**1,848**	1,326
Over six months	**3,111**	4,828
	160,927	164,823

The carrying amounts of the Group's trade payables are denominated in the following currencies :

US$'000	2005	2004
US dollar	**73,792**	90,848
Canadian dollar	**22,707**	17,022
Hong Kong dollar	**19,534**	18,153
Other currencies	**44,894**	38,800
	160,927	164,823

38. Commitments

Group

(a) Capital commitments

US$'000	2005	2004
Contracted but not provided for	**284,618**	456,945
Authorised but not contracted for	**459,899**	386,128
	744,517	843,073

(b) Operating lease commitments

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

US$'000	Vessels and equipment	Land and buildings	Total
As at 31st December 2005			
2006	248,103	45,050	293,153
2007	202,084	41,661	243,745
2008	190,560	37,608	228,168
2009	141,181	34,395	175,576
2010	108,562	32,987	141,549
2011 onwards	762,690	363,012	1,125,702
	1,653,180	554,713	2,207,893
As at 31st December 2004			
2005	284,061	43,140	327,201
2006	219,178	36,879	256,057
2007	178,381	35,411	213,792
2008	166,108	34,254	200,362
2009	140,958	32,488	173,446
2010 onwards	860,081	381,104	1,241,185
	1,848,767	563,276	2,412,043

38. Commitments (Continued)

Group (Continued)

(c) Operating lease rental receivable

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

US$'000	2005	2004
2005	—	19,934
2006	**19,770**	19,673
2007	**18,986**	18,458
2008	**18,071**	17,547
2009	**14,948**	14,794
2010	**11,061**	10,100
2011 onwards	**26,463**	24,170
	109,299	124,676

39. Contingent liabilities

Group

The Group has given corporate guarantee of approximately US$43.1 million (2004: US$28.0 million) in respect of bank loan facilities extended to an investee company. At 31st December 2005, the amount utilised by the investee company is US$33.9 million (2004: US$28.0 million).

Company

(a) The Company has given guarantees of approximately US$1,287.1 million (2004: US$1,338.4 million) for its subsidiaries and approximately US$43.1 million (2004: US$28.0 million) for an investee company in respect of loans, finance lease obligations and bank overdraft facilities. At 31st December 2005, the amounts utilised by the subsidiaries and the investee company are US$1,283.7 million (2004: US$1,197.0 million) and US$33.9 million (2004: US$28.0 million) respectively.

(b) The Company has given guarantees for its subsidiaries in respect of future payment of operating lease rentals amounting to US$172.5 million (2004: US$216.8 million).

40. Notes to consolidated cash flow statement

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

US$'000	2005	2004
Operating profit	**744,926**	729,008
Interest income	**(32,827)**	(20,738)
Dividend income from portfolio investments	**(1,277)**	(1,224)
Depreciation	**157,302**	144,860
Profit on disposal of property, plant and equipment	**(8,709)**	(1,768)
Income from available-for-sale financial assets	**(18)**	(49)
Profit on disposal of available-for-sale financial assets	**(18)**	(1,862)
Profit on disposal of a jointly controlled entity	**—**	(770)
Intangible assets written off	**—**	42
Amortisation of intangible assets	**5,260**	5,844
Amortisation of prepayments of lease premiums and leasehold land and land use rights	**1,561**	496
Net gain on derivative financial instruments	**(560)**	—
Increase in net pension liabilities	**52**	2,373
Operating profit before working capital changes	**865,692**	856,212
Increase in properties under development and for sale	**(32,124)**	(18,423)
Increase in inventories	**(14,503)**	(5,751)
Increase in debtors and prepayments	**(38,847)**	(45,731)
Increase in creditors and accruals	**33,406**	65,816
Increase in net derivative financial instruments liabilities	**4,798**	—
Cash generated from operations	**818,422**	852,123

40. Notes to consolidated cash flow statement (Continued)

(b) Analysis of changes in financing

US$'000	Share capital and premium	Capital redemption reserve and contributed surplus	Minority interests	Borrowings	Total
At 31st December 2003	82,091	93,243	7,850	1,270,058	1,453,242
Currency translation adjustments	—	—	—	2,707	2,707
Inception of finance leases	—	—	—	372,445	372,445
Issue of new shares	152,945	—	—	—	152,945
Minority interests' share of profit	—	—	149	—	149
Dividends paid to minority interests	—	—	(191)	—	(191)
Net cash outflow from financing	—	—	—	(63,796)	(63,796)
At 31st December 2004	235,036	93,243	7,808	1,581,414	1,917,501
Currency translation adjustments	—	—	109	(3,420)	(3,311)
Inception of finance leases	—	—	—	314,022	314,022
Minority interests' share of profit	—	—	437	—	437
Dividends paid to minority interests	—	—	(225)	—	(225)
Net cash outflow from financing	—	—	—	(53,506)	(53,506)
At 31st December 2005	235,036	93,243	8,129	1,838,510	2,174,918

(c) Acquisition of a subsidiary company

On 7th April 2005, the Group entered into a sale and purchase agreement to acquire 100% equity interest of Shanghai Waigaoqiao Xuhui Clubhouse Co Ltd ("SWXCCL"), which principally engaged in operating a clubhouse in Shanghai. It is the management's intention to redevelop the site to a service apartment and retail complex.

The consideration for the acquisition was US$35.4 million, comprising US$17.5 million, being the consideration for the purchase of the 100% equity interest of SWXCCL, and US$17.9 million, being the consideration for the purchase of the advances from the previous shareholders. The acquired subsidiary contributed revenue of US$0.2 million and net loss for US$0.6 million to the Group since acquisition. If the acquisition had occurred on 1st January 2005, the revenue and net loss of the acquired subsidiary would have been US$0.2 million and US$0.8 million respectively.

The subsidiary acquired during the year contributed US$0.2 million to the Group's net cash from operating activities.

40. Notes to consolidated cash flow statement (Continued)

(c) Acquisition of a subsidiary company (Continued)

Particulars of the assets and liabilities acquired are as follows:

US$'000	Fair value	Carrying amount
Properties under development and for sale	49,962	18,653
Deferred income and other taxation liabilities	(14,649)	—
Debtors and prepayments	77	77
Cash and bank balances	84	84
Creditors and accruals	(93)	(93)
Net assets acquired	35,381	18,721
Purchase consideration settled in cash	35,381	
Cash and bank balances acquired	(84)	
Cash outflow on acquisition	35,297	

(d) Analysis of cash and cash equivalents

US$'000	2005	2004
Bank balances and deposits maturing within three months from the date of placement	**947,452**	744,433
Portfolio investments	**237,004**	249,834
Bank overdrafts	**(82)**	(85)
	1,184,374	994,182

41. Approval of accounts

The accounts were approved by the Board of Directors on 10th March 2006.