NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL

The Company is a listed public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited ("HKEx"). Its ultimate and immediate holding company is Pacific International Lines (Private) Limited ("PIL"), a company incorporated in the Republic of Singapore. The addresses of the registered office and principal place of business of the Company are disclosed in the section of corporate information of the annual report. The financial statements are presented in United States dollars ("US$"), which is the same as the functional currency of the Company.

The Group is principally engaged in the businesses of manufacturing, container depot/terminal and mid-stream operations.

2 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("INTs") ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for accounting periods beginning either on or after 1st December, 2005 or 1st January, 2006. The adoption of these new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

Financial guarantee contracts

In the current year, the Group has applied Hong Kong Accounting Standard ("HKAS") 39 and HKFRS 4 (Amendments) "Financial guarantee contracts" which is effective for annual periods beginning on or after 1st January, 2006.

A financial guarantee contract is defined by HKAS 39 "Financial Instruments: Recognition and Measurement" as "a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument".

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

2 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Financial guarantee contracts *(Continued)*

The Group acts as the issuer of the financial guarantee contracts

Prior to 1st January, 2006, financial guarantee contracts were not accounted for in accordance with HKFRS 4 "Insurance Contract" and those contracts were disclosed as contingent liabilities. A provision for financial guarantee was only recognised when it was probable that an outflow of resources would be required to settle the financial guarantee obligation and the amount can be estimated reliably.

Upon the application of these amendments, a financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

Financial guarantee contracts granted to the subsidiaries by the Company

Prior to 1st January, 2006, financial guarantee contracts granted by the Company to its subsidiaries' lenders were not recognised but disclosed as related party transactions and contingent liabilities.

Upon application of these amendments, financial guarantee contracts granted by the Company to its subsidiaries and not designated as fair value through profit or loss are recognised initially at its fair value. Subsequent to initial recognition, the Company measures the financial guarantee contract at the higher of (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

Potential impact arising on the new accounting standards not yet effective

The Group has not early applied the following new standards, amendment or INTs that have been issued but are not yet effective. The directors of the Company anticipate the application of these standard, amendment or INTs will have no material impact on the results and the financial position of the Group and the Company.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

2 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Potential impact arising on the new accounting standards not yet effective *(Continued)*

HKAS 1 (Amendment)	Capital Disclosures [1]
HKFRS 7	Financial Instruments: Disclosures [1]
HKFRS 8	Operating Segments [2]
HK(IFRIC)– INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [3]
HK(IFRIC)– INT 8	Scope of HKFRS 2 [4]
HK(IFRIC)– INT 9	Reassessment of Embedded Derivatives [5]
HK(IFRIC)– INT 10	Interim Financial Reporting and Impairment [6]
HK(IFRIC)– INT 11	HKFRS 2 – Group and Treasury Share Transactions [7]
HK(IFRIC)– INT 12	Service Concession Arrangement [8]

[1] *Effective for annual periods beginning on or after 1st January, 2007*
[2] *Effective for annual periods beginning on or after 1st January, 2009*
[3] *Effective for annual periods beginning on or after 1st March, 2006*
[4] *Effective for annual periods beginning on or after 1st May, 2006*
[5] *Effective for annual periods beginning on or after 1st June, 2006*
[6] *Effective for annual periods beginning on or after 1st November, 2006*
[7] *Effective for annual periods beginning on or after 1st March, 2007*
[8] *Effective for annual periods beginning on or after 1st January, 2008*

3 SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRS issued by the HKICPA. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the HKEx and by the Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the principal accounting policies set out below.

(a) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of Consolidation *(Continued)*

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

(b) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Investments in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued or registered share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost, less any identified impairment loss.

(d) Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate in excess of the Group's interest in that associate (which includes any long-term interest that, in substance, form part of the Group's net investment in the associate) the Group discontinues recognising its share of future losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

(e) Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control, that is when the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Interests in joint ventures *(Continued)*

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The results and assets and liabilities of jointly controlled entities are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the jointly controlled entity, less any impairment in the value of individual investments. When the Group's share of losses of a jointly controlled entity in excess of the Group's interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group net investment in the jointly controlled entity), the Group discontinues recognising its share of future losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal and constructive obligations or made payments on behalf of that jointly controlled entity.

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising on the acquisition of a subsidiary (see below).

Where the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

(f) Goodwill

Capitalised goodwill arising on acquisitions prior to 1st January, 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable net assets and liabilities of the relevant subsidiary at the date of acquisition.

For previously capitalised goodwill arising on acquisitions after 1st January, 2001, the Group has discontinued amortisation from 1st January, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired.

Capitalised goodwill arising on acquisitions on or after 1st January, 2005

Goodwill arising on the acquisition of a subsidiary, represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary, associate or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary presented separately in the consolidated balance sheet.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Goodwill *(Continued)*

Impairment testing on capitalised goodwill

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the profit or loss on disposal.

(g) Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

Any excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary over the cost of the business combination is recognised immediately in profit or loss instead of the balance sheet.

(h) Property, plant and equipment

Property, plant and equipment, other than assets under construction, are stated at cost less accumulated depreciation and any identified impairment loss. Depreciation of property, plant and equipment is provided using the straight-line method over their estimated useful lives, after taking into account their estimated residual values. The estimated useful lives and residual values are as follows:

	Estimated useful life	**Estimated residual value**
Leasehold land and buildings and site improvements outside Hong Kong		
– on medium term lease	20 to 50 years	Nil to10 per cent.
– on short lease	5 years	Nil
Buildings and site improvements in Hong Kong		
– on medium term lease	10 to 50 years	Nil
– on short lease	1 to 10 years	Nil
Plant and machinery	5 to 15 years	Nil to 10 per cent.
Furniture, fittings and office equipment	5 to 10 years	Nil to 10 per cent.
Motor vehicles	5 to 10 years	Nil to 10 per cent.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Property, plant and equipment *(Continued)*

Assets under construction represents property, plant and equipment in the course of construction for production or for its own use purposes. Assets under construction and freehold land are stated at cost less any identified impairment loss. Depreciation of these assets, on the same basis as other property assets, commences where the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset is determined as the difference between the net disposal proceeds and the carrying amount of the item and is dealt with in the income statement in the year in which the item is derecognised.

(i) Impairment (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets other than goodwill to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments for the time value of money and the risks specific to the asset.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, comprises direct materials, and where applicable, direct labour, and those overheads that have been incurred in bringing the inventories to their present location and condition.

Cost is calculated using weighted average method. Net realisable value represents the estimated selling price less estimated cost of completion and costs to be incurred in marketing, selling and distribution.

(k) Patents

Patents represent the cost of acquiring rights to technical know-how for the production and sale of new products. Patents are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives of 5 to 10 years.

(l) Financial instruments

Financial assets and financial liabilities are recognised in the consolidated balance sheet and the Company's balance sheet when the Group and the Company become a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit and loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Trade receivables, other receivables, amounts due from fellow subsidiaries, associates, jointly controlled entities, a related company and cash and cash equivalents

Trade receivables, other receivables, amounts due from fellow subsidiaries, associates, jointly controlled entities and a related company, and cash and cash equivalents are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are measured at fair value on initial recognition and subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Financial instruments *(Continued)*

Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

Investments in unquoted equity investment whose fair value cannot be reliably determined are classified as available-for-sale investment and are measured at cost less any impairment loss. The amount of impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when fall due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and the Company and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group and the Company measure the financial guarantee contract at the higher of (i) the amount determined in accordance with HKAS37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Financial instruments *(Continued)*

Bank borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

Trade payables, accruals and other payables, bills payable, amounts due to ultimate holding company, associates and jointly controlled entities

Trade payables, accruals and other payables, bills payable, amounts due to ultimate holding company, associates and jointly controlled entities are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates.

Changes in the fair value of derivative financial instruments are recognised in profit or loss as they arise as they do not qualify for hedge accounting.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transfer and the Group or the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold or services provided in the normal course of business less returns and allowances.

Revenue from manufacturing operations is recognised either at the containers being delivered to customers or acceptance notes being issued by customers in accordance with the terms of the underlying sales contracts.

Revenue from container depot/terminal and mid-stream operations is recognised when the services are rendered.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(n) Government grant

A government grant is recognised when there is reasonable assurance that the entity will comply with the conditions attaching to it, and that the grant will be received. A government grant that becomes receivable as compensation for expense or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs, is recognised as income of the period in which it becomes receivable.

(o) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

Rental payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivables as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit and loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(q) Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in US$, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements and the income statement.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Foreign currencies *(Continued)*

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency ("foreign currencies") are recorded in the respective functional currency at the rates of exchange prevailing on the dates of transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange difference arising on the settlement of monetary items, and on retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations including comparatives are expressed in US$ using exchange rate prevailing on the balance sheet date. Income and expense items including comparatives are translated at monthly average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

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

(r) Retirement benefit costs

In respect of the subsidiaries in the PRC, the Group contributes to a State-sponsored retirement benefit schemes operated by the PRC government. Contribution payable by the Group to the schemes is charged to the income statement when employees have rendered services entitling them to the contributions.

Prior to 1st December, 2000, the Group contributed to defined contribution retirement schemes which were available to certain employees of Hong Kong. The assets of these schemes are held separately and managed by independent trustees. The amount of the Group's contributions, net of any contributions forfeited in respect of those employees who leave the schemes prior to vesting fully in the contributions, is charged to the income statement as incurred when employees have rendered services entitling them to the contributions.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Retirement benefit costs *(Continued)*

Effective from 1st December, 2000, the Group operates and contributes to Mandatory Provident Fund ("MPF") schemes which are available to all employees of Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. Contribution payable by the Group to the MPF scheme is charged to the income statement when employees have rendered services entitling them to the contributions.

(s) Borrowing costs

All borrowing costs are recognised in net profit or loss in the period in which they are incurred.

4 KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, 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.

Estimated allowance for doubtful debts

The Group makes allowance for doubtful debts based on an assessment of the recoverability of trade and other receivable taking into consideration the estimation of future cash flows . The allowance is measured as the difference between the carrying amount of the assets and the present value of estimated future cash flows. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation on the recoverability of trade and other receivables is different from the original estimate, such difference will impact carrying value of trade and other receivables and doubtful debt expenses in the years in which such estimate has been changed.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at 31st December, 2006 was US$5,598,000 (2005: US$1,691,000), no impairment loss was recognised during 2006 (impairment loss of US$880,000 was recognised in 2005). Details of the impairment loss calculation are provided in note 19.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

4 KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Recognition of deferred tax asset in respect of unused tax losses

At the balance sheet date, the Group has unused tax losses of US$32,672,000 (2005: US$18,496,000) available for offset against future profits, a deferred tax asset of US$21,329,000 (2005: nil) in relation to unused tax losses has been recognised as set out in note 38. No deferred tax asset has been recognised on the tax losses of US$11,343,000 (2005: US$18,496,000) due to the unpredictability of future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in the income statement for the period in which such a reversal takes place.

5 FINANCIAL INSTRUMENTS

a. Financial risk management objectives and policies

The Group's major financial instruments include equity, borrowings, trade receivables, trade and bills payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Cash flow interest rate risk

The Group's cash flow interest rate risk primarily relates to floating rate borrowings. In order to minimise the interest rate risk, the Company has entered into an interest rate swap to hedge against the floating rate interest risk for a term loan granted for the financing of various business acquisitions of the Company.

Credit risk

As at 31st December, 2006, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties or debtors which the Group has provided financial guarantees is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure the adequate allowances are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

5 FINANCIAL INSTRUMENTS *(Continued)*

a. Financial risk management objectives and policies *(Continued)*

Credit risk (Continued)

The credit risk on bank deposits and derivative financial instruments is limited because the counterparties are banks or financial institutions with high credit-rating assigned by international credit-rating agencies or state-owned banks in the PRC.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 22% of the Group's cost are denominated in currencies other than the functional currency of the relevant group entity, whilst almost 97% of sales are denominated in the group entity's functional currency. The Company has entered into a foreign currency swap contract to eliminate the currency exposures of the Group.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

b. Fair value of financial instruments

The fair value of the financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- the fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the application yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

6 REVENUE

Revenue represents sales from manufacturing, container depot/terminal and mid-stream operations, less returns and allowances, and is analysed as follows:

	2006 **US$'000**	2005 US$'000
Manufacturing	**890,376**	809,166
Container depot/terminal	**20,094**	18,501
Mid-stream	**13,541**	15,269
	924,011	842,936

7 BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purpose, the Group is currently organised into three operating divisions – manufacturing, container depot/terminal and mid-stream. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Manufacturing	–	manufacturing of marine dry freight containers, refrigerated containers, collapsible flatrack containers, other specialised containers, container parts and chassis.
Container depot/terminal	–	provision of container storage, repair and trucking services, serving as a freight station, container/cargo handling and other container related services.
Mid-stream	–	provision of mid-stream services.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

7 BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

Segment information about these businesses is presented below.

2006

	Manufacturing US$'000	Container depot/terminal US$'000	Mid-stream US$'000	Eliminations US$'000	Total US$'000
REVENUE					
External sales	890,376	20,094	13,541	–	924,011
Inter-segment sales	–	3,484	110	(3,594)	–
Total	890,376	23,578	13,651	(3,594)	924,011

Inter-segment sales are charged at prevailing market prices.

	Manufacturing US$'000	Container depot/terminal US$'000	Mid-stream US$'000	Eliminations US$'000	Total US$'000
SEGMENT RESULTS	20,834	6,389	3,326		30,549
Finance costs					(17,732)
Investment income					1,540
Changes in fair value of derivative financial instruments					7,468
Share of results of associates	(161)	1,350	–		1,189
Share of results of jointly controlled entities	(1,239)	762	–		(477)
Profit before taxation					22,537
Income tax expense	(100)	(820)	(299)		(1,219)
Profit for the year					21,318

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

7 BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

2006 *(Continued)*

	Manufacturing US$'000	Container depot/terminal US$'000	Mid-stream US$'000	Total US$'000
OTHER INFORMATION				
Capital expenditure	67,684	4,440	47	72,171
Depreciation and amortisation	9,839	2,741	9	12,598
BALANCE SHEET				
ASSETS				
Segment assets	859,422	61,822	4,142	925,386
Interests in associates	8,080	5,181	–	13,261
Interests in jointly controlled entities	7,233	12,431	–	19,664
Unallocated assets				5,336
Consolidated total assets				963,647
LIABILITIES				
Segment liabilities	345,057	11,992	1,409	358,458
Unallocated liabilities				335,908
Consolidated total liabilities				694,366

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

7 BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

2005

	Manufacturing US$'000	Container depot/terminal US$'000	Mid-stream US$'000	Eliminations US$'000	Total US$'000
REVENUE					
External sales	809,166	18,501	15,269	–	842,936
Inter-segment sales	–	3,647	54	(3,701)	–
Total	809,166	22,148	15,323	(3,701)	842,936

Inter-segment sales are charged at prevailing market prices.

	Manufacturing US$'000	Container depot/terminal US$'000	Mid-stream US$'000	Eliminations US$'000	Total US$'000
SEGMENT RESULTS	48,572	5,604	3,228		57,404
Finance costs					(9,397)
Investment income					1,186
Changes in fair value of derivative financial instruments					67
Share of results of associates	18	1,190	–		1,208
Share of results of jointly controlled entities	8,732	951	–		9,683
Profit before taxation					60,151
Income tax expense	(5,500)	(373)	(273)		(6,146)
Profit for the year					54,005

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

7 BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

2005 *(Continued)*

	Manufacturing US$'000	Container depot/terminal US$'000	Mid-stream US$'000	Total US$'000
OTHER INFORMATION				
Capital expenditure	40,646	5,708	32	46,386
Depreciation and amortisation	7,554	2,833	22	10,409
Impairment of goodwill	880	–	–	880
Allowance for write-down of inventories	7,354	–	–	7,354
Allowance for bad and doubtful debts	2,515	–	–	2,515
BALANCE SHEET				
ASSETS				
Segment assets	406,464	56,258	4,988	467,710
Interests in associates	1,441	3,978	–	5,419
Interests in jointly controlled entities	26,451	10,976	–	37,427
Unallocated assets				1,921
Consolidated total assets				512,477
LIABILITIES				
Segment liabilities	88,734	6,296	1,873	96,903
Unallocated liabilities				160,608
Consolidated total liabilities				257,511

The Group's total assets less current liabilities and the Group's net current assets as at 31st December, 2006 amounted to US$370,310,000 (2005: US$365,353,000) and US$101,718,000 (2005: US$171,243,000) respectively.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

7 BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Geographical segments

The Group's operations are located in Hong Kong, the PRC, Indonesia and Thailand. The Group's manufacturing division is located in the PRC and Indonesia. Container depot/terminal division is located in Hong Kong, the PRC and Thailand. Mid-stream services are carried out in Hong Kong.

The following table provides an analysis of the Group's revenue by geographical market, irrespective of the origin of the goods/services:

	Revenue	
	2006	2005
	US$'000	US$'000
United States	**253,456**	181,071
Europe	**201,415**	289,122
Hong Kong	**159,024**	167,704
Taiwan	**67,889**	26,978
PRC	**64,398**	84,404
South Korea	**55,734**	39,767
Others	**122,095**	53,890
	924,011	842,936

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, prepaid lease payments and intangible assets, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		**Additions to property, plant and equipment, prepaid lease payments and intangible assets**	
	2006	2005	**2006**	2005
	US$'000	US$'000	**US$'000**	US$'000
PRC	**863,520**	398,886	**71,179**	41,502
Hong Kong	**50,354**	53,886	**815**	4,799
Others	**11,512**	14,938	**177**	85
	925,386	467,710	**72,171**	46,386

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

8 OTHER INCOME

Other income included US$1,402,000 (2005: nil) being tax refund on capital investment in a subsidiary in the PRC.

9 FINANCE COSTS

	2006	2005
	US$'000	US$'000
Interest on bank loans and overdrafts wholly repayable within five years	**16,977**	8,440
Imputed interest on deferred payable	**22**	–
Bank charges	**733**	957
	17,732	9,397

10 INVESTMENT INCOME

	2006	2005
	US$'000	US$'000
Interest earned on bank deposits	**1,323**	1,030
Dividend income from unlisted equity investment	**217**	156
	1,540	1,186

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

11 PROFIT BEFORE TAXATION

	2006 **US$'000**	2005 US$'000
Profit before taxation has been arrived at after charging (crediting) the following:		
Auditors' remuneration	**407**	320
Staff costs, including directors' emoluments		
– Salaries and other benefits	**49,771**	35,006
– Retirement benefit costs *(note 13)*	**1,745**	1,634
	51,516	36,640
Depreciation and amortisation		
Depreciation of property, plant and equipment	**10,958**	8,652
Amortisation		
– Patents	**232**	170
– Other assets	**199**	794
– Prepaid lease payments in respect of leasehold land	**1,200**	793
	12,589	10,409
Operating lease charges		
– Land and buildings	**2,541**	2,090
– Plant and machinery	**85**	76
	2,626	2,166
Share of taxation of associates	**257**	245
Share of taxation of jointly controlled entities	**223**	1,070
	480	1,315
Impairment of goodwill (included in other expenses)	**–**	880
Allowance for bad and doubtful debts	**–**	2,515
Cost of inventories recognised as expense (including allowance for write-down of inventories of US$7,354,000 in 2005)	**848,079**	746,134
Gain on partial disposal of a subsidiary	**(172)**	–
Loss on disposal of property, plant and equipment	**1,078**	271
Net foreign exchange loss	**1,962**	672

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

12 DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

The emoluments paid or payable to each of the 9 (2005: 9) directors were as follows:

2006

	Chang Yun Chung US$'000	**Teo Siong Seng US$'000**	**Hsueh Chao En US$'000**	**Jin Xu Chu US$'000**	**Teo Tiou Seng US$'000**	**Kuan Kim Kin US$'000**	**Ngan Man Kit, Alexander US$'000**	**Ong Ka Thai US$'000**	**Soh Kim Soon US$'000**	**Total US$'000**
Fees	**39**	**26**	**23**	**23**	**23**	**28**	**26**	**28**	**26**	**242**
Other emoluments:										
Salaries and other benefits	**–**	**301**	**195**	**109**	**37**	**–**	**–**	**–**	**–**	**642**
Contributions to retirement benefits scheme	**–**	**15**	**–**	**–**	**2**	**–**	**–**	**–**	**–**	**17**
Performance related incentive payments *(note)*	**–**	**–**	**17**	**9**	**–**	**–**	**–**	**–**	**–**	**26**
	39	**342**	**235**	**141**	**62**	**28**	**26**	**28**	**26**	**927**

2005

	Chang Yun Chung US$'000	Teo Siong Seng US$'000	Hsueh Chao En US$'000	Jin Xu Chu US$'000	Teo Tiou Seng US$'000	Kuan Kim Kin US$'000	Ngan Man Kit, Alexander US$'000	Ong Ka Thai US$'000	Soh Kim Soon US$'000	Total US$'000
Fees	39	26	23	23	23	28	26	28	26	242
Other emoluments:										
Salaries and other benefits	–	275	184	97	29	–	–	–	–	585
Contributions to retirement benefits scheme	–	13	–	–	2	–	–	–	–	15
Performance related incentive payments *(note)*	–	1,122	15	9	–	–	–	–	–	1,146
	39	1,436	222	129	54	28	26	28	26	1,988

Note: The performance related incentive payments are determined as a percentage of the net profit of the Group for the respective years.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

12 DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS *(Continued)*

The above analysis includes 3 (2005: 3) individuals whose emoluments were among the five highest in the Group. Details of the aggregate emoluments paid to the remaining individuals whose emoluments were among the five highest in the Group and which have not been included in directors' emoluments above are set out below:–

	2006 **US$'000**	2005 US$'000
Salaries and other benefits	**319**	283
Retirement benefit costs	**15**	13
	334	296

Their emoluments were within the following band:

	2006 **Number of individuals**	2005 Number of individuals
US$128,748 – US$193,122 (HK$1,000,001 – HK$1,500,000)	**2**	2

13 RETIREMENT BENEFIT COSTS

Prior to 1st December, 2000, the Group operated defined contribution retirement schemes for certain employees in Hong Kong. These schemes are registered under the Occupational Retirement Scheme Ordinance. The assets of the schemes are held separately and managed by independent trustees. Under the rules of the schemes, the employer and its employees are each required to make contributions to the schemes at rates specified in the rules. Any amount unvested upon an employee ceasing to be a member shall be used to offset subsequent employer's contributions.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

13 RETIREMENT BENEFIT COSTS *(Continued)*

With effect from 1st December, 2000, the Group has joined MPF scheme for all employees in Hong Kong. The MPF scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF scheme are held separately from those of the Group in funds under the control of an independent trustee.

Under the rules of the MPF scheme, the employer and its employees are each required to make contributions to the MPF scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The employees of subsidiaries in the PRC are members of State-sponsored retirement benefit schemes operated by the government in the PRC. Subsidiaries are required to contribute a certain percentage of relevant payroll to the retirement benefit schemes. Obligations under the scheme are borne by the PRC Government.

Retirement benefits are provided for all local permanent employees of a subsidiary in Indonesia based on the Indonesian Labour Law No. 13/2003 concerning the settlement of labour dismissal and the stipulation of severance pay, gratuity and compensation in companies. No funding of benefits has been made to date.

The retirement benefit costs charged to the income statement representing contributions payable by the Group to the MPF Scheme operated in Hong Kong, the retirement benefit schemes in the PRC and the retirement benefits provided for the employees of a subsidiary in Indonesia amounted to US$1,745,000 (2005: US$1,634,000). At the balance sheet date, contributions payable to the retirement schemes totalling US$147,000 (2005: US$129,000) and retirement benefit provision made for the local employees in Indonesia totalling US$900,000 (2005: US$892,000) are included in accruals and other payables.

No forfeited contributions of the Group's defined contribution retirement schemes was used to reduce the current year's contributions. At the balance sheet date, the Group had no forfeited contributions, which arose from the employees leaving the retirement schemes and which are available to reduce the contribution payable by the Group in the future years.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

14 INCOME TAX EXPENSE

Hong Kong Profits Tax has been provided for at the rate of 17.5% (2005: 17.5%) of the estimated assessable profit for the year.

Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the jurisdictions in which the Group operates.

	2006 **US$'000**	2005 US$'000
Current tax:		
Hong Kong Profits Tax		
– Current year	**1,638**	295
Overseas taxation		
– Current year	**1,623**	6,190
– Prior year overprovision	**(306)**	(305)
	2,955	6,180
Deferred tax:		
Current year credit	**(1,736)**	(34)
Income tax expense for the year	**1,219**	6,146

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

14 INCOME TAX EXPENSE *(Continued)*

Tax charge for the year can be reconciled to the profit before taxation per income statement as follows:

	2006		2005	
	US$'000	**%**	US$'000	%
Profit before taxation	**22,537**		60,151	
Tax at the Hong Kong Profits Tax rate of 17.5% (2005: 17.5%)	**3,944**	**17.50**	10,526	17.50
Tax effect of share of results of associates	**(208)**	**(0.92)**	(211)	(0.35)
Tax effect of share of results of jointly controlled entities	**83**	**0.37**	(1,695)	(2.82)
Tax effect of expenses that are not deductible in determining taxable profit	**1,064**	**4.72**	874	1.45
Tax effect of income that is not taxable in determining taxable profit	**(1,606)**	**(7.12)**	(795)	(1.32)
Tax effect on tax losses arising in the current year not recognised	**1,786**	**7.92**	671	1.12
Tax effect of utilisation of tax losses not previously recognised	**(3,038)**	**(13.48)**	(162)	(0.27)
Overprovision in prior years	**(306)**	**(1.36)**	(305)	(0.51)
Tax effect on income tax on concessionary rate	**(1,955)**	**(8.67)**	(2,163)	(3.60)
Effect of different tax rates of subsidiaries, operating in other jurisdictions	**1,517**	**6.73**	(569)	(0.94)
Others	**(62)**	**(0.28)**	(25)	(0.04)
	1,219	**5.41**	6,146	10.22

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

15 DIVIDENDS

	2006	2005
	US$'000	US$'000
Dividends recognised as distributions during the year:		
Interim, paid - HK4 cents (2005: HK9 cents) per ordinary share	**3,141**	7,078
Final, paid - HK9 cents (2005: HK12 cents) per ordinary share	**7,082**	9,408
	10,223	16,486

The final dividend of HK3 cents (2005: HK9 cents) per ordinary share, totalling US$2,357,000 (2005: US$7,082,000), has been proposed by the Directors and is subject to approval by the shareholders in forthcoming general meeting.

16 EARNINGS PER SHARE – BASIC

The calculation of basic earnings per share attributable to the equity holders of the Company is based on the following data:

	2006	2005
	US$'000	US$'000
Earnings:		
Earnings for the purposes of calculating earnings per share	**18,096**	44,899
Number of shares:		
Number of ordinary shares for the purposes of calculating earnings per share	**611,228,760**	611,228,760

There were no potential dilutive shares throughout the both years presented.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

17 PROPERTY, PLANT AND EQUIPMENT

	Assets under construction US$'000	Freehold land US$'000	Leasehold land and buildings US$'000	Plant and machinery US$'000	Furniture, fittings and office equipment US$'000	Motor vehicles US$'000	Total US$'000
Group							
Cost							
At 1st January, 2005	4,009	3,283	41,873	50,814	4,524	4,679	109,182
Additions	12,344	–	6,628	1,878	690	579	22,119
Disposals	–	–	(1,720)	(565)	(199)	(785)	(3,269)
On consolidation of former jointly controlled entities *(note 39)*	4,252	–	9,009	23,038	404	1,723	38,426
Transfer from assets under construction	(3,458)	–	838	2,070	61	489	–
Translation differences	91	–	306	225	27	16	665
At 31st December, 2005	17,238	3,283	56,934	77,460	5,507	6,701	167,123
Additions	59,194	–	1,039	4,397	813	1,099	66,542
Disposals	–	–	(2,503)	(8,100)	(172)	(735)	(11,510)
Acquisition of subsidiaries	679	–	6,291	8,213	138	179	15,500
Transfer from assets under construction	(60,283)	–	30,243	30,040	–	–	–
Translation differences	156	–	426	319	32	24	957
At 31st December, 2006	16,984	3,283	92,430	112,329	6,318	7,268	238,612
Accumulated depreciation							
At 1st January, 2005	–	–	9,878	24,559	3,465	2,297	40,199
Charge for the year	–	–	2,142	5,334	428	748	8,652
Eliminated on disposals	–	–	(705)	(483)	(132)	(702)	(2,022)
On consolidation of former jointly controlled entities *(note 39)*	–	–	3,106	16,291	204	992	20,593
Translation differences	–	–	50	73	13	8	144
At 31st December, 2005	–	–	14,471	45,774	3,978	3,343	67,566
Charge for the year	–	–	2,904	6,624	573	857	10,958
Eliminated on disposals	–	–	(1,696)	(6,953)	(151)	(630)	(9,430)
Translation differences	–	–	57	116	18	12	203
At 31st December, 2006	–	–	15,736	45,561	4,418	3,582	69,297
Net book value							
At 31st December, 2006	**16,984**	**3,283**	**76,694**	**66,768**	**1,900**	**3,686**	**169,315**
At 31st December, 2005	17,238	3,283	42,463	31,686	1,529	3,358	99,557

Plant and machinery with an aggregate net book value of US$487,000 as at 31st December, 2006 (2005: US$708,000) were pledged as security for loan facilities granted by banks to subsidiaries in the PRC. No amount of facilities utilised as at 31st December, 2006 and 31st December, 2005.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

17 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The net book value of land and buildings is analysed as follows:

	Freehold land US$'000	Leasehold land and buildings US$'000	Site improvements US$'000	Total US$'000
Group				
At 31st December, 2006				
Held in Hong Kong				
On short lease				
(less than 10 years)	–	–	113	113
Held outside Hong Kong				
On medium term lease				
(20 to 50 years)	–	5,746	70,835	76,581
Freehold land	3,283	–	–	3,283
	3,283	5,746	70,948	79,977
At 31st December, 2005				
Held in Hong Kong				
On short lease				
(less than 10 years)	–	–	12	12
Held outside Hong Kong				
On medium term lease				
(20 to 50 years)	–	6,039	36,412	42,451
Freehold land	3,283	–	–	3,283
	3,283	6,039	36,424	45,746

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

17 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Land and buildings together with the prepaid lease payments (note 25) held outside Hong Kong with net book value of US$4,123,000 and US$1,231,000 respectively as at 31st December 2005 were pledged as security for loan facilities granted by banks to subsidiaries in the PRC. The amount of facilities utilised as at 31st December 2005 was US$4,000,000.

	Leasehold land and buildings US$'000	Furniture, fittings and office equipment US$'000	Motor vehicles US$'000	Total US$'000
Company				
Cost				
At 1st January, 2005	–	1,041	246	1,287
Additions	4,287	484	–	4,771
Disposals	–	(86)	–	(86)
At 31st December, 2005	4,287	1,439	246	5,972
Additions	–	143	–	143
Disposals	–	(9)	–	(9)
At 31st December, 2006	4,287	1,573	246	6,106
Accumulated depreciation				
At 1st January, 2005	–	901	123	1,024
Charge for the year	56	133	37	226
Eliminated on disposals	–	(86)	–	(86)
At 31st December, 2005	56	948	160	1,164
Charge for the year	113	209	37	359
Eliminated on disposals	–	(5)	–	(5)
At 31st December, 2006	169	1,152	197	1,518
Net book value				
At 31st December, 2006	**4,118**	**421**	**49**	**4,588**
At 31st December, 2005	4,231	491	86	4,808

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

17 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	2006	2005
	US$'000	US$'000
Company		
Leasehold land and buildings held outside Hong Kong on medium term lease (20 to 50 years)	**4,118**	4,231

18 PATENTS

Group

	US$'000
Cost	
At 1st January, 2005 and 31st December, 2005	3,031
Addition	502
At 31st December, 2006	3,533
Amortisation	
At 1st January, 2005	2,011
Charge for the year	170
At 31st December, 2005	2,181
Charge for the year	232
At 31st December, 2006	2,413
Net book value	
At 31st December, 2006	**1,120**
At 31st December, 2005	850

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

19 GOODWILL

Group

	US$'000
Cost	
At 1st January, 2005	880
Arising on consolidation of a former jointly controlled entity (transfer from premium on acquisition of a former jointly controlled entity)	1,691
At 31st December, 2005	2,571
Acquisition of subsidiaries	3,907
At 31st December, 2006	6,478
Impairment	
At 1st January, 2005	–
Impairment loss recognised	880
At 31st December, 2005 and 31st December, 2006	880
Net book value	
At 31st December, 2006	**5,598**
At 31st December, 2005	1,691

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

19 GOODWILL *(Continued)*

Goodwill acquired in a business combination is allocated, at acquisition, to three manufacturing factories that are expected to benefit from that business combination.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the cash generating units are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the cash generating units. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next five years and extrapolates cash flows for the following five years based on an estimated growth rate of 2%. The rate used to discount the forecast cash flows is 10%.

20 INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	US$'000	US$'000
Unlisted shares and investments, at cost	**156,563**	125,573

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

20 INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of principal subsidiaries as at 31st December, 2006 are set out below:-

Name	Place of incorporation/ registration	Group equity interest	Issued and fully paid share/ contributed capital	Principal activities
DY Terminal Ltd.	Hong Kong	100%	Ordinary HK$1,000,000	Provision of container storage and repair services
Eng Kong Container & Warehousing Ltd.	Hong Kong	73.3%	Ordinary HK$300,000	Investment holding
Eng Kong Container Services Ltd.	Hong Kong	73.3%	Ordinary HK$3,000,000	Provision of container storage, drayage and repair services
Foshan Shunde Leliu Wharf & Container Co., Ltd. #	PRC	59%	US$20,000,000	Provision of container terminal services
Guangdong Shun An Da Pacific Container Co., Ltd. *	British Virgin Islands	100%	US$1,000	Marketing dry freight and specialised containers in the PRC
Guangdong Shun An Da Pacific Container Co., Ltd. * △	PRC	100%	US$27,900,000	Manufacturing of dry freight and specialised containers
Hong Kong Transportation and Machinery Co., Ltd. *	Samoa	100%	US$1,000	Provision of management services in the PRC

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

20 INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration	Group equity interest	Issued and fully paid share/ contributed capital	Principal activities
Hui Zhou Pacific Container Co., Ltd. * △	PRC	100%	US$40,000,000	Manufacturing of dry freight containers
Ningbo Pacific Container Co., Ltd. *#	PRC	80%	US$20,000,000	Manufacturing of dry freight and specialised containers
P.T. Java Pacific	Indonesia	72%	US$10,000,000	Manufacturing of dry freight containers
Qingdao Pacific Container Co., Ltd.*#	PRC	95%	US$12,000,000	Manufacturing of dry freight and specialised containers
Qingdao Singamas Industrial Vehicle Co., Ltd.*#	PRC	49.5%	RMB20,000,000	Manufacturing of chassis
Singamas Logistics (Qingdao) Co., Ltd. # (formerly known as "Shandong International Singamas Container Co., Ltd.")	PRC	60%	US$2,000,000	Provision of container storage and repair services
Shanghai Baoshan Pacific Container Co., Ltd. #	PRC	74%	US$25,300,000	Manufacturing of dry freight containers
Shanghai Pacific International Container Co., Ltd. *#	PRC	60%	US$18,000,000	Manufacturing of dry freight containers
Shanghai Reeferco Container Co., Ltd. #	PRC	88.6%	US$22,000,000	Manufacturing of refrigerated containers

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

20 INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration	Group equity interest	Issued and fully paid share/ contributed capital	Principal activities
Singamas Container Holdings Ltd. *	Bahamas	100%	US$7,200,000	Investment holding and marketing of dry freight containers in Indonesia
Singamas Container Industry Co., Ltd. * #	PRC	75%	US$5,100,000	Manufacturing of collapsible flatrack and specialised containers
Singamas Management Services Ltd. *	British Virgin Islands	100%	US$1,000	Provision of management services and marketing containers in the PRC
Singamas Refrigerated Container Ltd. *	British Virgin Islands	100%	Ordinary US$100,000	Investment holding
		100%	Redeemable preferred US$19,400,000	
Singamas Terminals (China) Ltd.	British Virgin Islands	100%	US$1,000	Investment holding and marketing of container depot services in the PRC

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

20 INTERESTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration	Group equity interest	Issued and fully paid share/ contributed capital	Principal activities
Singamas Terminals Holdings Ltd. *	British Virgin Islands	100%	US$1,000	Investment holding
Singamas Terminals (HK) Ltd.	British Virgin Islands	100%	US$1,000	Investment holding
Singamas Terminals (Hong Kong) Ltd.	Hong Kong	100%	Ordinary HK$5,000,000	Provision of mid-stream services
Singamas Warehouse (Shanghai) Company Ltd.	British Virgin Islands	100%	US$1,000	Investment holding
Tianjin Pacific Container Co., Ltd. * #	PRC	97%	US$25,700,000	Manufacturing of dry freight and specialised containers
Tianjin Singamas Container Co., Ltd. * △	PRC	100%	US$2,000,000	Provision of container storage, repair and trucking services, and serving as a freight station
Wellmass Group Ltd.	British Virgin Islands	60%	US$10,000	Investment holding
Yixing Singamas Metal Products Co., Ltd. * #	PRC	95%	US$200,000	Manufacturing of container parts

* *Subsidiaries held directly by the Company.*

\# *Equity joint venture established in the PRC in accordance with relevant laws and regulations.*

△ *Wholly owned foreign enterprise established in the PRC in accordance with relevant laws and regulations.*

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

20 INTERESTS IN SUBSIDIARIES *(Continued)*

Unless otherwise stated, the principal place of operation of each subsidiary is the same as the place of incorporation/registration stated above.

The above list gives the principal subsidiaries of the Company which, in the opinion of the directors, principally affected the results and assets of the Group.

Other than disclosed above, none of the subsidiaries had any debt securities outstanding at the end of the year.

During the year, the Company entered into an agreement to acquire an additional 40% equity interest in Qingdao Pacific Container Co, Ltd ("Qingdao Pacific"), a former jointly controlled entity of the Company. On completion of this transaction and following certain amendments to the terms of the joint venture agreements for Qingdao Pacific and Qingdao Singamas Industrial Vehicle Co, Ltd ("Qingdao Singamas"), also a former jointly controlled entity of the Company, the Company took control over the board of directors of both Qingdao Pacific and Qingdao Singamas. In addition, the joint venture partner of Qingdao Pacific and Qingdao Singamas agreed to receive a fixed sum of guarantee payments annually in lieu of sharing any profit and loss and the residual interests in the assets of Qingdao Pacific and Qingdao Singamas thereafter. Accordingly, Qingdao Pacific and Qingdao Singamas have been accounted for as wholly owned subsidiaries of the Group since 1st June, 2006.

21 AMOUNTS DUE FROM/TO SUBSIDIARIES

Company

The amounts due from/to subsidiaries are unsecured and repayable on demand. Included in the amounts due from subsidiaries is an amount of approximately US$64,607,000 (2005: US$39,664,000) which bears interest at a spread of no more than 0.25% per annum over the cost of funds of the Company. The amounts due to subsidiaries and the remaining portion of amounts due from subsidiaries are interest free.

22 INTERESTS IN ASSOCIATES

	Group		Company	
	2006	2005	**2006**	2005
	US$'000	US$'000	**US$'000**	US$'000
Unlisted shares and investments:				
At cost	**10,909**	4,109	**16,757**	9,957
Share of post-acquisition reserves, net of dividend received	**2,352**	1,310	**–**	–
	13,261	5,419	**16,757**	9,957

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

22 INTERESTS IN ASSOCIATES *(Continued)*

Particulars of principal associates as at 31st December, 2006 are set out below:-

Name	Form of business structure	Place of incorporation/ registration and operation	Group equity interest	Proportion of voting power held	Principal activities
Dong Fang International Container (Guang Zhou) Co., Ltd. * #	Incorporated	PRC	20%	20%	Manufacturing of dry freight containers
Dong Fang International Container (Jin Zhou) Co., Ltd. * #	Incorporated	PRC	20%	16.7%	Manufacturing of dry freight containers
Ningbo Victory Container Co., Ltd. #	Incorporated	PRC	40%	40%	Provision of container storage and repair services
Singamas Thai Logistics Co., Ltd. *	Incorporated	Thailand	25%	25%	Provision of container storage and repair services
Xiamen Xiangyu Singamas Container Co., Ltd. #	Incorporated	PRC	28%	28.6%	Provision of container storage, repair and trucking services, and serving as a freight station
Yixing Goldrich Welding Metal Co., Ltd. * #	Incorporated	PRC	30%	33.3%	Manufacturing of welding parts

* *Held directly by the Company.*
\# *Equity joint venture established in the PRC in accordance with relevant laws and regulations.*

The above list gives the associates of the Group which, in the opinion of the Directors, principally affected the results or form a substantial portion of the net assets of the Group.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

22 INTERESTS IN ASSOCIATES *(Continued)*

Summarised financial information in respect of the Group's associates is set out below:

	2006 US$'000	2005 US$'000
Total assets	**127,660**	21,366
Total liabilities	**(71,647)**	(7,500)
Net assets	**56,013**	13,866
Group's share of associates' net assets	**13,261**	5,419

	2006 US$'000	2005 US$'000
Revenue	**62,949**	18,120
Profit for the year	**3,064**	3,497
Group's share of associates' profit for the year	**1,189**	1,208

23 INTERESTS IN JOINTLY CONTROLLED ENTITIES

	Group		**Company**	
	2006 US$'000	2005 US$'000	**2006 US$'000**	2005 US$'000
Unlisted shares and investments:				
At cost	**18,287**	24,660	**7,129**	14,952
Share of post-acquisition reserves, net of dividend received	**1,377**	12,767	**–**	–
	19,664	37,427	**7,129**	14,952

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

23 INTERESTS IN JOINTLY CONTROLLED ENTITIES *(Continued)*

Premium arising on acquisition of jointly controlled entities included in cost of investments:

	Group
	Premium
	US$'000
Cost	
At 1st January, 2005	1,457
Arising on acquisition of additional equity interest of a jointly controlled entity	234
Elimination on consolidation of a former jointly controlled entity	(1,691)
At 31st December, 2005 and 31st December, 2006	–

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

23 INTERESTS IN JOINTLY CONTROLLED ENTITIES *(Continued)*

Particulars of principal jointly controlled entities which are established in the PRC, except for Singamas North America, Inc., which is incorporated in the United States of America, as at 31st December, 2006 are set out below: -

Name	Group equity interest	Proportion of voting power	Principal activities
Dalian Singamas International Container Co., Ltd. #	30%	33.3%	Provision of container storage and repair services
Fuzhou Singamas Container Co., Ltd. #	40%	40%	Provision of container storage and repair services
Shanghai Jifa Logistics Co., Ltd. #	25%	22.2%	Provision of container storage, repair and logistics services
Singamas North America, Inc.	50%	50%	Marketing containers in the USA
Xiamen Pacific Container Manufacturing Co., Ltd. * #	40%	42.9%	Manufacturing of dry freight containers

* *Held directly by the Company.*
\# *Equity joint venture established in the PRC in accordance with relevant laws and regulations.*

The above list gives the jointly controlled entities of the Group which, in the opinion of the Directors, principally affected the results or form a substantial portion of the net assets of the Group.

The voting power of the Group in respective jointly controlled entities is determined by the proportion of the Group's representatives in the board of directors of respective jointly controlled entities.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

23 INTERESTS IN JOINTLY CONTROLLED ENTITIES *(Continued)*

Summarised financial information in respect of the Group's jointly controlled entities is set out below:

	2006	2005
	US$'000	US$'000
Total assets	**114,776**	165,818
Total liabilities	**(49,612)**	(68,354)
Net assets	**65,164**	97,464
Group's share of jointly controlled entities' net assets	**19,664**	37,427

	2006	2005
	US$'000	US$'000
Revenue	**143,676**	301,486
(Loss) profit for the year	**(576)**	18,289
Group's share of jointly controlled entities' (loss) profit for the year	**(477)**	9,683

24 AVAILABLE-FOR-SALE INVESTMENTS

The amount at 31st December, 2006 represents unquoted equity investments which are stated at cost. In the opinion of the Directors, it is not practicable to determine the fair value of the investments as no quoted market price is available.

The unquoted equity investments included 14.02% (2005: 14.02%) equity interest of Xiamen Superchain Logistics Development Co., Ltd, a logistic company in PRC; and 10% (2005: nil) equity interest of Lianyungang Universal Special Purpose Vehicle Manufacturing Co., Ltd, a company involved in manufacturing of chassis.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

25 PREPAID LEASE PAYMENTS

	2006 **US$'000**	2005 US$'000
The Group's prepaid lease payments comprise:		
Leasehold land in Hong Kong:		
Medium-term lease	**69**	71
Leasehold land outside Hong Kong:		
Medium-term lease	**55,144**	47,828
	55,213	47,899
Analysed for reporting purpose as:		
Amount shown under non-current assets	**53,992**	46,857
Amount shown under current assets	**1,221**	1,042
	55,213	47,899

26 OTHER ASSETS

	Group	
	2006 **US$'000**	2005 US$'000
At 1st January	**452**	879
Acquired on consolidation of former jointly controlled entities	**–**	150
Amount capitalised	**209**	217
Acquisition of subsidiaries	**27**	–
Amount amortised	**(199)**	(794)
At 31st December	**489**	452

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

27 INVENTORIES

	Group	
	2006	2005
	US$'000	US$'000
Raw materials	**149,674**	71,001
Work in progress	**16,286**	7,101
Finished goods	**74,915**	37,416
	240,875	115,518

28 TRADE RECEIVABLES

A defined credit policy is maintained within the Group. The general credit terms are agreed with each of its trade customers depending on the relationship with the Group and the creditworthiness of the customers. The general credit term ranges from 30 days to 120 days.

The aged analysis of trade receivables at 31st December, 2006 is as follows:

	Group	
	2006	2005
	US$'000	US$'000
0 to 30 days	**100,506**	32,709
31 to 60 days	**45,329**	9,205
61 to 90 days	**19,410**	6,334
91 to 120 days	**12,951**	7,369
Over 120 days	**1,688**	9,516
	179,884	65,133

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

29 PREPAYMENTS AND OTHER RECEIVABLES

As at 31st December, 2006, the Group advanced US$105,595,000 (2005: US$12,823,000) to certain suppliers as deposits for raw materials purchases.

30 AMOUNT DUE FROM A RELATED COMPANY

Particulars of the amount due from a related company is as follows:

	Group		
Name	**Balance as at 31.12.2006 US$'000**	Balance as at 31.12.2005 US$'000	Maximum amount outstanding during the year US$'000
Pacific International Lines (H.K.) Limited	**879**	1,072	1,819

The aged analysis of amount due from a related company is as follows:

	Group	
	2006 US$'000	2005 US$'000
0 to 30 days	**634**	635
31 to 60 days	**245**	423
61 to 90 days	**–**	10
over 90 days	**–**	4
	879	1,072

Amount due from a related company represents trade receivable balances due from Pacific International Lines (H.K.) Limited ("PILHK"), a company in which Messrs. Chang Yun Chung, Teo Siong Seng and Teo Tiou Seng, directors of the Company, have beneficial interests. The balance is subject to normal credit terms of 30 days.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

31 DERIVATIVE FINANCIAL INSTRUMENTS

The amount represents interest rate swap contracts and a foreign currency swap contract entered into by the Group.

The Company uses interest rate swap and currency swap to manage its exposure to interest rate and foreign currency movements. As at 31st December, 2006, the Company has outstanding interest rate swap contracts and a currency swap contract with an aggregate notional amount of US$137.5 million and US$77.5 million (2005: US$50 million and nil) respectively. The fair value of swap contracts as at 31st December, 2006 was estimated at US$7,535,000 (2005: US$67,000). This amount was assessed by the independent third party based on discounted cash flow analysis at the balance sheet date.

Major terms of the interest rate swaps are set out below:

Notional amount	**Maturity**	**Swaps**
US$50,000,000	03/07/2011	LIBOR minus certain agreed basis points for LIBOR multiplied by a variable factor
US$87,500,000	20/05/2010	LIBOR minus certain agreed basis points for LIBOR multiplied by a variable factor

Major terms of the currency swap are set out below:

Notional amount	**Maturity**	**Exchange rates**
US$77,500,000	17/08/2009	Notional amount multiplied by a variable factor for an agreed RMB/US$ exchange rate

32 TRADE PAYABLES

The aged analysis of trade payables at 31st December, 2006 is as follows:

	Group	
	2006	2005
	US$'000	US$'000
0 to 30 days	**61,252**	16,712
31 to 60 days	**22,851**	8,650
61 to 90 days	**18,280**	4,718
91 to 120 days	**16,085**	7,152
Over 120 days	**12,320**	4,552
	130,788	41,784

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

33 BILLS PAYABLE

The aged analysis of bills payable at 31st December, 2006 is as follows:

	Group	
	2006	2005
	US$'000	US$'000
0 to 30 days	**61,407**	3,801
31 to 60 days	**38,777**	3,311
61 to 90 days	**22,180**	2,939
91 to 120 days	**4,708**	1,968
Over 120 days	**3,355**	992
	130,427	13,011

34 DEFERRED PAYABLE

The joint venture partner of Qingdao Pacific and Qingdao Singamas agreed to receive a fixed sum of guarantee payments annually in lieu of sharing any profit and loss and the residual interests in the assets of Qingdao Pacific and Qingdao Singamas thereafter. All future guarantee payments are discounted at the prevailing market interest rate on the date of acquisition and accounted for as deferred payable.

Group and Company

	US$'000
At 1st January, 2006	–
Acquisition of subsidiaries	2,412
Imputed interest on deferred payable	22
	2,434
Payment for the year	(242)
At 31st December, 2006	2,192
Analysed for reporting purpose as:	
Amount shown under non-current assets	1,992
Amount shown under current assets	200
	2,192

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

35 SHARE CAPITAL

	Number of shares					
	2006	2005	**2006**	**2006**	2005	2005
			US$'000	**HK$'000**	US$'000	HK$'000
Authorised:						
Ordinary shares of HK$0.10 each	**750,000,000**	750,000,000	**9,637**	**75,000**	9,637	75,000
Issued and fully paid:						
Ordinary shares of HK$0.10 each	**611,228,760**	611,228,760	**7,844**	**61,123**	7,844	61,123

36 RESERVES

	Share premium	**Accumulated profits**	**Total**
	US$'000	US$'000	US$'000
Company			
At 1st January, 2005	98,011	9,593	107,604
Profit for the year	–	15,283	15,283
Dividend paid	–	(16,486)	(16,486)
At 1st January, 2006	98,011	8,390	106,401
Profit for the year	–	49,609	49,609
Dividend paid	–	(10,223)	(10,223)
At 31st December, 2006	**98,011**	**47,776**	**145,787**

Distributable reserves of the Company at 31st December, 2006, calculated under section 79B of the Companies Ordinance, amounted to US$47,776,000 (2005: US$8,390,000).

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

37 BANK BORROWINGS

	Group		Company	
	2006	2005	**2006**	2005
	US$'000	US$'000	**US$'000**	US$'000
Bank borrowings comprise the followings:				
Bank loans				
Secured				
– due within 1 year	**–**	4,000	**–**	–
Unsecured				
– due within 1 year	**233,792**	44,015	**21,400**	7,500
– due more than 1 year, but not exceeding 2 years	**15,000**	22,887	**15,000**	21,400
– due more than 2 years, but not exceeding 5 years	**84,037**	87,500	**82,500**	87,500
	332,829	154,402	**118,900**	116,400
Total	**332,829**	158,402	**118,900**	116,400
Less: Amount shown under current liabilities	**(233,792)**	(48,015)	**(21,400)**	(7,500)
Amount due after one year	**99,037**	110,387	**97,500**	108,900

The Group's bank borrowings are principally on a floating rate basis which carry interest at prevailing market rate. Interest is repriced every one to three months.

The ranges of effective annual interest rates for the year 2006 on the Group's bank borrowings were 4.0% to 6.7% (2005: 2.7% to 5.8%).

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

37 BANK BORROWINGS *(Continued)*

On 20th May, 2005, the Company has entered into a facility agreement with a syndicate of banks in request of the US$100 million term loan and revolving credit facilities for a term of five years. Repayments will commence on 20th November, 2006 and will continue until 20th May, 2010. The bank loan carries floating rate interest of London Interbank Offered Rate ("LIBOR") plus 0.625% per annum.

At the balance sheet date, the Group's bank borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2006	2005
	US$'000	US$'000
Renminbi	**130,977**	4,709

The Directors consider that the carrying amount of bank borrowings approximates its fair value.

38 DEFERRED TAX ASSETS

Group

The following are the major deferred tax assets recognised by the Group and movements thereon during the current year:

	Accelerated tax depreciation	**Tax losses**	**Other assets**	**Total**
	US$'000	US$'000	US$'000	US$'000
At 1st January, 2005	103	–	106	209
Credit to income	17	–	17	34
At 31st December, 2005	120	–	123	243
Credit to income	(238)	2,067	(93)	1,736
At 31st December, 2006	(118)	2,067	30	1,979

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

38 DEFERRED TAX ASSETS *(Continued)*

Group *(Continued)*

At 31st December, 2006, the Group has unused tax losses of US$32,672,000 (2005: US$18,496,000) available for offset against future profits. A deferred tax asset of US$21,329,000 (2005:nil) in relation to unused tax losses has been recognised. No deferred tax asset has been recognised on remaining tax losses of US$11,343,000 (2005: 18,496,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of US$295,000, US$16,000 and US$597,000 that will expire in 2007, 2009 and 2010 (2005: US$552,000, US$408,000 and US$764,000 in 2007, 2009 and 2010 respectively) respectively. Other losses may be carried forward indefinitely.

Company

No deferred tax asset has been recognised in respect of the unused tax losses of US$16,435,000 as at 31st December, 2005, due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

39 ACQUISITION OF SUBSIDIARIES

During the year, the Company entered into an agreement to acquire an additional 40% equity interest in Qingdao Pacific, a former jointly controlled entity of the Company. On completion of this transaction and following certain amendments to the terms of the joint venture agreements for Qingdao Pacific and Qingdao Singamas, also a former jointly controlled entity of the Company, the Company took control over the board of directors of both Qingdao Pacific and Qingdao Singamas. In addition, the joint venture partner of Qingdao Pacific and Qingdao Singamas agreed to receive a fixed sum of guarantee payments annually in lieu of sharing any profit and loss and the residual interests in the assets of Qingdao Pacific and Qingdao Singamas thereafter. Accordingly, Qingdao Pacific and Qingdao Singamas have been accounted for as wholly owned subsidiaries of the Group since 1st June, 2006 and all future guarantee payments are discounted at the prevailing market interest rate on the date of acquisition and accounted for as deferred payable.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

39 ACQUISITION OF SUBSIDIARIES *(Continued)*

The effect of acquisition and consolidation of the assets and liabilities of Qingdao Pacific and Qingdao Singamas are summarised below:

	Acquiree's carrying amount before combination US$'000	Fair value adjustments US$'000	Fair value US$'000
Property, plant and equipment	14,604	896	15,500
Trade receivable	27,229	–	27,229
Prepayments and other receivables	21,840	–	21,840
Prepaid lease payments	1,423	1,580	3,003
Inventories	47,139	–	47,139
Bank balances and cash	11,739	–	11,739
Other assets	27	–	27
Bank borrowings	(47,364)	–	(47,364)
Trade payable	(18,923)	–	(18,923)
Bills payable	(19,766)	–	(19,766)
Accruals and other payables	(19,256)	–	(19,256)
Amount due to fellow subsidiaries	(12,006)	–	(12,006)
	6,686	2,476	9,162
Goodwill			3,907
Less: amount attributable to the Group and previously classified as interests in jointly controlled entities			(4,903)
Total consideration			8,166
Satisfied by:			
Cash consideration			5,754
Deferred payable			2,412
			8,166
Net cash inflow arising on acquisition of subsidiaries:			
Cash consideration			(5,754)
Bank balance and cash consolidated			11,739
			5,985

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

39 ACQUISITION OF SUBSIDIARIES *(Continued)*

The goodwill arising on the acquisition of subsidiaries is attributable to the anticipated future operating synergies from the combination.

For the year ended 31st December, 2006, Qingdao Pacific contributed US$116,283,000 to the Group's revenue and a profit of US$138,000 to the Group's profit from operations. Qingdao Singamas contributed US$16,468,000 to the Group's revenue and a loss of US$957,000 to the Group's profit from operations.

If the acquisition had been completed on 1st January, 2006, total group revenue for the year would have been US$957,841,000 and profit for the year would have been US$20,603,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2006, nor is it intended to be a projection of future results.

40 CONTINGENT LIABILITIES

	Group	
	2006	2005
	US$'000	US$'000
Guarantees for bank facilities utilised by a jointly controlled entity	**2,240**	10,000

41 CAPITAL COMMITMENTS

	Group	
	2006	2005
	US$'000	US$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted but not provided for	**11,781**	26,334
Capital expenditure in respect of business acquisition contracted but not provided for	**5,000**	27,350
	16,781	53,684

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

42 OPERATING LEASE COMMITMENTS

The Group as lessee

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancelable operating leases, which fall due as follows:

	Group		Company	
	2006	2005	**2006**	2005
	US$'000	US$'000	**US$'000**	US$'000
Land and buildings				
– in the 1st year	**1,674**	823	**378**	379
– in the 2nd to 5th year inclusive	**1,313**	1,100	**126**	505
– beyond 5th year	**1,127**	793	**–**	–
	4,114	2,716	**504**	884

Operating lease payments represent rentals payable by the Group for certain of its container depot sites. Leases are negotiated for an average period of 3 to 30 years and rentals are fixed for an average of 2 to 3 years.

The Group as Lessor

At the balance sheet date, certain leasehold land and buildings of the Company with an aggregate carrying amount of US$1,360,000 (2005: US$1,956,000) were rented out under operating leases. Property rental income earned during the year was US$79,000 (2005: US$45,000). These properties have committed tenants for the next one to two years.

At the balance sheet date, the Company had contracted with tenants for the following future minimum payments under non-cancelable operating leases:

	Group and Company	
	2006	2005
	US$'000	US$'000
– in the 1st year	**73**	92
– in the 2nd to 5th year inclusive	**56**	129
	129	221

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

43 CONSOLIDATION OF FORMER JOINTLY CONTROLLED ENTITIES

As a result of certain amendments to the terms of the relevant joint venture agreements, the Group took control over the respective boards of directors but without any change in the Group's effective interests in Shanghai Baoshan and Tianjin Pacific, former jointly controlled entities of the Group, Shanghai Baoshan and Tianjin Pacific have become subsidiaries of the Group since 1st January, 2005 and 1st August, 2005 respectively. The carrying amounts of the assets and liabilities of Shanghai Baoshan and Tianjin Pacific at the date of consolidation are summarised below:

	Shanghai Baoshan	**Tianjin Pacific**
	US$'000	US$'000
Property, plant and equipment	10,498	7,335
Trade receivable	5,311	23,125
Prepayments and other receivables	18,256	9,817
Prepaid lease payments	2,348	–
Inventories	61,655	15,407
Cash and bank balances	4,532	15,001
Other assets	150	–
Total assets	102,750	70,685
Bank borrowings	(24,791)	(23,075)
Trade payable	(47,605)	(15,599)
Accruals and other payables	(13,564)	(6,431)
Tax payable	–	(77)
Total liabilities	(85,960)	(45,182)
Less: amount attributable to minority interests	(4,365)	(984)
Add: Premium arising on acquisition of a jointly controlled entity	–	1,691
Amount attributable to the Group and previously classified as interests in jointly controlled entities	12,425	26,210
Net cash inflow arising from consolidation of Shanghai Baoshan and Tianjin Pacific		
Bank balance and cash consolidated	4,532	15,001

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

43 CONSOLIDATION OF FORMER JOINTLY CONTROLLED ENTITIES *(Continued)*

In 2005, Shanghai Baoshan has contributed US$213,731,000 to the Group's turnover and US$11,859,000 to the Group's profit from operations. Tianjin Pacific has contributed US$19,946,000 and US$3,017,000 to the Group's turnover and profit from operations for the period between the date of consolidation and the balance sheet date respectively.

If the consolidation had been completed on 1st January, 2005, total group revenue for the year would have been US$901,544,000, and profit for the year would have been US$54,353,000. The proforma information is for illustrative purpose only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2005, nor is intended to be a projection of future results.

44 RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

During the year, the Group entered into the following trading transactions with related parties that are not members of the Group:

	2006 **US$'000**	2005 US$'000
Sales to ultimate holding company *(note)*	**45,063**	–
Sales to a fellow subsidiary *(note)*	**2,264**	2,045
Sales to a related company *(note)*	**6,867**	7,167
Rental income received from a fellow subsidiary *(note)*	**65**	1

Note: The fellow subsidiaries are Pacific International Lines (China) Ltd., and PIL Logistics (China) Co., Ltd. in which PIL, a substantial shareholder of the Company, also the ultimate holding company of the Company, has 100% effective interest. The related company is PILHK, in which Messrs. Chang Yun Chung, Teo Siong Seng and Teo Tiou Seng, directors of the Company, have beneficial interests.

The balances with the related parties are disclosed in the consolidated balance sheet and note 30. All such balances are subject to normal credit terms and aged mainly from 30 days to 90 days. The current accounts with other group companies, jointly controlled entities and associates are unsecured, interest free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

44 RELATED PARTY TRANSACTIONS *(Continued)*

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2006	2005
	US$'000	US$'000
Short-term benefits	**1,308**	2,353
Other long-term benefits	**36**	32
	1,344	2,385

The remuneration of directors and key executives is reviewed by the remuneration committee having regard to the performance of individuals and market trends.

45 POST BALANCE SHEET EVENT

In September, 2006, the Company entered into a share transfer agreements with China Shipping Investment Co, Ltd, Mitsubishi Corporation and Mitsubishi Corporation (Hong Kong) Limited to transfer 20%, 7% and 2% equity interest in Hui Zhou Pacific Container Co., Ltd. ("Hui Zhou Pacific") respectively. The transactions were completed in January 2007. Upon completion of the aforesaid share transfers, the Group's effective interest in Hui Zhou Pacific have decreased from 100% to 71%.