

P&O SWIRE CONTAINERS LIMITED
DIRECTORS' REPORT AND CONSOLIDATED FINANCIAL
STATEMENTS FOR THE YEAR ENDED
31 DECEMBER 1998

(Company No: 971548)



P&O SWIRE CONTAINERS LIMITED

DIRECTORS' REPORT **FOR THE YEAR ENDED 31 DECEMBER 1998**

1. The Directors present herewith their annual report and the audited consolidated financial statements of P&O Swire Containers Limited and its subsidiaries ("the Group") for the year ended 31 December 1998.

2. **Group Results**

The consolidated profit and loss account for the year is set out on page 5.

3. **Dividends**

The Directors have not declared or recommended any dividends for the year (1997: Nil).

4. **Creditors Payment Policy**

It is not the Group's policy to follow any published code or standard on payment practice in respect of its suppliers. P&O Swire Containers Limited ("the Company") has a policy to pay all suppliers for approved purchases according to credit terms agreed with individual suppliers.

5. **Principal Activities of the Group and Review of the Year**

The principal activity of the Group was the operation of through transport shipping container services between Australia, New Zealand and the Far East..

6. **Directors**

The Directors of the Company during the year were:

Sir Adrian Swire
T.C. Harris
J.W.J. Hughes-Hallet
J.D. Roberts
B.N. Swire
R.B. Woods

7. Directors' Interests

According to the register of directors' interests kept under section 325 of the Companies Act 1985, no directors had disclosable interests in either the shares of the Company or of any other Group company at the end of the year.

8. Year 2000 Programme

The company is part of the P&O Nedlloyd group Year 2000 project, which is an active programme for dealing with issues connected with computer systems and embedded chips in relation to the Year 2000. This involves identifying where modifications may be necessary within systems developed and maintained by the P&O Nedlloyd group, making similar identifications and subsequent monitoring of systems and equipment supplied to the P&O Nedlloyd group and testing the results of any modifications. Where necessary normal upgrading work was accelerated to ensure all systems are Year 2000 compliant.

All parts of the P&O Nedlloyd group completed the compliance reviews of their systems, assessed how critical they were and modified and retested these systems as appropriate. The conclusions of those reviews and assessments were monitored centrally with regular reports prepared for the audit committee and the Board of P&O Nedlloyd Container Line Limited. As a result of the retesting of all the P&O Nedlloyd group's critical business systems, the P&O Nedlloyd group directors have advised P&O Swire Containers Ltd that systems involved will not be significantly affected by the date change of 1st January 2000. The P&O Nedlloyd group has undertaken a further programme to seek the necessary assurances from key suppliers and has giving assurance to its customers as appropriate.

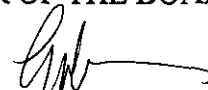
Following the date change to 1st January 2000 no significant problems have been identified although the directors recognise that there can be no guarantee that problems arising from the date change will not occur in the future.

The costs involved have been borne by P&O Nedlloyd.

9. Auditors

During the year KPMG resigned as auditors and KPMG Audit Plc was appointed. In accordance with Section 385A of the Companies Act 1985 KPMG Audit Plc will continue in office as auditor of the company.

BY ORDER OF THE BOARD


G. R. CHEESEMAN
Secretary

Registered Office
Beagle House
Braham Street
London E1 8EP

27 January 2000

P&O SWIRE CONTAINERS LIMITED

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- (a) select suitable accounting policies and then apply them consistently;
- (b) make judgements and estimates that are reasonable and prudent;
- (c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- (d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

REPORT OF THE AUDITORS TO THE MEMBERS OF
P&O SWIRE CONTAINERS LIMITED

We have audited the financial statements on pages 5 to 22.

Respective Responsibility of Directors and Auditors

As described on page 3 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 December 1998 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

28 January

2000

P&O SWIRE CONTAINERS LIMITED

Consolidated Profit and Loss Account For The Year Ended 31 December 1998

	<u>Notes</u>	<u>1998</u> USD'000	<u>1997</u> USD'000
Turnover	2	103,787	132,904
Cost of sales		(85,683)	(107,226)
Gross profit		<hr/> 18,104	<hr/> 25,678
Administrative expenses		(2,474)	(3,075)
Operating profit	3	<hr/> 15,630	<hr/> 22,603
Other Operating income / (expenditure)	6	679	(1,181)
Profit on ordinary activities before taxation		<hr/> 16,309	<hr/> 21,422
Tax on profit on ordinary activities	7	(5,344)	(1,200)
Profit on ordinary activities after taxation and for the financial year	16	<hr/> <hr/> 10,965	<hr/> <hr/> 20,222

There are no gains or losses other than those recognised above.

All turnover and profit on ordinary activities is derived from continuing operations.

The notes on pages 8 to 22 form part of these financial statements.

P&O SWIRE CONTAINERS LIMITED

Consolidated and Company Balance Sheets as at 31 December 1998

	<u>Notes</u>	<u>Group</u> <u>1998</u> <u>USD'000</u>	<u>Group</u> <u>1997</u> <u>USD'000</u>	<u>Company</u> <u>1998</u> <u>USD'000</u>	<u>Company</u> <u>1997</u> <u>USD'000</u>
FIXED ASSETS					
Tangible assets	8	65,828	71,862	65,828	71,862
Investments	9	-	-	1,694	1,694
		<u>65,828</u>	<u>71,862</u>	<u>67,522</u>	<u>73,556</u>
CURRENT ASSETS					
Stocks	10	2,162	3,105	2,162	3,105
Debtors	11	23,311	14,913	23,311	14,913
Cash at bank and in hand	19	20	109	20	75
		<u>25,493</u>	<u>18,127</u>	<u>25,493</u>	<u>18,093</u>
CREDITORS					
- amounts falling due within one year	12	(16,928)	(16,996)	(16,911)	(16,980)
		<u>8,565</u>	<u>1,131</u>	<u>8,582</u>	<u>1,113</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>74,393</u>	<u>72,993</u>	<u>76,104</u>	<u>74,669</u>
CREDITORS					
- amounts falling due after more than one year	13	-	(10,439)	(9,820)	(20,225)
PROVISIONS FOR LIABILITIES AND CHARGES	14	(13,082)	(12,208)	(13,082)	(12,208)
NET ASSETS		<u>61,311</u>	<u>50,346</u>	<u>53,202</u>	<u>42,236</u>
CAPITAL AND RESERVES					
Called up share capital	15,16	96	96	96	96
Share premium account	16	849	849	849	849
Profit and loss account	16	60,366	49,401	52,257	41,291
Equity shareholders' funds	16	<u>61,311</u>	<u>50,346</u>	<u>53,202</u>	<u>42,236</u>

These financial statements were approved by the Board of Directors on 26 JANUARY 2000

and signed on its behalf by J. D. Roberts (J. D. ROBERTS), Director.

The notes on pages 8 to 22 form part of these financial statements.

P&O SWIRE CONTAINERS LIMITED

Consolidated Cash Flow Statement For The Year Ended 31 December 1998

	<u>Notes</u>	<u>1998</u> USD'000	<u>1997</u> USD'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	18	24,981	11,225
TAX PAID			
Overseas tax paid		(1,446)	(185)
CAPITAL EXPENDITURE			
Purchase of tangible fixed assets		-	(82)
Sale of tangible fixed assets		529	255
NET CASH INFLOW FROM INVESTING ACTIVITIES		529	173
NET CASH INFLOW BEFORE FINANCING		24,064	11,213
FINANCING	20		
Repayment by Group of loans owing to shareholders		(10,439)	(13,270)
Loans issued by Group to shareholders		(13,714)	-
NET CASH OUTFLOW FROM FINANCING		(24,153)	(13,270)
DECREASE IN CASH AND CASH EQUIVALENTS	19	(89)	(2,057)

The notes on pages 8 to 22 form part of these financial statements.

P&O SWIRE CONTAINERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of Preparation

The financial statements have been prepared in accordance with the historical cost convention and are in accordance with applicable accounting standards.

The consolidated financial statements for the year ended 31 December 1998 include the financial results to that date of the parent company and of all subsidiary undertakings.

The financial statements include the proportional consolidation of the group's share of a non-corporate joint arrangement in which the group holds a 56.67% share (1997 - 56.67%). The Group's share of the results, assets and liabilities have been included in the consolidated financial statements on a line-by-line basis. Summarised financial statements of the group's share in respect of this non-corporate joint arrangement are shown in note 17.

(b) Turnover

Turnover represents the amounts, excluding VAT, invoiced to customers in respect of shipping and transport operations completed during the accounting period.

(c) Operating Profit

Operating profit includes the results of all shipping and transport operations completed during the period. Revenue and costs in respect of such operations which were not completed at the end of the period are carried forward as "Deferred revenue" and within "Stocks" respectively.

The Group participates in certain operating arrangements with other shipping lines. The results thereof are accounted for on an accruals basis, estimates being used to the extent that final information is not available.

P&O SWIRE CONTAINERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

(d) Foreign Currencies

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction or at the rate specified in any related forward exchange contract. Profits and losses of subsidiaries and branches which have currencies of operation other than US dollars are translated into US dollars at average rates of exchange except for material exceptional items which are translated at the rate ruling on the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the year end exchange rates.

Exchange differences arising from the retranslation of the opening net assets of subsidiaries, branches and associates which have currencies or operations other than US dollars and any related loans are taken to reserves together with the differences arising when the profit and loss accounts are translated at average rates and compared with rates ruling at the year end. Other exchange differences are taken to the profit and loss account.

(e) Depreciation

Depreciation of fixed assets is calculated on a straight line basis so as to write off their cost less their estimated residual value over their expected lives which are normally:

- | | | | |
|------|--------------------------|---|-------------|
| (i) | Container ships | : | 25-30 years |
| (ii) | Containers and trailers: | | 10-15 years |

(f) Ship Dry Dock Expenditure

Costs incurred on the dry docking of ships are carried forward and expensed over the period to the next dry docking.

(g) Pensions

The company participates in a defined contribution pension scheme for its employees. Contributions, based on a fixed percentage of employees' salaries, are determined by both the Australian government and unions. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to \$162,474 (1997: \$224,000).

P&O SWIRE CONTAINERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

(h) Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred taxation, using the "Liability method" only to the extent that it is probable that an actual liability will crystallise.

(i) Investments in Subsidiaries

The investments in subsidiaries are stated at the lower of cost and the underlying net asset value of the relevant subsidiary undertakings.

(j) Goodwill

Goodwill arising on consolidation in respect of acquisitions before 1 January 1998, when FRS 10 was adopted, was written off to reserves in the year of acquisition. When a subsequent disposal occurs, the profit or loss on sale includes attributable goodwill.

Goodwill arising on consolidation in respect of acquisitions since 1 January 1998 is capitalised and written off in equal annual instalments over its estimated useful life (assessed at the date of each acquisition). When a subsequent disposal occurs, the profit or loss on sale is calculated after taking account of the unamortised amount of any related goodwill.

(k) Interest on Progress Payments

Interest incurred in respect of payments on account of vessels under construction up to the date of delivery is capitalised to the cost of the vessel concerned in the consolidated accounts.

(l) Stocks

Stocks are valued at the lower of cost and net realisable value.

P&O SWIRE CONTAINERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

(m) Profit of the Company

No separate profit and loss account is presented for the company as provided by S228(7) of the Company's Act 1985. The profit of the company for the year is shown in note 16.

P&O SWIRE CONTAINERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. GEOGRAPHICAL ANALYSIS OF TURNOVER

	Group 1998 USD'000	Group 1997 USD'000
Australasia	53,283	73,074
Far East	50,504	59,830
	<u>103,787</u>	<u>132,904</u>

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The profit on ordinary activities before taxation is stated after charging / (crediting)

	Group 1998 USD'000	Group 1997 USD'000
Depreciation	5,527	5,837
Auditors remuneration for audit services		
: Group	37	48
: Parent	37	48
Profit on sale of assets	(22)	(174)
	<u> </u>	<u> </u>

4. STAFF NUMBERS AND COSTS

	1998 Nos	1997 Nos
Non UK staff - Seafarers	<u>41</u>	<u>40</u>

	Group 1998 USD'000	Group 1997 USD'000
Salaries and wages paid to company employees	1,906	2,302
Contributions to pension funds	162	224
	<u>2,068</u>	<u>2,526</u>

The employees of the company are members of independently managed Australian pension funds. The company does not operate an internally managed scheme on behalf of its employees.

P&O SWIRE CONTAINERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. DIRECTORS' EMOLUMENTS

No remuneration was paid or is payable for duties performed, (1997: US\$ nil).

6. OTHER OPERATING INCOME / (EXPENDITURE)

	Group 1998 USD'000	Group 1997 USD'000
Foreign exchange gain / (loss)	679	(1,181)
	<u>679</u>	<u>(1,181)</u>

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	Group 1998 USD'000	Group 1997 USD'000
UK Corporation tax charge at 31% (1997: 31.5%)		
- Prior year (charge) / credit	(88)	3,056
- Current year (charge)	(4,382)	(5,161)
Deferred taxation (note 14)		
- Prior year (charge) / credit	(386)	2,498
- Current year charge	(488)	(1,593)
	<u>(5,344)</u>	<u>(1,200)</u>

P&O SWIRE CONTAINERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. FIXED ASSETS: TANGIBLE ASSETS

Group and Company	Ships <u>Owned</u> USD'000	Plant & Equipment <u>Owned</u> USD'000	<u>Total</u> USD'000
<u>Cost</u>			
At 1 January 1998	118,379	51,137	169,516
Disposals	-	(3,136)	(3,136)
At 31 December 1998	118,379	48,001	166,380
<u>Depreciation</u>			
At 1 January 1998	66,974	30,680	97,654
Charge for the year	2,957	2,570	5,527
Disposals	-	(2,629)	(2,629)
At 31 December 1998	69,931	30,621	100,552
<u>Net Book Value as at 31 December 1998</u>	48,448	17,380	65,828
<u>Net Book Value as at 31 December 1997</u>	51,405	20,457	71,862

9. FIXED ASSET : INVESTMENTS

Company: Investments in subsidiary undertakings	1998 USD'000
At 1 January 1998 and 31 December 1998	1,694

SUBSIDIARY UNDERTAKINGS

The following information is given in respect of all subsidiary undertakings:

	<u>Country of Incorporation</u>	<u>Class of Issued Capital</u>	<u>Proportion Applicable to P&O Swire Containers Ltd.</u>
Aldgate Shipping Limited (Leasing Company)	England	Ordinary £1 each	100.0%
Whitechapel Shipping Limited (Leasing Company)	England	Ordinary £1 each	100.0%
P&O Swire Containers (Aust) Limited (Dormant)	England	Ordinary £1 each Deferred £1 each	100.0% 96.7%

P&O SWIRE CONTAINERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

9. FIXED ASSET : INVESTMENTS (continued)

P&O Swire Containers (NZ) Limited (Dormant)	England	Ordinary £1 each	100.0%
The Eastern & Australian Steamship Company Limited (Dormant)	England	Ordinary £1 each	100.0%

10. STOCKS

	<u>1998</u> <u>Group</u> USD'000	<u>1997</u> <u>Group</u> USD'000	<u>1998</u> <u>Company</u> USD'000	<u>1997</u> <u>Company</u> USD'000
Fuel stocks and consumables	1,020	1,786	1,020	1,786
Work in progress	1,142	1,319	1,142	1,319
	<u>2,162</u>	<u>3,105</u>	<u>2,162</u>	<u>3,105</u>

11. DEBTORS

	<u>1998</u> <u>Group</u> USD'000	<u>1997</u> <u>Group</u> USD'000	<u>1998</u> <u>Company</u> USD'000	<u>1997</u> <u>Company</u> USD'000
Amounts receivable within one year:				
Trade debtors	3,639	7,813	3,639	7,813
Other debtors	3,623	4,429	3,623	4,429
Prepayments and accrued income	2,335	2,671	2,335	2,671
	<u>9,597</u>	<u>14,913</u>	<u>9,597</u>	<u>14,913</u>
Amounts receivable after more than one year:				
Loans to third parties	3,481	-	3,481	-
Loans to parent undertaking	10,233	-	10,233	-
	<u>23,311</u>	<u>14,913</u>	<u>23,311</u>	<u>14,913</u>

The Group and Company:

All loans are unsecured and interest free, and are repayable on demand in whole or part within 2-5 years.

P&O SWIRE CONTAINERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. CREDITORS: Amounts falling within one year

	<u>1998</u> <u>Group</u> USD'000	<u>1997</u> <u>Group</u> USD'000	<u>1998</u> <u>Company</u> USD'000	<u>1997</u> <u>Company</u> USD'000
Trade creditors and accruals	5,536	5,873	5,519	5,857
Other creditors:				
UK Corporation tax	10,085	7,061	10,085	7,061
Deferred revenue	1,307	4,062	1,307	4,062
	<u>16,928</u>	<u>16,996</u>	<u>16,911</u>	<u>16,980</u>

13. CREDITORS: Amounts falling due after more than one year

	<u>1998</u> <u>Group</u> USD'000	<u>1997</u> <u>Group</u> USD'000	<u>1998</u> <u>Company</u> USD'000	<u>1997</u> <u>Company</u> USD'000
Loans from third parties	-	2,798	-	2,798
Loans from parent undertaking	-	7,641	-	7,641
Amounts owing to fellow subsidiaries	-	-	9,820	9,786
	<u>-</u>	<u>10,439</u>	<u>9,820</u>	<u>20,225</u>

The Group and Company:

All loans are unsecured and interest free, and are repayable on demand in whole or part within 2-5 years.

P&O SWIRE CONTAINERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. PROVISION FOR LIABILITIES AND CHARGES

Deferred taxation

(a) Analysis of Provision made at Full Potential Liability

	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
	<u>Group</u>	<u>Group</u>	<u>Company</u>	<u>Company</u>
	USD'000	USD'000	USD'000	USD'000
Accelerated tax allowance on capital expenditure	13,307	12,459	13,307	12,459
Short term timing differences	(225)	(251)	(225)	(251)
	<u>13,082</u>	<u>12,208</u>	<u>13,082</u>	<u>12,208</u>

(b) Movement in Deferred Taxation Provision

	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
	<u>Group</u>	<u>Group</u>	<u>Company</u>	<u>Company</u>
	USD'000	USD'000	USD'000	USD'000
Balance at beginning of the year	12,208	13,113	12,208	13,113
Release to the profit and loss account (note 7) - current year	488	1,593	488	1,593
- Prior year	386	(2,498)	386	(2,498)
	<u>13,082</u>	<u>12,208</u>	<u>13,082</u>	<u>12,208</u>

15. SHARE CAPITAL

	<u>Authorised</u>	<u>Allotted, Called up and fully paid</u>
	£'000	£'000
At 31 December 1997 and 31 December 1998		
Ordinary shares of £1 each	<u>100</u>	<u>56</u>

P&O SWIRE CONTAINERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. RECONCILIATION OF THE MOVEMENT IN SHAREHOLDERS' FUNDS

Group:

	<u>Share Capital</u> USD'000	<u>Share Premium</u> USD'000	<u>Profit & Loss</u> USD'000	<u>1998 Total Shareholders' Funds</u> USD'000	<u>1997 Total Shareholders' Funds</u> USD'000
At beginning of year	96	849	49,401	50,346	30,124
Profit for the year	-	-	10,965	10,965	20,222
At end of Year	<u>96</u>	<u>849</u>	<u>60,366</u>	<u>61,311</u>	<u>50,346</u>

Company:

	<u>Share Capital</u> USD'000	<u>Share Premium</u> USD'000	<u>Profit & Loss</u> USD'000	<u>1998 Total Shareholders' Funds</u> USD'000	<u>1997 Total Shareholders' Funds</u> USD'000
At beginning of year	96	849	41,291	42,236	21,722
Transfer of NZUE reserves	-	-	-	-	286
Profit for the year	-	-	10,966	10,966	20,228
At end of year	<u>96</u>	<u>849</u>	<u>52,257</u>	<u>53,202</u>	<u>42,236</u>

17. JOINT ARRANGEMENT

New Zealand Unit Express is a non-corporate joint arrangement between P&O Swire Containers Limited 56.67% (1997:56.67%), Nippon Yusen Kaisha Line 15.00% (1997:15.00%) and Mitsui O.S.K Lines 28.33% (1997: 28.33%).

The principal place of business is 160 Sussex St, Sydney NSW, Australia from where the joint arrangement is managed. Details of the Group's share in this joint arrangement as at 31 December 1998 are as follows:

Profit & Loss Account:

	<u>1998</u> USD'000	<u>1997</u> USD'000
Turnover	9,581	12,678
Other income	36	106
Cost of sales	(9,418)	(11,353)
Administration expenses	(78)	(68)
Profit for the financial year	<u>121</u>	<u>1,363</u>

P&O SWIRE CONTAINERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. JOINT ARRANGEMENT (continued)

	<u>1998</u> USD'000	<u>1997</u> USD'000
<u>Balance Sheet:</u>		
Current assets:		
Stock/WIP	33	127
Debtors	8,256	9,218
Creditors:		
Amounts falling due within one year	(195)	(1,372)
Net Assets	<u>8,094</u>	<u>7,973</u>
Reserves	<u>8,094</u>	<u>7,973</u>

The part of the Group's reserves attributed to its interest in the joint arrangement amounts to \$8,094,154 (1997: \$7,973,446) which relates to its share of retained profits.

Cash Flow Statement for the Year Ended 31 December 1998

	<u>1998</u> USD'000	<u>1997</u> USD'000
Net cash outflow from operating activities	-	(1,331)
Net movement in cash or cash equivalents	<u>-</u>	<u>(1,331)</u>

18. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	<u>1998</u> <u>Group</u> USD'000	<u>1997</u> <u>Group</u> USD'000
Operating Profit	15,630	22,603
Foreign Exchange gain/(loss)	679	(1,181)
Depreciation	5,527	5,837
Profit on Sale of Tangible Assets	(22)	(174)
Minority Interests	-	(9)
Decrease/(Increase) in Stocks	943	(1,028)
Decrease/(Increase) in Debtors	5,316	(807)
Decrease in Creditors	(3,092)	(14,016)
NET CASH INFLOW FROM OPERATING ACTIVITIES	<u>24,981</u>	<u>11,225</u>

P&O SWIRE CONTAINERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

19. ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS DURING THE YEAR

	<u>Cash at bank and in hand</u> <u>1998</u> <u>Group</u> USD'000	<u>Cash at bank and in hand</u> <u>1997</u> <u>Group</u> USD'000
Balance at the beginning of the year	109	2,166
Net cash (outflow)/inflow	(89)	(2,057)
Balance at the end of the year	20	109

20. CASH FLOW STATEMENT - ANALYSIS OF CHANGES IN FINANCING

	<u>Loans to/(from) third parties due after more than one year</u> <u>1998</u> USD'000	<u>Loans to/(from) group undertakings due after more than one year</u> <u>1998</u> USD'000	<u>Total</u> <u>1998</u> USD'000	<u>Total</u> <u>1997</u> USD'000
Balance at the beginning of the year	(2,798)	(7,641)	(10,439)	(23,709)
Repayment of amounts borrowed	2,798	7,641	10,439	13,270
New Loans issued	3,481	10,233	13,714	-
Balance at the end of the year	3,481	10,233	13,714	(10,439)

P&O SWIRE CONTAINERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

21. CASH FLOW STATEMENT - ANALYSIS OF NET FUNDS/DEBT

	<u>At 1</u> <u>January</u> <u>1998</u> USD'000	<u>Cashflow</u> USD'000	<u>At 31</u> <u>December</u> <u>1998</u> USD'000
Cash at bank and in hand	109	(89)	20
Debt due after one year	(10,439)	10,439	-
Loans receivable after one year	-	13,714	13,714
	<u>(10,330)</u>	<u>24,064</u>	<u>13,734</u>

22. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS/(DEBT)

	<u>1998</u> USD'000	<u>1997</u> USD'000
Decrease in cash in the period	(89)	(2,057)
Repayment of loans	10,439	13,270
Issue of new loans	13,714	
	<u>24,064</u>	<u>11,213</u>
Movement in net debt	(10,330)	(21,543)
Net debt at 1 January		
	<u>13,734</u>	<u>(10,330)</u>
Net funds / (debt) at 31 December		

P&O SWIRE CONTAINERS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

23. RELATED PARTY TRANSACTIONS

Under the provision of Financial Reporting Standard 8, all material transactions between the company and its related parties must be separately disclosed. P&O Swire Containers Limited is dependant upon the P&O Nedlloyd Container Line Limited group for the provision and administration of a significant proportion of the company's operating and administration expenditure. Transactions between the company and its related parties are conducted on an arms length basis.

This note contains an analysis of these transactions by related party, by major cost type, in the year to 31 December 1998 and outstanding balances at 31 December 1998.

Charges to / (from) the company in the year to 31 December 1998

P&O Nedlloyd Limited

	<u>1998</u>	<u>1997</u>
	<u>USD'000</u>	<u>USD'000</u>
Charges for container provision	12,013	18,282
Charges for commission and administration	14,748	15,921

Balance due to / (from) the company at 31 December 1998

P&O Nedlloyd Limited

	<u>1998</u>	<u>1997</u>
	<u>USD'000</u>	<u>USD'000</u>
Group loans	10,233	(7,641)
Other group non interest bearing balances	-	(1,238)

The China Navigation Company Limited

Third party loans	3,481	(2,798)
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The loans are unsecured and interest free, and are repayable on demand in whole or part within 2-5 years.

24. ULTIMATE PARENT UNDERTAKING

The company's ultimate parent undertaking and controlling party is P&O Nedlloyd Container Line Limited incorporated in Great Britain and registered in England and Wales. Copies of the group financial statements of P&O Nedlloyd Container Line Limited are available from the registrar of companies, Companies House, Crown Way, Cardiff, CF4 3HZ.