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COMPANY DIRECTORY

Steamships Trading Company Limited

Chairman

W. L. Rothery §

Executive Directors

D. H. Cox § - Managing Director

C. W. Raper - Finance Director

Non-Executive Directors

G. Aopi, CBE +

Sir Michael Bromley, KBE §+

G. L. Cundle (appointed 27th February 2006)

G. J. Dunlop +

W. A. Lawrence, OBE +

Mrs W. T. Kamit, CBE

+ Served on the Audit Committee during the year

§ Member of the Remuneration Committee

Secretary

C. W. Raper

Registered Office

Champion Parade

P.O. Box 1

Port Moresby

Papua New Guinea

Telephone: +675 322 0222

Auditors

PricewaterhouseCoopers

P.O. Box 484

Port Moresby

Papua New Guinea

Share Registrars

Computershare Investor Services Pty Limited
Level 3

60 Carrington Street

Sydney NSW 2000

Australia

Telephone (within Australia) 1300 855 080

Telephone from overseas +61 3 9615 5970

Fax +61 3 9611 5710

Stock Exchange

Shares are listed on both the Port Moresby Stock Exchange Limited and the Australian Stock Exchange Limited

A. R. B. N.

055 836 952

FINANCIAL HIGHLIGHTS

	2006	2005	Change
	K'000	K'000	
Turnover	336,302	370,037	- 9.1
Operating Profit	54,903	48,791	+ 12.5%
Profit attributed to shareholders	47,479	40,208	+ 18.1%
Cash generated from operations	81,739	64,159	+ 27.4%
Net cash inflow before financing	30,620	7,963	+ 284.5%
Shareholders' funds and minority Interests	254,127	230,417	+ 10.3%
Consolidated net borrowings	24,624	29,575	- 16.7%
Note	2006	2005	
	Toea	Toea	
1. Earnings per share	153	130	+ 17.7%
Dividends per share	100	65	+ 53.8%
Shareholder's funds per share	784	711	+ 10.3%
Note	2006	2005	
2. Gearing ratio - percentage	10	13	
3. Interest cover - times	39.2	14.5	
4. Dividend cover - times	1.9	6.5	
Notes			
<p>1. Earnings per share have been calculated by dividing the profit attributable to shareholders by the weighted average number of shares in issue during each year.</p> <p>2. Gearing represents the ratio of net borrowings to shareholders' funds and minority interests.</p> <p>3. Interest cover is calculated by dividing operating profit by net finance charges.</p> <p>4. Dividend cover is calculated by dividing profit attributable to shareholders by the total dividends paid during the year.</p>			

DIRECTORS' REVIEW

2006 has been another excellent year for Steamships, with a net profit after tax and minorities of K47.5 million. Your directors are proud to present this result, which demonstrates the strength of the Company and its ability to take advantage of the opportunities presented in Papua New Guinea.

Sales, at K336 million, decreased by 9.19% against 2005 sales of K370 million, largely because of the disposal of the Merchandise Division, offset in part by the full year's trading from businesses acquired during 2005. Depreciation in 2006 was K31,872,000 against K29,769,000 in 2005, and interest on borrowings was K1,473,000 against K3,482,000 in the previous year. The reduction in interest expense reflects the strong operating cash-flows of the Company, leading to lower average borrowings across the year. Capital expenditure, excluding the purchase of new businesses, was K70,168,000 against K42,555,000 in 2005. In addition, K43,445,000 was spent in the acquisition of new businesses in 2005.

This result reflects the continuing improvement in results from most businesses within the Group. 2006 also represents the first full year of trading for the companies acquired in 2005 (principally Laga Industries, East West Transport and the remaining shareholdings in Melanesian Soap Products and Trade Winds Liquor), and the first full year without the Merchandise Division. All divisions have benefited from careful control of operating expenses. The Hotels and Property Divisions have also benefited from very high occupancy levels, reflecting the high demand for the quality of service provided and the value for money perceived to be offered by the Group. Hardware has continued its improvement in product lines, service and speed of

“This result reflects the continuing improvement in results from most businesses within the Group”

reaction to the needs of the community it services. The Manufacturing Division has now been amalgamated into the Group, and synergies have been exploited. The two disappointing Divisions have been Shipping, which was hit by unexpectedly high dry-docking costs for some older vessels and a number of grounding incidents on the Fly River which led to off-hire time, and Transport which has suffered very badly from the poor tea and coffee harvests in 2006 and the continued deterioration in the Highlands Highway. The state of this road, and of law and order along it, is a cause for ever-increasing concern. Not only do these issues have an immediate effect on our businesses that provide or rely on transport to and from the Highlands, their impact on the overall economy of PNG and on the lives of the significant proportion of the population which lives in the Highlands should not be underestimated.

The continued solid performance of the PNG economy, with its stable exchange rate and lower interest rates, has meant that, as in previous years, the Group has been able to continue to invest with confidence in new projects and assets, particularly in the Shipping, Property, Transport and Hotel Divisions, which is reflected in the capital expenditure figures. This investment is crucial to grow the Company and provide future opportunities. A significant number of new

DIRECTORS' REVIEW

projects in all divisions are forecast and budgeted for 2007, which will represent an investment in future earnings growth and will keep the Company a vibrant and exciting contributor to the life and economy of PNG.

Directors anticipate that 2007 will be another year of growth for the Company provided the current benign political and economic conditions persist. This is an election year, and this year's elections will be the first under the new system of preferential voting. It is hoped that this will lead to social and political stability and thereby reduce the uncertainties that elections often bring.

A final dividend of 75 toea per share has been declared and will be paid following the Annual General Meeting on 21st May, 2007. This brings the total dividend paid for 2006 to 1 Kina per share, which represents some 65% of the post-tax profit of the Company. This is a significant increase on previous years' dividends and reflects the confidence of the directors in the performance and future prospects of the Company.

As will be apparent, the format of this Annual Report differs significantly from earlier years. There are no pictures, and the presentation is low-key. In part, this is an exercise in environmental responsibility in that we are trying to reduce the size and use of resources represented by the

“The continued solid performance of the PNG economy, with its stable exchange rate and lower interest rates, has meant that, as in previous years, the Group has been able to continue to invest with confidence in new projects and assets”

report. To this end, it is printed largely on recycled paper, with a consequent reduction in the environmental impact. In addition, however, this year's format reflects the fact that a History of Steamships has been commissioned from James Sinclair, which is expected to be launched towards the end of 2007 in preparation for the 90th Anniversary, in 2008, of Captain Fitch's initial venture into PNG which was to grow into the Company we see today. This History will be a major work, both in terms of its charting of the 20th Century history of Papua New Guinea and of its recording of the events that have shaped Steamships. The directors feel, therefore, that it is appropriate to issue a simplified report for 2006.

ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

Steamships is committed to conducting its business in a sustainable manner. As a major, diversified business group, the Company is very conscious of the potential impact of its activities on the environment. The Company is committed to ensuring its businesses meet or surpass legal and regulatory requirements for environmental best practice wherever it does business.

In line with the commitment and requirements of the Swire Group, Steamships is implementing formal systems actively to monitor the impact its businesses have on the environment, and will report the results of this. Over time, as data are accumulated, this information will be used to implement policies which will help to manage and reduce adverse effects on the environment and encourage sustainability across the Company's operations.

The various Group companies have already been active in working towards improvements in their impact on the environment. Some of this has been driven by external regulatory requirements, especially in respect of the Shipping and Transport Divisions. Much has come from an understanding that the proper management of environmental issues can increase efficiency and productivity and reduce wastage and therefore costs. As the world comes to a greater understanding of the environmental dangers that face us all, so Steamships' efforts continue to improve its sense of responsibility for the environment, and to reduce, as far as is practicable, its carbon footprint and environmental impact.

Community Relations

Steamships is aware of its pre-eminent position in the community, and seeks to play a full role as a responsible corporate citizen. The Company

provides financial support to a diverse range of community programmes and encourages its employees to become involved in such programmes.

During the year, cash, goods, services and other benefits in kind (including the time of various senior executives) were given to various charitable causes across Papua New Guinea. The value of these is in excess of K500,000, and this commitment demonstrates the Company's recognition of the expectations placed on it by the community. Much of this effort is committed quietly, behind the scenes, and attracts little, if any, publicity for the Group.

In 2007, a more visible programme of charitable giving is being instituted, which will enable the Company more efficiently and effectively to target the recipients of its aid, and to publicise more widely the efforts that it is making. Our involvement is targeted across 5 main areas:

- Education
- Health and Social Welfare
- Environment
- Community projects
- Business projects

Steamships is proud to be a founding Platinum Sponsor of the PNG Business Coalition on HIV/AIDS (BAHA), which is part of a major world-wide initiative by the business community to promote awareness of and proper responses to the threat of HIV/AIDS through the workplace. The PNG coalition was launched in late January 2007. This sponsorship brings with it a seat on the Board of BAHA in PNG.

CORPORATE GOVERNANCE STATEMENT

Steamships and its Board are committed to observing the highest standards of Corporate Governance and ethical standards, and they expect these standards from all employees. The Company believes that the maximisation of long-term returns to shareholders is best achieved by acting in a socially-responsible manner which recognises the interests of other community stakeholders.

Steamships is committed to:

- providing high-quality products and services to meet customers' needs;
- maintaining high standards of business ethics and corporate governance;
- ensuring the safety and well-being of employees, customers and others with whom the Company has contact; and
- protecting the environment from harm.

Board of Directors

The Board of Directors has the responsibility to set the strategic direction of the Company, to review the operational and financial performance of the Group's activities, to monitor the achievements of the Group against its objectives, to review the management of business risk and to report to the shareholders.

The Board currently comprises four non-executive directors, plus five directors who are executives of the Company or directors of other subsidiaries of the ultimate Holding Company, John Swire & Sons Limited. The Board seeks to maintain an appropriate blend of qualifications, skills and experience commensurate with the size and diverse activities of the Group.

The Board meets four times a year, and in 2006 the attendance rate was 94%. In addition to this, Board papers are circulated for approval, as required, at other times.

The Board appoints the executive directors - the Managing Director and Finance Director. All other directors, in accordance with the Company's constitution, retire on a rotational basis at least every three years. Retiring directors may be eligible for re-election by the shareholders at the Company's Annual General Meeting. The Chairman, in conjunction with all members of the Board, has the responsibility for overseeing the nomination of all directors and for the review of the Board's membership.

The Australian Stock Exchange (ASX) recommends that the Chairman and a majority of the Board, and all of the members of the Audit Committee, should be independent directors. This is not the case with Steamships, where the Company currently has a minority (four out of nine) of independent directors and three out of four independent directors on the Audit Committee. The Chairman of the Board is a representative of the majority shareholder. The directors serving during the year, who have declared themselves to be independent, are: W. A. Lawrence (also Chairman of the Audit Committee), G. Aopi, Sir Michael Bromley and Mrs W. L. Kamit.

The Company currently has 97% of its shares held by three major shareholders, one of which holds 72% of the shares. Three of the directors are non-executive representatives of major shareholders. Other directors have been closely associated with the Company in recent years. The pool of available independent representatives in Papua New Guinea is small, and it would be very difficult to find an adequate number of truly independent directors

CORPORATE GOVERNANCE STATEMENT

qualified to serve on the Board. To disqualify existing directors on the grounds of lack of independence would deprive the Company of valuable experience in the management of its affairs. While recognising the force behind the ASX's recommendations, the Board therefore feels that, in the particular circumstances of Steamships, the recommendations are not practicable, and would not serve the interests of the Company or its shareholders.

Executive Management

Steamships focuses on the long-term development and growth of businesses where it can add value through its industry-specific expertise, its partnerships and its knowledge of Papua New Guinea, gained through its long history in the country. In order to achieve this, the Company combines the efforts of dedicated management teams in the individual business units, supported by a small Head Office team to provide services such as strategic direction, investment and performance review, treasury, personnel management and staff development.

The Company is committed to the development of its citizen staff, recognising that it is in their hands that the future of Papua New Guinea rests. Although the expertise and skills of expatriate staff is still required, an active programme of training and development seeks to enable the Company to promote citizens from within and to build a strong, long-term workforce for the future.

Audit Committee and Internal Control

The Board has overall responsibility for the systems of internal control, and monitors their effectiveness. A sound system of internal control contributes to safeguarding the shareholders' investment and the Group's assets.

“The Company is committed to the development of its citizen staff, recognising that it is in their hands that the future of Papua New Guinea rests”

The Board is assisted in discharging its responsibility by the Audit Committee, which is composed of two independent, non-executive directors and a representative of the major shareholder. It is chaired by a non-executive director. The Audit Committee recommends the appointment and remuneration of the external auditors, reviews the Company's financial statements and the adequacy and effectiveness of existing internal and external audit arrangements. It also considers management of the Group's risks. The findings and recommendations of the Committee are reported to the Board. The Committee meets twice a year, at which time it receives and discusses reports from senior management and from the external auditors. The Audit Committee does not have a formal charter.

Different divisions within the Company have a number of internal audit and monitoring functions, dependent on need. These report at a divisional level. In addition to this, regular reviews of the monthly accounts and balance sheets, conducted by senior divisional and head office management, seek to ensure that internal control is properly managed throughout the Group. In the opinion of the directors, this is the most efficient and cost-effective means of managing internal control,

CORPORATE GOVERNANCE STATEMENT

“Regular reviews of the monthly accounts and balance sheets, conducted by senior divisional and head office management, seek to ensure that internal control is properly managed throughout the Group”

given the diversity of the business and the nature of the risks.

Remuneration Committee

A Committee comprising the Chairman, the Managing Director and a non-executive director meets annually to determine the compensation of the Managing Director and the senior executive staff, and nominations to the Board. The recommendations of this Committee are minuted and approved by the Board.

Risk Management

The Company is committed to the management of risks throughout its operations to protect its employees, the environment, group assets, earnings and reputation.

Certain risks occur in the normal course of the Company's business and include foreign exchange and interest rate risks. Exchange risks are minimised by borrowing in currencies other than Kina only when an equivalent cash flow is received.

A computer-based risk management database has been developed to assist the Company's Risk Management Department to monitor and enforce compliance with the risk management procedures and policies.

An active, group-wide Health, Security, Safety and Environment committee, chaired by the Finance Director, meets monthly to consider HSS&E matters and ensure that adequate training and supervision are conducted. More information on the Company's activities in this respect is contained in a separate section of this report.

The Company also uses other risk management techniques, including insurance, to reduce the financial impact of any uncontrollable or catastrophic losses.

Independent External Advice

In exercising their duties as directors, the Board, and individual members of it, can seek independent professional advice at the Company's expense. Requests for the provision of such advice are directed to the Chairman.

Shareholder Information

The Board seeks to inform shareholders of major issues affecting the Company by sending comprehensive annual reports to the shareholders, and through the release of reports to the Port Moresby Stock Exchange, the Australian Stock Exchange and appropriate media. These detail the Company's financial and operating performance. At all times, the Board ensures that the continuous disclosure requirements of the Port Moresby and Australian Stock Exchanges are met.

HARDWARE

Steamships Hardware recorded a very strong result in 2006, providing a positive outlook for the future. Branches across the nation reported mixed results reflecting economic and social conditions in different regions of PNG. Those branches which achieved their targets went from strength to strength, whilst underachieving stores still provided solid platforms from which to build success in the next financial year.

The good result comes from the 2006 management focus on getting the basics right and improving all internal business practices. This has led to an increase in efficiencies and a substantial decrease in operating costs. The overall state of the business now provides valuable opportunities for 2007.

The focus for Hardware in 2007 will be to continue the improvement in efficiencies and train staff so as to increase turnover in all parts of the business.

“The good result comes from the 2006 management focus on getting the basics right and improving all internal business practices”

The “Origin Energy concept”, introduced in 2005, has undergone continual refinement during 2006. Sales have grown considerably as a result of the gas “kiosk” concept introduced at Waigani. Versions of this concept will be rolled out to other

centres in 2007, commencing with Lae in February. 2007 will also see a higher level of exposure to other Origin products.

Staff training continued to be a high priority in 2006, with a heightened emphasis on HSS&E, hands-on product training, and skills to enable Hardware to do what it does well: better. The growth in the quality of staff training has been enhanced by the newly appointed Training Officer, and this has flowed on to improved customer service and, most importantly, customer awareness.

Involvement in the local communities where our businesses are based also continues to be an integral part of our commitment to PNG. In 2006, Hardware showed another successful “stand” at the Morobe show in Lae. As part of our community awareness drive, we donated goods and services to police families in Goroka after a disastrous fire in their housing compound. Hardware also donated K5,000 to the Morata Half-way House as well as many other small local contributions. This commitment to “our” local communities will continue in 2007 with involvement with as many local festivals and shows as is possible. All branch managers are now actively participating in their local versions of chambers of commerce as well as being active members of their local service and or social club. This not only recognises that Hardware depends on its local community for its success, but also provides useful opportunities to promote the business.

Kit Haus had a reasonable year with many single homes supplied to individual customers, and the department is looking toward 2007 with renewed excitement at the prospect of some large contracts

HARDWARE

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which will be awarded in 2007. As well as looking at new, innovative and exclusive lines for the branches to distribute, we are looking at using the same lines to improve Kit Haus's exposure in the market place.

The strong focus on improved buying practices continued in 2006 with the conclusion of more exclusive supply arrangements. The buying team is being expanded in early 2007 to take full advantage of the opportunities that will become available as the business grows in the coming months and years. Overseas sourcing has enabled the buying team to produce a number of exclusive items that have not been seen in PNG before.

With a motivated management and sales team, enhanced stock in our stores, new and exclusive product ranges, the strong base earned in 2006 and an exciting advertising campaign, the Hardware Division is looking forward to a strong 2007.

HOTELS

Steamships' Hotels Division, known by its trading name of Coral Sea Hotels, comprises eight hotels and serviced apartment complexes in six locations across the country. As at the end of 2006, the eight hotels together offered a total of 409 rooms plus 83 serviced apartments and 12 townhouses.

Coral Sea Hotels is the largest hotel chain in the country and the Division's hotels and facilities are targeted clearly at the wide section of the middle market. The Division expects strong future growth as the popularity of serviced apartments increases in all markets.

The Division performed well in 2006 and returned a record pre-tax profit of K9.4m. In 2006, all the Division's hotels increased room occupancy, revenue and bottom line profit on the previous year, with the largest increases being in Port Moresby and Lae. Overall, excluding its serviced apartments, the Division increased room occupancy to over 75% for the year. Across the Division, the average rate per room sold increased by 7% and overall sales increased by 24%. Immediate growth in Port Moresby will come from yield improvement and also further expansion of the Division's existing portfolio of serviced apartments particularly in both Port Moresby and Lae.

“Coral Sea Hotels is the largest hotel chain in the country and the Division's hotels and facilities are targeted clearly at the wide section of the middle market”

The Gateway Hotel in Port Moresby had another very strong year, with annual room occupancy exceeding that of all other major hotels in the city. Plans are under way to build additional conference facilities and guest rooms in 2007. The hotel's existing guest rooms, poolside area and restaurants will also receive a major facelift during 2007.

In November 2006, work was completed on an additional ten apartments at the Gateway Hotel, which achieved 100% occupancy immediately following completion. This took the number of apartments at the Gateway to a total of thirty. Apart from views of Jackson's Airport and the surrounding countryside, residents at the Gateway Apartments now have access to a private swimming pool, a fully-equipped gymnasium and a tennis court with night-time lighting. In 2007, the hotel's twelve Kittyhawk townhouses will be renovated and, on completion, will be incorporated into the hotel's apartment complex.

Since renovation of the Ela Beach Hotel in late 2005, the hotel has averaged over 90% room occupancy and has established itself, after the Gateway, as the second busiest of all of Port Moresby's major hotels. The Ela Beach Hotel will undergo a further upgrade and expansion in 2007, including the construction of a new conference room above the existing restaurant and a new wing of forty suites. The Ela Beach Suites, to be built at the western end of the property, will offer guests dedicated underground parking, a private registration desk and lift, a lap pool, a squash court and a fully-equipped gymnasium.

In December 2006 six rooftop apartments were completed at the Ela Beach Hotel and the hotel's car park was renovated.

HOTELS

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Meanwhile, Whittaker Apartments on Ela Beach, also completed in late 2005, have proved extremely popular and have run at close to 100% occupancy throughout the year. In December 2006 a new swimming pool, spa and recreational area were built.

In November 2006, work was completed on eight 3-bedroom apartments at the Highlander Hotel in Mount Hagen. Following the national elections, which are due to be held in mid-2007, work will commence on a major upgrade of the hotel's restaurant, bar, poolside area and car park.

The Division achieved an overall increase in food and beverage sales of 22% over 2005. Enzo's Pizza revenue increased around the country and as a result of further improvements in menu mix, purchasing and stock control, higher gross profit margins were achieved.

While the quantity and quality of the hotels will remain a cornerstone of the company's growth platform, the skills and passion of our people will

play a vital role in its future success. The loyalty and commitment of our staff have been instrumental in the Division's successful expansion. Of just over 700 staff members, 99% are National employees.

In order to ensure the depth and quality of its human resources keep pace with its planned expansion, the Division has focused on building the strength of its front-line managers. As part of this focus, the Coral Sea Hotels group will continue its strategic partnership with the Divine Word University and Lae Technical College to train and develop a stream of skilled young hospitality workers for placement throughout its properties. Based on the quality and aptitude of the young people the Division has been able to secure so far, this initiative will play an increasingly important role in meeting its forward staffing requirements over the coming years.

During the year, the Division's marketing resources, the value of the Coral Sea Hotels brand and its capability to generate increased volumes of new and repeat business were strengthened. Efforts to achieve this included enhancing its on-line marketing capability through the development and launch of a new website. The new website features improved functionality, ease of use and an extensive photo gallery of PNG, and is proving to be a valuable addition to the hotels' sales and marketing infrastructure. In the months since its re-launch, the site has attracted several thousand hits each day.

In line with the Division's objective of heightening the Coral Sea Hotels brand name, an agreement was signed making the Division a major sponsor of the PNG Sports Federation.

MANUFACTURING

LAGA INDUSTRIES LIMITED

Laga has five core product divisions:

1. Ice Cream and related freezer products
2. Vegetable Oil
3. Health and Beauty Care products
4. Condiments and seasonings
5. Distribution of imported goods.

With the exception of Health and Beauty Care, all have performed strongly in 2006.

Our customer-focused strategy means we place great value in growing the revenue and profits of our customers, which in turn provides the platform to increase our product range and thence provide our shareholders with strong returns. This policy has realised an average annual sales growth, since 2003, of over 20% and profit growth averaging 15%.

Our solid performance for 2006 was based on specific and consistent priorities in:

- Maintaining competitive prices and GP margins in an environment of lower tariff rates (on imported competing products and the dumping of products from SE Asia and China);
- Continuing to develop and expand our ice cream market with extra parlours and freezer cabinets, and further penetration into the remote out-station areas with extra reefers and infrastructure on transportation;
- Our strong support of the palm oil industry in PNG, despite the very competitive environment and the added pressure of escalating prices, by continuing to invest in

our plastics division with state-of-the-art machinery;

- Maintaining our objective of improved efficiencies and reducing the cost of business against a backdrop of escalating fuel prices and electricity charges. Total controllable expenses reduced from 17.5% of revenue to 16% and will continue to improve with the introduction of the new computing system, stricter control on spending and the continual search to lower our COGS.

The Gala brand of ice cream products remains the flagship in the Laga portfolio and, along with related products, had strong growth of 10%. This was mainly attributable to the addition of ice cream parlours and freezer cabinets into the market place. The new packaging and exciting new flavours introduced in 2006 have seen the stick-line products record strong sales. The re-launch of T-Shakes, a frozen flavoured milk, was met with very strong support. A new packaging machine is on order and due to arrive early in 2007. We predict strong sales for 2007.

The Vegetable Oil Division, branded as Laga and Highlands Meadow, delivered an outstanding result in 2006 with a 42% growth in sales. In 2006, the division benefited from the major capital

“The Gala brand of ice cream products remains the flagship in the Laga portfolio and, along with related products, had strong growth of 10%.”

MANUFACTURING

expenditure in 2005 in our plastics division. The PET plant and 15-litre Jerry-can machines ensure consistency and quality in the supply of packaging to our oil business.

Health and Beauty Care products, although showing zero growth for the year, have great potential with the introduction of new products throughout 2007. Our own brand of hair-care products and body deodorant sprays, under our registered brand name “Black Beauty”, are an exciting addition along with a range of male deodorants, shaving cream and hair gels. New labelling and 50-ml PVC bottles for baby oil and shampoo will strengthen our market share against the imported brands in this category.

The addition of seasonings, condiments and sauces to our existing baking powder, curry powder and food colouring products has resulted in growth of 26% and will continue to grow with greater TV coverage.

Our distribution lines play an important role as container “top-ups” and also performed well with a 38% growth.

The completion of our new warehouse at Taraka provided an extra 3,750 m² of floor space and an extra 1.6 hectares of land. This, coupled with extensions to our sales office and the employment of the new Warehouse Manager, resulted in further improvements in the dispatch of orders.

In 2007, Laga will have a fully-integrated and independent manufacturing costing system, which will greatly improve overall efficiencies and provide better analysis of data.

Staff training and development in 2006 and beyond remains a priority for the continuous development

of our staff and provision of a workplace of equal opportunity. In line with Government policy and National development, the company strives for total localisation and this is evident in the increase in expenditure on staff training and the focus on 'Social and Technical Skills' development in all areas. In 2006 sixty-eight participants attended various external training courses and the company continued to provide in-house training for staff by our qualified management team.

Laga Industries is committed to conducting its

“Staff training and development in 2006 and beyond remains a priority for the continuous development of our staff and provision of a workplace of equal opportunity”

business in a sustainable and responsible manner to meet regulatory requirements and beyond. Our collection and disposal of waste is regularly monitored and upgraded if required. With all levels of management regularly involved in weekly and monthly meetings, greater commitment is very evident. Despite a considerable increase in our operating activities for the year 2006, there were no serious injuries and only 18 minor injuries recorded.

Extra emphasis on induction training and continual in-house programmes to improve safety awareness and correct practices will continue to reduce

MANUFACTURING

injuries and minimise lost time in the workplace.

Growth in 2007 will be underpinned by the development and introduction of strong new products and is reflected in our planned capital expenditure on plastics machinery, new powder-form-fill-sealing machinery to increase our range of sachet and portion-serve products, extensions to our Port Moresby Depot and freezer and a further 150 ice cream freezer cabinets. The company has a strong financial base and a sound infrastructure in both production capacity and client service, so as to combat the many challenges and threats that will no doubt arise during the year.

TRADE WINDS LIQUOR

Trade Winds Liquor recovered in 2006 to post a credible profit result and set a solid platform for further growth in 2007.

Significant improvements in inventory management and logistics allowed the business to provide continuity of supply and restore customer confidence. Year-on-year sales increased by 18% from 2005 and the GP margin improved through the course of the year. Troublesome administrative functions were corrected and expense controls were tightened.

Sales of Ready-to-drink (RTD) products grew steadily across the year and were bolstered in the final quarter with the introduction of a Premium Strength range. Significant investment in additional

“Trade Winds branded spirits continue to enjoy strong market-leader status and are the spirit of choice for most clubs and bars around the country”

refrigerated display cabinets in late 2006 is forecast to bring further growth to the RTD category in 2007.

Amongst an increasing range of domestically-produced spirit products, Trade Winds branded spirits continue to enjoy strong market-leader status and are the spirit of choice for most clubs and bars around the country.

The low-end spirit category suffered some erosion of market share in the Port Moresby market with increased levels of competition. The category did, however, show some signs of recovery in the final quarter.

Imported agency categories, namely Hardy's wines and Diageo spirits (Johnnie Walker, Bundaberg Rum) had a year of solid growth and consolidated Trade Winds' position as the premier supplier of imported wines and spirits in PNG.

PROPERTY

2006 has continued the improvement in the performance of the Property Division. Total revenue was up by 1% on budget and, given the competitive conditions in the country, the Division has done well to maintain occupancy levels.

The Group's commercial and residential properties throughout PNG have seen a remarkably high 90% average occupancy rate. Once again, there was a particularly pleasing occupancy of 96% in Windward Apartments; the Company's premier residential apartment block. In order to maintain the appeal of this property, we undertook major upgrading of all air-conditioning units in Windward Apartments. The premier commercial property, Steamships Plaza, also has performed well with occupancy of 100%.

“The Group's commercial and residential properties throughout PNG have seen a remarkably high 90% average occupancy rate”

Costs in 2006 for electricity and water continued their steady rise. The 2006 increase was 10%, and we anticipate further increases in 2007. These rises, unfortunately, are not matched by improvements in infrastructure or reliability, both of

which continue to present problems for all users in Port Moresby.

In line with our continuing focus on the active trading of our portfolio, we disposed of twelve non-performing properties during the year: seven in Port Moresby, three in Lae, one in Alotau and one in Madang. Revenue income from these was PGK11.3 million. An additional fourteen properties, with an estimate sales revenue of K20 million, are to be placed on the market in 2007. We acquired one key property opposite the main wharf in Lae, thereby rounding off our large land-holding in that area.

The restructuring of the Division, during which most technical, construction and maintenance functions have been outsourced, has now been completed. This has already proved its worth in reducing expenses and increasing efficiency.

Major project work has included the completion of Stage One of the redevelopment of the Waigani estate. The property there has proved popular, with an occupancy rate of 80%. Stage Two will commence in May 2007, and will include two 900m² warehouses, with roads and gardens. The renovation of the old Property Division headquarters building is now complete and the building is fully let.

Work has also been completed on the five warehouses in the Sletfjord Street development in Lae, with a pre-completion occupancy rate of 65%.

SHIPPING

The Shipping Division experienced a year of mainly positive results from its business units, with the exception of its charter contracts to Ok Tedi and its JV Stevedoring operations. The Division continues to focus on developing opportunities associated with the country's improved economic position, the increased project activity, and critically examining means of productivity improvement, cost avoidance and enhanced efficiencies. The implementation of HSS&E strategies remains a critical element of the business, and will continue in future years.

Coastal Shipping

- The performance of five vessels on long-term charter to Ok Tedi suffered due to extensive docking costs and off-hire associated with the Bosset Chief's intermediate dry-docking. Negotiations are continuing to address the declining performance of this investment.
- Coastal liner business performed well in 2006 with significant volume growth of 22.1% against 2005. The number of vessels available for spot charter has decreased due to a strategic decision taken to dedicate the Goada and Kikori Chief to the Liner service. This has seen a steady improvement in schedule integrity, though poor port infrastructure and low river levels continue to impede performance.
- The shortage of certified PNG seamen is also of concern and while senior positions can be filled by expatriate officers, this will have a significant impact on operating costs and freight rates. Sponsored training of PNG seafarers through the Madang Nautical College has been the cornerstone of the Company's training and development programme.

However, as there is no sponsorship or contribution coming from third-tier shipowners and shore-based institutions who draw from this pool, we have serious concerns for its future and the industry's ability to produce suitably qualified PNG officers to man the PNG fleet.

“Sponsored training of PNG seafarers through the Madang Nautical College has been the cornerstone of the Company's training and development programme”

- Since its inception in 2005, the National Maritime Safety Authority (NMSA) has embarked on a thorough review of the technical and safety legislation governing the industry. During the course of 2006, NMSA revised three sections of existing legislation and drafted 19 new sections, together with amendments to the PNG Merchant Shipping Act, to include the new legislation. Much of the new legislation brings PNG into line with regulations covering the IMO, ISM and other international conventions to which PNG is a signatory. Although this legislation has yet to be passed by Parliament, the initiative taken by NMSA to bring all shipowners operating in PNG up to international standards to safeguard the environment and life at sea are welcomed by the Company and its related shipping interests.

SHIPPING

- ICCC has undertaken a review of the Coastal Shipping industry to determine whether cabotage and price regulation should be maintained. Although the commission's final report has yet to be handed down, the industry expects cabotage will be maintained to protect service delivery to unprofitable ports and that a price monitoring approach will be adopted.
- MES was engaged to fabricate a guide to assist an Alcatel vessel in the laying of the replacement undersea fibre optic cabling by PNG Telikom.
- MES will continue actively to market its services, both domestically and internationally and, on the back of significant gains in 2006, will maintain its growth of the market share in 2007.

Marine Engineering Services (MES)

- Following on from its consistent levels of service delivery through 2005, the shipyard received a further seven Raptis & Sons fishing trawlers for docking in 2006. All work was performed to the standards required by DNV Classification Society, whose surveyors regularly inspect the vessels. The relationship established with Australian fishing vessels looks set to develop well, given the quality of service provided and the cost savings realised compared to yards in Australia.
- On the local front, the refitting of the HMPNGS Salamaua and HMPNGS Buna were completed and the vessels were handed back to the PNGDF. In addition to these, MES provides maintenance support for the Patrol Boats HMPNG Tarangau, Dreger, Seadler and Basilisk.
- An LSS vessel, the Erima Chief, undertook a major dry-docking in the latter part of 2006, involving hull repairs, hold refit, and equipment overhaul. Other LSS vessels, such as the Steel Challenger, the Ok Tarim and the Goada Chief, received maintenance support as part of their scheduled docking programmes.

Steamships Shipping Agencies

- Shipping Agencies traded acceptably across all the ports, despite declines in some commodity exports. The PNG coffee industry suffered significant declines in harvests through 2006; a 39% reduction in coffee crops in 2006 resulting in significant diminution of export earnings.
- In 2006, all ports saw noteworthy growth in import volumes from South-East Asian and Australian trades, though there was a substantial shift in import sources for PNG, with traditional imports from Australia being replaced by considerable volumes from Asia, in particular the PRC.

“The PNG coffee industry suffered significant declines in harvests through 2006; a 39% reduction in coffee crops in 2006 resulting in significant diminution of export earnings”

SHIPPING

- Steamships Shipping Agencies successfully concluded the establishment of agency operations in Oro Bay, increasing our port coverage and ensuring that the organisation remains focused on growth for the next year.

Steamships Stevedoring

- Stevedoring has had a mixed year, with results being lower than initially projected. The division suffered from lower than usual import and export volumes and steep increases in repair costs due to the failing state of the nations port infrastructure; and an escalation in labour costs on the waterfront.
 - Significant investment in cargo handling equipment was made during 2006 to strengthen the service delivery to our customers. This is part of the division's continuing capital expansion plan which involves the rollout of port handling equipment and development of terminal management systems over the next three years.
 - The outlook for 2007 is promising and significant improvements in operating procedures are being implemented to improve productivity and efficiencies. Tight control over costs in light of increasing fuel prices, wage increases, and R&M, remains a key focus for management into 2007 and initiatives to achieve this are heavily underpinned by the division's focus on HSS&E policies whereby a culture of "safety first" is instilled throughout the ports in which we operate.
- Oro Bay Stevedoring was acquired from Kutubu Transport in May 2006. The operation services both local and overseas vessel callers and further develops the Company's port coverage and service offering in PNG.
 - The ICCC is in the process of reviewing the Stevedoring industry to appraise its contribution to the cost of shipping within PNG. Although the final findings of this report have yet to be published, the Commission is recommending that a price monitoring approach be adopted. This will require the Commission to determine the initial tariffs for services provided by the industry to encourage greater efficiency and development, while ensuring operators achieve an appropriate rate of return. Steamships Shipping is confident that the pricing structures employed by the company are fair and is encouraged by the Commission's willingness to engage with industry to address the past failings of the regulatory system.

TRANSPORT

The Division started the year with high expectations. Significant partnerships with major customers had been consolidated and all businesses were positive about achieving their forecasts. Indeed, early rains in the Highlands region increased optimism that the coffee and tea harvests would exceed previous seasons' tonnages, and a lot of momentum had been generated from talks regarding the Gas Pipeline's likely construction. Ultimately, expectations on both these fronts were proved wrong with continuing rains in the Highlands having an adverse impact on crops (coffee down 39% against 2005 volumes) and the state of the Highlands Highway, whilst the Gas Pipeline project failed to proceed due to external factors; most notably an inability to secure markets for the sale of the gas. While budgets for the year did not include revenues for the Gas Pipeline, they did include significant revenues for the carriage of coffee, and an assumption that the Highway would not affect operations to the extent it had in 2005 because of the work that had been undertaken leading into 2006. Unfortunately this was not to be and a total of 38 days were lost due to poor conditions between Goroka and Mt Hagen.

Freight into the Highlands remained strong throughout the year and the securing of Trukai's contract in November reinforced the Division's objectives of concentrating on "blue chip" companies. The lack of back-loading freight for the long haul operations as a result of the continuous rains not only had a severe impact on projected revenues, but vehicle repair costs escalated and the effect of running empty trailers became evident with the inordinate amount of damage to suspensions (particularly) on deteriorating roads. Although contracts were awarded late in 2006 for repairs to the road, a

"Freight into the Highlands remained strong throughout the year and the securing of Trukai's contract in November reinforced the Division's objectives of concentrating on "blue chip" companies"

concerted rehabilitation programme is required to ensure its long term sustainability. Highway traffic was also disrupted during the year by criminal elements taking advantage of a lack of Police (due to the State of Emergency in the Southern Highlands and a cash strapped Highway Patrol unable to fund their operations).

No such problems disrupted short haul and distribution services, and the Division was able to produce results in line with budget for these operations. Following the success of the fuel distribution work in Port Moresby the Division actively sought further participation in this niche market. Towards the end of the year, confirmation was received that contracts had been secured in several of Papua New Guinea's coastal centres. The lesson learned from the trends of the past 18 months is that there needs to be a greater focus on lessening the exposure of the Division to areas where management cannot influence operating conditions - particularly on long-haul routes. The disciplines inherent in fuel distribution go a long way towards achieving the level of control being sought. To this end, a restructuring of the Division

TRANSPORT

“Greater involvement from staff via "tool-box" meetings has resulted in greater responsibility in the conduct of their day-to-day activities”

will be undertaken in 2007. Further niche markets will be identified to facilitate long-term, sustainable growth.

The re-development of the Lae premises commenced in May and will be completed by

March 2007. A new workshop (certified to Australian standards to comply with fuel industry specifications) and new offices complement a revamped yard that will allow better freight management in a safer working environment.

Staff training programmes were successfully conducted throughout the year. Development of HSS&E as an integral part of the business continued at great pace with related issues at the forefront of all decision-making (particularly evident during fuel contract negotiations). Greater involvement from staff via “tool-box” meetings has resulted in greater responsibility in the conduct of their day-to-day activities. This involvement will continue to be actively encouraged throughout 2007.

ASSOCIATES ASSOCIATES

DATEC

Datec has continued to record strong results, ending the 2006 year with a profit 31% in excess of budget.

Solid results were recorded across most business streams with particularly strong growth in corporate and retail sales of PCs and peripherals, together with sales in software development. The latter was as a result of projects within the Investment Promotion Authority, Department of Education and the Department of Labour and Industrial Relations. While the retail and ISP businesses remain strong, the continuing development of the corporate market, in particular hosting services, is proving its worth and enabling the company to move into areas of differentiation and expertise.

Towards the end of the year, the department dedicated to UPS sales was disbanded. Although the company will continue to sell a wide range of UPSs, there is insufficient demand to justify a separate department, and its closure will allow a more effective deployment of resources and expertise.

“Solid results were recorded across most business streams with particularly strong growth in corporate and retail sales of PCs and peripherals, together with sales in software development”

CONSORT EXPRESS LINES

Consort performed well despite an operationally difficult year. Delays to the scheduled docking of three vessels, continued berth congestion at Lae - the major hub port - which affected all port users, and an increase in weather delays due to an extended South East monsoon season were all factors affecting vessel schedules.

Volumes were slightly below 2005 levels. Coastal volumes showed a slight decline, mainly due to a reduction in transshipment volumes due to continuing berth congestion in Lae. This saw the reintroduction of direct outport calls by some overseas operators. Overseas volumes remained firm.

The third vessel in the fleet upgrading programme, renamed the “Niu Ailan Coast”, has now joined the fleet. The full operational impact of this vessel's introduction will not be felt until after completion of her 10-year special survey, now scheduled to be completed during the first quarter of 2007.

Positive developments within the Port of Lae include the reopening, late in the year, of the repaired section of the wharf between No.1 and No.2 berths, an additional 12,000m² of hardstand expected to be completed in the first quarter of 2007 and ongoing repairs to sections of the existing hardstand. These will all contribute to improved efficiencies for the Consort operations.

PACIFIC TOWING

The core business performed solidly throughout 2006. Pactow currently operates ten tugs and seven launches with total year-end staff numbers of 125. Towage operations are conducted at Port Moresby, Lae, Kimbe, Rabaul and Madang.

ASSOCIATES

Earnings were assisted by a healthy salvage and outside towage contribution. The major contributor to this was the salvage of the Zhi Qiang, which stranded on Long Reef on 1st July, loaded with 37,500 tons of sugar. The Zhi Qiang remains PNG's largest-ever salvage operation to date.

Harbour towage produced good results in line with the budget. Harbour results include activities from mooring boats and wharf party services at Port Moresby, Lae and Rabaul. Overall job numbers across all ports rose by approximately 9% against the previous period.

Mooring operations at Rabaul commenced in July 2006 following the purchase of the launch "Nancy Daniel" from PNG Ports Corporation. For the six-month period, this operation recorded an encouraging result.

“Overall job numbers across all ports rose by approximately 9% against the previous period”

During the year the company purchased two additional tugs, the Turmoil and the Wanilla.

Dive operations continue to grow despite all dive staff being allocated to repairs to the Zhi Qiang for a period of three months. Pactow's commitment to people development culminated in the company's lead diver completing his Commercial Diver Class 2 Licence in October.

INCOME STATEMENT

Steamships Trading Company Limited and Subsidiary Companies

	Note	Consolidated		Holding Company	
		Dec 06	Dec 05	Dec 06	Dec 05
		K'000	K'000	K'000	K'000
Revenue	2(a)	336,302	370,037	20,308	16,427
Operating expenses	2(b)	(281,399)	(324,939)	(2,844)	(2,619)
Profit/(Loss) on discontinuance	21	-	3,693	-	-
OPERATING PROFIT		54,903	48,791	17,464	13,808
Finance costs - net	2(d)	(1,401)	(3,357)	-	-
Share of profit of associates and joint ventures	15(d)	15,115	13,389	-	-
PROFIT BEFORE INCOME TAX		68,617	58,823	17,464	13,808
Income tax expense	3(a)	(18,357)	(16,589)	(254)	(452)
GROUP PROFIT		50,260	42,234	17,210	13,356
Minority interests		(2,781)	(2,026)	-	-
NET PROFIT					
ATTRIBUTABLE TO SHAREHOLDERS		47,479	40,208	17,210	13,356
Earning per share (toea) - Continued	2(f)	153t	118t		
Earning per share (toea) - Discontinued		0t	12t		

These income statements are to be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Steamships Trading Company Limited and Subsidiary Companies

	Share Capital	Revaluation Reserves	Proposed Dividend	Retained Earnings	Total Capital Reserves	Minority Interests	Total Equity
	K'000	K'000	K'000	K'000	K'000	K'000	K'000
BALANCE AT 1 JANUARY 2005	24,200	4,560	3,102	154,495	186,357	6,431	192,788
Depreciation transfer	-	(1,467)	-	1,467	-	-	-
Dividends paid 2005	-	-	(6,204)	-	(6,204)	(1,443)	(7,647)
Dividend proposed 2005	-	-	20,157	(20,157)	-	-	-
Change in Minorities	-	-	-	-	-	3,042	3,042
Net profit	-	-	-	40,208	40,208	2,026	42,234
BALANCE AT 31 DECEMBER 2005	24,200	3,093	17,055	176,013	220,361	10,056	230,417
Depreciation transfer	-	(1,467)	-	1,467	-	-	-
Dividends paid 2006	-	-	(24,807)	-	(24,807)	(1,743)	(26,550)
Dividends proposed 2006	-	-	31,008	(31,008)	-	-	-
Net profit	-	-	-	47,479	47,479	2,781	50,260
BALANCE AT 31 DECEMBER 2006	24,200	1,626	23,256	193,951	243,033	11,094	254,127

These statements are to be read in conjunction with the accompanying notes.

No Statement of Changes in Equity is presented for the Holding Company as the only movement in equity is represented by the retained earnings as shown in the income statements.

BALANCE SHEETS

Steamships Trading Company Limited and Subsidiary Companies

Note	Consolidated		Holding Company	
	Dec 06	Dec 05	Dec 06	Dec 05
	K'000	K'000	K'000	K'000
EQUITY				
Issued capital	6	24,200	24,200	24,200
Reserves	6	1,626	5,267	5,267
Retained earnings		176,013	(15,275)	(1,477)
Proposed final dividend	24	23,256	23,256	17,055
Capital and reserves attributable to the Company's shareholders		243,033	37,448	45,045
Minority shareholders interests		11,094	-	-
TOTAL EQUITY		254,127	37,448	45,045
Non-current assets				
Property, plant and equipment	7	227,773	29,789	19,262
Investments in subsidiaries, associates and joint ventures	8(a)	16,824	41,992	41,992
Goodwill	9	3,568	-	-
Deferred tax asset	3(c)	12,944	828	571
		261,109	72,609	61,825
Current assets				
Inventories	10	29,141	-	-
Trade and other receivables	11	63,853	466	90
Loans to associates and incorporated joint ventures		4,671	-	-
Cash and cash equivalents		356	-	-
		98,021	466	90
TOTAL ASSETS		359,130	73,075	61,915
Current liabilities				
Trade payables		22,214	-	-
Other payables and accruals		40,605	1,319	323
Provisions for other liabilities and charges	12	7,744	-	-
Loans from associates and incorporated joint ventures		1,027	33,517	16,237
Borrowings	13	24,624	-	-
Income tax payable		2,303	791	310
		98,517	35,627	16,870
Non-current liabilities				
Deferred tax liability	3(d)	1,136	-	-
Borrowings	13	-	-	-
Provisions for other liabilities and charges	12	5,350	-	-
		6,486	-	-
TOTAL LIABILITIES		105,003	35,627	16,870
NET ASSETS		254,127	37,448	45,045

These balance sheets are to be read in conjunction with the accompanying notes.

For and on behalf of the Board:
28 February 2007

W. L. Rothery
Chairman

D.H. Cox
Managing Director

STATEMENT OF CASH FLOWS

Steamships Trading Company Limited and Subsidiary Companies

	Consolidated		Holding Company	
	Dec 06	Dec 05	Dec 06	Dec 05
Note	K'000	K'000	K'000	K'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	334,573	372,778	-	1,047
Payments to suppliers and employees	(248,556)	(249,107)	-	-
Interest received	72	125	-	-
Interest and other finance costs paid	(1,473)	(3,482)	-	-
Income tax paid	(2,877)	(11,155)	(21)	(301)
Net cash provided by operating activities	81,739	64,159	(21)	746
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant & equipment	(70,167)	(42,555)	(13,490)	(4,153)
Proceeds from sales of property, plant & equipment	13,458	18,550	5,771	5,160
Loans made to/repaid by associated companies	1,640	2,055	20,876	16,237
Dividends received	3,950	9,199	11,671	11,422
New Acquisitions	-	(43,445)	-	(23,209)
Net cash used in investing activities	(51,119)	(56,196)	24,828	5,457
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayments of borrowings	(6,000)	(11,045)	-	-
Dividends paid	(26,550)	(7,647)	(24,807)	(6,203)
Net cash used in financing activities	(32,550)	(18,692)	(24,807)	(6,203)
NET INCREASE/(DECREASE) IN CASH HELD	(1,930)	(10,729)	-	-
CASH AT BEGINNING OF THE YEAR	(11,641)	(912)	-	-
CASH AT END OF THE YEAR	(13,571)	(11,641)	-	-
CASH COMPRISES:				
Cash and cash equivalents	356	1,637	-	-
Bank overdrafts	(13,927)	(13,278)	-	-
	(13,571)	(11,641)	-	-

This statement is to be read in conjunction with the accompanying notes.

NOTES TO AND FORMING PART OF THE ACCOUNTS

Steamships Trading Company Limited and Subsidiary Companies

1. Summary of Significant Accounting Policies

Set out below are the significant accounting policies adopted by the Group in the preparation of the accounts for the year. These comply with International Financial Reporting Standards (IFRS). Such accounting policies were adopted in the preceding year unless otherwise stated. Amounts in the Directors' Report and in the accounts have been rounded off to the nearest thousand kina.

(a) Basis of Preparation

The accounts have been prepared under the historical cost convention as modified by the revaluation of ships. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

(b) Principles of Consolidation

The consolidated accounts incorporate the assets and liabilities of all companies controlled by the Group as at the balance sheet date and the results of all controlled companies for the year then ended. All inter-group transactions and balances have been eliminated. Outside interests in controlled companies are shown separately in the consolidated balance sheet and profit and loss account respectively.

Interests in joint ventures, and associated companies other than controlled companies, in which the Group holds 20% or more of the issued share capital, are accounted for under the equity method.

(c) Property, plant and equipment

All property, plant and equipment is initially recorded at cost. Ships are subsequently shown at market value, based on periodic valuations by external independent valuers, less subsequent depreciation. All other property, plant and equipment, including investment property, is stated at historical cost less depreciation. Increases in the carrying amount arising on revaluation are credited to the revaluation reserve in shareholders' equity. Each year the difference between depreciation, based on the revalued carrying amount of the asset (the depreciation

charged to the income statement) and depreciation based on the asset's original cost, is transferred from the revaluation reserve to retained earnings. Depreciation is calculated on the straight-line method to write off the cost of each asset, or the revalued amounts, to its residual value over its estimated useful life as follows:

Properties	0 - 10%	Plant and fittings	10 - 33%
Ships	5 - 10%	Motor vehicles	20 - 33%

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. On disposal of revalued assets, amounts in the revaluation reserve relating to that asset are transferred to retained earnings.

(d) Inventories

Inventories are valued at the lower of cost and net realisable value. In general, cost is determined on the weighted average basis and, where appropriate, includes a proportion of variable overhead expenditure. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling costs.

(e) Income Tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax. Deferred tax assets are recognised to the extent that it is probable that the future taxable profit will be available, against which the temporary differences can be utilised.

NOTES TO AND FORMING PART OF THE ACCOUNTS

Steamships Trading Company Limited and Subsidiary Companies

(f) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resource embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

A liability for annual leave is recognised and measured at the amount of unpaid leave at amounts expected to be paid to settle the present entitlements. A liability for long service leave is recognised taking into consideration expected future wage and salary levels, experience of employee departures and periods of service, discounted to present values.

A provision for estimated ship dry docking costs is only recognised where the Group has a contractual obligation under a long-term charter agreement to a third party. Dry docking costs relating to ships not under third party long term charter agreements are only recognised as incurred, and are capitalised to the extent that the previously assessed economic benefits associated with the asset are restored.

(g) Foreign Currency

The Company's functional and presentation currency is the Papua New Guinea Kina. Transactions in foreign currencies have been translated into the functional currency at rates ruling at the date of the transaction. Amounts payable to and by the Company in foreign currencies have been translated to the functional currency at rates of exchange ruling at the year end. Gains and losses arising from movements in foreign exchange rates are recognised in the Profit and Loss Account when they arise.

(h) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill is capitalised and assessed for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less impairment losses.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(i) Cash and cash equivalents

For the purpose of the Statement of Cash Flows, cash includes deposits at call and Treasury bills with a maturity less than 90 days, net of outstanding bank overdrafts.

(j) Revenue recognition

Sales are recognised upon delivery of products and customer acceptance, if any, or performance of services, net of GST and discounts, and after eliminating sales within the Group. Other revenues earned by the Group are recognised on the following bases:

Royalty income - on an accrual basis in accordance with the substance of the relevant agreement.

Interest income - as it accrues (taking into account the effective yield on the asset) unless collectability is in doubt

Dividend income - when the shareholder's right to receive payment is established.

(k) Receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for any uncollectible debts.

A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

(l) Borrowings

Borrowings are recognised initially at fair value, net of any transaction costs incurred, and are subsequently measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(m) Changes in Accounting Policies and Comparatives

Where necessary, comparative figures have been

NOTES TO AND FORMING PART OF THE ACCOUNTS

Steamships Trading Company Limited and Subsidiary Companies

adjusted to conform with changes in presentation and accounting policies in the current year.

(n) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's fair value less costs to sell is less than its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flow (cash generating units).

(o) Borrowing cost

Borrowing cost incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the year, in this case 7.02% (2005 - 7.45%).

(p) Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments.

The Company operates within a single geographic segment, being the country of Papua New Guinea.

(q) Dividends

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at the Balance Sheet date. The Company creates a separate category within equity to recognise amounts set aside for payment of dividends that are declared post-year end but before the issue of the Annual Report.

(r) Earnings per Share

Basic earning per share is calculated by dividing the profit attribute to equity holders of the Company, by the weighted average number of ordinary shares outstanding during the financial

year. There are no potential ordinary shares on issue and hence the diluted earning per share is equal to the basic earnings per share.

(s) Critical accounting estimates and judgements

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

(t) Critical accounting estimates and assumptions

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

Provision for Dry Docking

For vessels on long term charter contracts, the cost of future dry docking is provided. The cost of dry docking is not accurately known until the vessels is surveyed and assessed at the commencement of docking. Management have made estimates based on the dry docking interval (ie Special or Interim), repairs identified at the Balance Sheet date, its age, and docking history. Docking intervals are assumed to be 30 month periods.

Docking costs are often incurred in AUD, USD or SGD currencies. The costings are updated monthly for the foreign exchange rate.

(u) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which is unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(v) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST. Receivables and payables are stated inclusive of the amount of GST receivables or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

NOTES TO AND FORMING PART OF THE ACCOUNTS

Steamships Trading Company Limited and Subsidiary Companies

	Consolidated		Holding Company	
	Dec 06	Dec 05	Dec 06	Dec 05
	K'000	K'000	K'000	K'000
2. Operating results				
(a) Revenue comprises:				
Revenue from sale of goods	141,944	197,038	-	-
Revenue from provision of services	192,022	166,527	-	-
Other income	2,336	6,472	20,308	16,427
Total Revenue	336,302	370,037	20,308	16,427
(b) Operating expenses comprise:				
Changes in inventories of finished goods and work in progress	2,164	3,276	-	-
Raw materials and consumables used	123,962	174,347	-	-
Staff costs	67,732	63,242	-	-
Depreciation and amortisation	31,872	29,769	2,634	2,419
Electricity	7,756	9,275	-	-
Insurance	6,684	10,868	-	-
Repairs and maintenance	11,690	10,593	-	-
Ships survey and docking	6,992	2,064	-	-
Other operating expenses	22,547	21,505	210	200
Total operating expenses	281,399	324,939	2,844	2,619
(c) The operating profit before income tax is arrived at after charging and crediting the following specific items:-				
Charges:				
Audit fees	602	622	10	10
Other fees to the Auditors	334	421	-	-
Bad and doubtful debts	281	2,880	-	-
Donations	160	171	-	-
Credits:				
Subsidiary companies' dividends	-	-	11,671	11,422
Rental property income	19,420	16,027	-	-
Net foreign exchange transaction gains	243	669	-	-
Profit (loss) on sale of properties	9,296	11,557	5,929	3,423
(d) Finance costs - net				
Interest expense	1,473	3,482	-	-
Interest income	(72)	(125)	-	-
Net finance costs	1,401	3,357	-	-
(e) Staff costs:				
Wages and salaries	38,099	37,186	-	-
Retirement benefit contributions	5,124	4,852	-	-
Accommodation and other benefits	24,509	21,204	-	-
	67,732	63,242	-	-
Number of staff employed by the Group at year end.				
Full time	2,303	2,311	-	-

NOTES TO AND FORMING PART OF THE ACCOUNTS

Steamships Trading Company Limited and Subsidiary Companies

	Consolidated		Holding Company	
	Dec 06	Dec 05	Dec 06	Dec 05
	K'000	K'000	K'000	K'000

(f) Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year. There is no difference between the basic and diluted earnings per share.

Net profit attributable to shareholders	47,479	40,208	-	-
Weighted average number of ordinary shares in issue (thousands)	31,008	31,008	-	-
Basic earnings per share	153t	130t	-	-

3. Income tax

(a) Current tax	14,668	13,087	250	448
Deferred tax	(489)	(489)	4	4
Share of associates' tax	4,178	3,991	-	-
	18,357	16,589	254	452

- (b) The income tax in the Profit and Loss Accounts is determined in accordance with the policy set out in note 1(e).

The effective rate of tax charged differs from the statutory rate of 30% for the following reasons:

Prima facie tax payable on operating profit	20,585	17,647	3,872	4,142
Tax effect of rebateable dividends	-	-	(3,501)	(3,426)
Prior year adjustments, and permanent differences	(2,228)	(1,058)	(117)	(264)
	18,357	16,589	254	452

- (c) The deferred tax asset comprises:

Provisions	2,101	5,734	702	290
Prepayments	(800)	(717)	-	-
Tax depreciable assets	1,260	1,387	126	281
Tax losses	10,383	17,803	-	-
	12,944	24,207	828	571

The deferred tax asset is expected to be realised over the next three years.

There is a K1,648,623 (2005: K1,648,623) deferred tax asset not recognised in a subsidiary company.

- (d) The deferred tax liability comprises:

Revaluation of ships	1,136	1,625	-	-
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NOTES TO AND FORMING PART OF THE ACCOUNTS

Steamships Trading Company Limited and Subsidiary Companies

4. Segmental reporting

(a) Divisional segments

The Group operates in the following commercial areas:

	Retail	Hotels	Manufacturing	Shipping & Transport	Property & Investment	Elimination Unallocated	Total
	K'000	K'000	K'000	K'000	K'000	K'000	K'000
2006							
External revenue	64,426	45,721	77,516	126,291	19,420	-	333,374
Intersegmental revenue	1,463	4,683	341	5,800	7,758	(20,045)	-
Total Revenue	65,889	50,404	77,857	132,091	27,178	(20,045)	333,374
Segment Results	5,589	9,290	7,729	15,170	15,724	-	53,502
Share of associate entities' profit	-	-	-	1,441	-	13,674	15,115
Income tax expense	(1,209)	(2,039)	(2,356)	(6,574)	(2,905)	(3,274)	(18,357)
Group Profit	4,380	7,251	5,373	10,037	12,819	10,400	50,260
Segment assets	12,195	53,581	63,236	121,081	109,037	-	359,130
Segment liabilities	(6,965)	(6,970)	(10,583)	(30,783)	(49,702)	-	(105,003)
Net Assets	5,230	46,611	52,653	90,298	59,335	-	254,127
Capital expenditure	419	10,715	2,626	20,255	36,152	-	70,167
Depreciation	792	3,593	2,594	17,599	7,294	-	31,872
2005							
External revenue	151,693	36,700	45,336	113,518	16,318	-	363,565
Intersegmental revenue	8,851	4,043	1,844	2,968	10,651	(28,357)	-
Total Revenue	160,544	40,743	47,180	116,486	26,969	(28,357)	363,565
Segment Results	7,333	6,790	1,354	22,426	7,531	-	45,434
Share of associate entities' profit	-	-	-	-	-	13,389	13,389
Income tax expense	(1,463)	(1,969)	(152)	(7,098)	(1,935)	(3,972)	(16,589)
Group Profit	5,870	4,821	1,202	15,328	5,596	9,417	42,234
Segment assets	21,506	45,758	58,806	116,640	87,364	-	330,074
Segment liabilities	(7,010)	(5,379)	(8,370)	(25,339)	(53,559)	-	(99,657)
Net Assets	14,496	40,379	50,436	91,301	33,805	-	230,417
Capital expenditure	1,111	11,114	4,007	15,942	10,381	-	42,555
Depreciation	2,013	2,805	1,449	15,661	7,841	-	29,769

These figures include minorities' share of group profit and net assets.

(b) Geography

The Group operates wholly in Papua New Guinea. It is not practical to provide a segment analysis by geographical region within Papua New Guinea.

NOTES TO AND FORMING PART OF THE ACCOUNTS

Steamships Trading Company Limited and Subsidiary Companies

5. Related party disclosures

The Group is controlled by John Swire & Sons (PNG) Limited, which owns 72.12% of the Company's shares. Related parties comprise other companies within the John Swire & Sons (PNG) Group, including Collins & Leahy Holdings Limited, together with associate and joint venture entities.

	Consolidated		Holding Company	
	Dec 06	Dec 05	Dec 06	Dec 05
	K'000	K'000	K'000	K'000
(a) Material transactions:				
Sales of goods and services				
Associates & joint ventures	6,748	5,512	-	-
Collins & Leahy Group	844	1,927	-	-
Other Shareholders	1,905	4,402	-	-
Shareholders of Assoc Coys	4,852	194	-	-
Lease and rental income	481	2,549	-	-
Dividends received	-	-	11,671	11,422
Management fees received	1,232	110	-	-
Loans from Associates	813	709	-	-
Purchase of goods and services				
Associates & joint ventures	(25,747)	(14,611)	-	-
Collins & Leahy Group	(760)	(8,019)	-	-
Other Shareholders	(28,997)	(27,553)	-	-
Shareholders of Assoc Coys	(392)	(318)	-	-
Purchase of assets				
Associates & joint ventures	(2,524)	(12,036)	-	-
Collins & Leahy Group	-	(51,288)	-	-
Loans to associates				
Associates & joint ventures	(468)	(5,457)	-	-

All transactions with related parties are made on normal commercial terms and conditions.

(b) Directors:

G.J. Dunlop, W.L. Rothery and C.W.Raper are directors of John Swire & Sons (PNG) Limited and Collins & Leahy Holdings Limited.

Dividends were received by those directors holding an interest in the company as set out in the directors' report.

(c) Remuneration:

Income received or due and receivable both by directors and senior managers in connection with the management of the Group companies is shown in the report of the directors.

The Group paid K11,129,773 (2005: K9,593,000) to SCL Nominees Limited for management services.

(d) Holding company:

The ultimate holding company is John Swire & Sons Limited, incorporated in England.

6. Capital

(a) Issued and fully paid: 31,008,237 shares	24,200	24,200	24,200	24,200
In accordance with the Papua New Guinea Companies Act 1997 the Company has no authorised share capital and shares have no par value.				
(b) Reserves comprise				
Revaluation of ships	1,626	3,093	-	-

NOTES TO AND FORMING PART OF THE ACCOUNTS

Steamships Trading Company Limited and Subsidiary Companies

	Consolidated		Holding Company	
	Dec 06	Dec 05	Dec 06	Dec 05
	K'000	K'000	K'000	K'000
7. Properties				
Opening net book amount	83,457	72,723	17,628	18,070
Additions	42,510	15,070	12,420	1,666
Acquisitions	-	5,101	-	-
Disposals - cost	(7,252)	(7,509)	(1,968)	(2,031)
Disposals - accumulated depreciation	3,640	4,335	1,653	1,721
Depreciation charge	(13,999)	(6,263)	(1,992)	(1,798)
Closing Net Book Amount	108,356	83,457	27,741	17,628
Cost or valuation	181,229	145,971	55,422	44,970
Accumulated depreciation	(72,873)	(62,514)	(27,681)	(27,342)
Net Book Amount	108,356	83,457	27,741	17,628
Ships				
Opening net book amount	50,991	58,825	-	-
Additions	1,112	758	-	-
Acquisitions	-	-	-	-
Disposals - cost	(4,553)	(123)	-	-
Disposals - accumulated depreciation	4,412	122	-	-
Depreciation charge	(7,838)	(8,591)	-	-
Closing Net Book Amount	44,124	50,991	-	-
Cost or valuation	109,665	113,106	6,474	6,474
Accumulated depreciation	(65,541)	(62,115)	(6,474)	(6,474)
Net Book Amount	44,124	50,991	-	-
Plant & vehicles				
Opening Net Book Amount	59,191	42,310	1,634	995
Additions	26,545	26,727	1,070	1,060
Acquisitions	-	9,240	-	-
Disposals - cost	(7,406)	(41,157)	(47)	(26)
Disposals - accumulated depreciation	6,998	36,987	27	27
Depreciation charge	(10,035)	(14,916)	(636)	(422)
Closing Net Book Amount	75,293	59,191	2,048	1,634
Cost or valuation	136,803	117,251	3,841	2,818
Accumulated depreciation	(61,510)	(58,060)	(1,793)	(1,184)
Net Book Amount	75,293	59,191	2,048	1,634

Ships are measured at revalued amounts; the last independent valuation was performed as at December 2003. The carrying value of the ships, had they been measured at original cost less accumulated depreciation, would be K40,813,000 (2005: K48,393,000).

Properties include commercial properties occupied by Group businesses together with commercial and residential investment property which is available for external lease. An analysis of the carrying amount and estimated range of fair values for each category of property is shown below. Fair values have been estimated internally, based on market evidence of property values, supported by independent professional valuations as at December 2003 for a selected sample of representative properties.

Included in Properties are the following:

	NBV	Valuation	Range
	K'000	Lower K'000	Higher K'000
Commercial Internal	42,997	104,891	153,391
Commercial External	56,036	105,205	133,425
Residential	9,323	45,225	59,209
Total	108,356	255,321	346,025

NOTES TO AND FORMING PART OF THE ACCOUNTS

Steamships Trading Company Limited and Subsidiary Companies

	Consolidated Dec 06	Dec 05	Holding Company Dec 06	Dec 05
	K'000	K'000	K'000	K'000

8. Investments in subsidiaries, associates and joint ventures

(a) Investments are accounted for in accordance with the policy set out in Note 1(b) and relate to:

Investments in subsidiary companies	-	-	41,853	41,853
Investments in associates and joint ventures	16,824	10,572	139	139
	16,824	10,572	41,992	41,992

(b) Shares in subsidiary companies have been stated at cost or valuation less dividends received from pre-acquisition profits. Subsidiary companies are shown in note 19.

(c) Investments in associates and joint ventures have been accounted for according to the policy in note 1(b). Associates and joint ventures are shown in note 20.

9. Goodwill

Consolidated	Goodwill K'000
Year ended 31 December 2005	
Opening net book amount	3,068
Additions	500
Impairment	-
Closing net book amount	3,568
At 31 December 2006	
Cost	3,759
Accumulated amortisation and impairment	(191)
Net book amount	3,568

Value assigned to intangibles cannot be separately identified. The value of goodwill is, however, based on past experience and is not considered to be impaired as at 31/12/06.

10. Inventories

Raw materials	1,040	1,803	-	-
Work in progress	318	343	-	-
Finished goods	30,429	30,235	-	-
Provision for obsolescence	(2,646)	(3,088)	-	-
	29,141	29,293	-	-

All amounts are at cost

11. Trade and other receivables

Current				
Trade receivables	37,508	34,417	-	-
Provision for doubtful debts	(591)	(905)	-	-
	36,917	33,512	-	-
Other receivables & prepayments	25,539	27,155	466	90
External loans	1,397	1,534	-	-
	63,853	62,201	466	90

No terms of repayment have been arranged for the unsecured amounts owing by subsidiary companies. No material repayments are anticipated prior to 31 December 2007.

NOTES TO AND FORMING PART OF THE ACCOUNTS

Steamships Trading Company Limited and Subsidiary Companies

12. Provisions for other liabilities and charges

	Employee K'000	Dry Dock K'000	Other K'000	Total K'000	Dec 05 K'000
At 31 December 2005	9,941	3,031	869	13,841	11,889
Charged to profit & loss	8,070	1,259	285	9,614	11,348
Utilised during year	(7,973)	(1,705)	(683)	(10,361)	(9,396)
	10,038	2,585	471	13,094	13,841
Short-term provisions at 31 December 2006	4,688	2,585	471	7,744	7,676
Long-term provisions at 31 December 2006	5,350	-	-	5,350	6,165
	10,038	2,585	471	13,094	13,841

Other provisions comprise benefits under the home ownership scheme and provisions for cargo claims.

13. Borrowings

	Consolidated		Holding Company	
	Dec 06 K'000	Dec 05 K'000	Dec 06 K'000	Dec 05 K'000
Current:				
Bank overdrafts (secured)	13,927	13,278	-	-
Bank loans (secured)	10,000	15,000	-	-
Other loans (unsecured)	697	297	-	-
	24,624	28,575	-	-
Non-current:				
Other loans (secured)	-	1,000	-	-

Mortgages over certain of the Group's properties and a registered equitable mortgage over the remainder of the Group's assets, undertakings and uncalled capital are held by the Group's bankers as security for the bank overdrafts and secured loans.

Interest is paid on all loans at variable commercial rates at a discount to ILR. The effective interest rate on bank facilities at the balance sheet date was 7.75% (2005: 8.03%). Borrowings are currently interest-only with no agreed repayment schedule. Bank facilities are due for renewal in 2007 with extension at the option of the bank.

14. Capital expenditure commitments

Contracts outstanding for capital expenditure amounted to K2,186,000 (2005: 2,984,000).

15. Investments in associates and joint ventures

(a) Carrying amounts:

	Consolidated		Holding Company	
	2006 K'000	2005 K'000	2006 K'000	2005 K'000
Total Associates & Joint Ventures	16,824	10,572	139	139

Each of the above associates is incorporated in Papua New Guinea and is listed in Note 20.

(b) Movements in carrying amounts

	Consolidated	
	2006 K'000	2005 K'000
Carrying amount at the beginning of the financial year	10,572	11,181
Share of profits before income tax	15,115	13,389
Income tax expense	(4,178)	(3,991)
Dividends received/receivable	(3,950)	(9,199)
Transfers	(735)	(808)
Carrying amount at the end of the financial year	16,824	10,572

NOTES TO AND FORMING PART OF THE ACCOUNTS

Steamships Trading Company Limited and Subsidiary Companies

(c) Share of associates' and joint venture's profits or losses

	Consolidated	
	2006	2005
	K'000	K'000
Profits before income tax	15,115	13,389
Income tax expense	(4,178)	(3,991)
Profit after income tax	10,937	9,398

(d) Summarised financial information of associates and joint ventures

	Consolidated	
	2006	2005
	K'000	K'000
Current assets	22,791	25,229
Non-current assets	52,014	35,954
	74,805	61,183
Current liabilities	(31,752)	(23,401)
Non-current liabilities	(26,229)	(27,210)
	(57,981)	(50,611)
Net assets	16,824	10,572
The Group's share of profits of the joint ventures comprises:		
Revenue	104,165	98,303
Expenses	(89,050)	(84,914)
Profit before income tax	15,115	13,389

16. Retirement benefit plans

The total cost of retirement benefits of the Group in 2006 was K5,124,000(2005: K4,852,000). The Group participates in the National Superannuation Fund of Papua New Guinea, a multi-employer defined contribution fund, on behalf of all citizen employees with minimum employer and employee contribution rates established by legislation.

The Group also contributes to a defined contribution superannuation plan on behalf of senior management. The defined contribution superannuation plan was established in 2003.

The holding company does not employ staff directly; consequently there was no charge during the year.

17. Financial instruments

The Group's financial instruments include cash and cash equivalents, receivables, accounts payable, borrowings and forward exchange contracts. The Group monitors the financial risks arising from changes in market prices, interest rates and exchange rates and seeks to minimise the impact on the Group.

(a) Nature of activities and management policies with respect to financial instruments.

(i) The Group undertakes transactions denominated in foreign currencies from time to time and, as a result, is exposed to movements in foreign currency. The Group does not actively hedge its foreign currency risks. Where steps are taken to manage these risks, these are restricted to forward exchange contracts. There were no outstanding forward exchange contracts at balance date.

The Group had no foreign currency borrowings at the balance sheet date (2005: NIL).

(ii) Interest on all Group borrowings is at variable commercial rates and, accordingly, the Group's income and cash flows are exposed to changes in market rates.

NOTES TO AND FORMING PART OF THE ACCOUNTS

Steamships Trading Company Limited and Subsidiary Companies

- (iii) In the normal course of its business, the Group incurs credit risk from trade debtors. There are no significant concentrations of credit risk as the Group has a large number of debtors, geographically dispersed. The Group has a credit policy, which is used to manage this exposure to credit risk. As part of this policy, limits on exposures have been set, and are monitored on a regular basis.
- (iv) The Group aims prudently to manage liquidity risks by maintaining sufficient cash and other liquid assets and the availability of funding through uncommitted credit facilities.
- (b) The face values, less any estimated credit adjustment for all financial assets and liabilities, approximate to their fair value.

18. Contingent liabilities

There were contingent liabilities at the Balance Sheet date as follows:

- (a) The Holding Company has given a secured guarantee in respect of the bank overdrafts of certain subsidiaries.
- (b) Minor guarantees given in the ordinary course of business.
- (c) The Holding Company has given letters of continuing financial support in respect of certain subsidiaries, associates and joint ventures.

No losses are anticipated in respect of these guarantees.

19. Subsidiary companies

	Beneficial Interest %		Beneficial Interest %
Coral Sea Hotels Limited	100	Papua New Guinea Shipping Corporation Limited	100
Kavieng Port Services Limited	60	PNG Mainport Liners Services Limited	100
Kiunga Chief Limited	100	PNG Ports Ltd	100
Lae Port Services Limited	51.5	Port Services PNG Limited	51.5
Laga Industries Ltd	68	Progressive Traders Limited	100
Laurabada Shipping Services Limited	100	Steamships Limited	100
Laurabada Property Limited	100	Tanubada Food Processors Limited	88
Madang Port Services Limited	60	Trade Winds Liquors Limited	100
Melanesian Soap Products Limited	100	Windward Apartments Limited	100
Monier (PNG) Limited	100	Zorba Agencies Limited	100
Monier Allied Products Limited	100		

20. Associates and joint ventures

	Beneficial Interest %	Activity
Colgate Palmolive (PNG) Limited	50	Manufacturer
Consort Express Lines Limited	33	Shipping
Datec (PNG) Limited	50	Computers
East New Britain Port Services	50	Stevedores
Kiunga Stevedoring Company Limited	25	Stevedores
Middle Fly Shipping Limited	50	Shipping
Pacific Towing (PNG) Limited	50	Tug Services
SCL Nominees Limited	33	Management
SCL Too Limited	33	Management

All companies are incorporated in Papua New Guinea.

NOTES TO AND FORMING PART OF THE ACCOUNTS

Steamships Trading Company Limited and Subsidiary Companies

21. Discontinued operations

On 08 November 2005, the Group sold its Merchandise operations (not including land & buildings) to City Pharmacy Limited. The sale included stock, fixtures, fittings and goodwill.

The financial performance cash flow information and carrying amounts of assets and liabilities are the ten months ended 31 October 2005.

	Merchandise		Total	
	2006	Oct 05	2006	Oct 05
	K'000	K'000	K'000	K'000
Operating Results				
Revenue	-	98,769	-	98,769
Operating costs	-	(99,954)	-	(99,954)
Loss from operations	-	(1,185)	-	(1,185)
Earnings Per Share	-	(4t)	-	
Profit (Loss) on disposal and write-down of inventory and other assets	-	4,878	-	4,878
Net Profit (loss)	-	3,693	-	3,693
Tax	-	4	-	4
Profit (Loss) after tax	-	3,697	-	3,697
Cash Flows				
Operating cash flows	-	14,262	-	14,262
Investing cash flows	-	(13,174)	-	(13,174)
Total cash flows	-	1,088	-	1,088
Net Assets				
Total assets	-	12,046	-	12,046
Total liabilities	-	(6,182)	-	(6,182)
Net assets	-	5,864	-	5,864

The total disposal consideration for the sale of Merchandise was K23,557,000. The carrying amounts of assets and liabilities sold was K18,679,000.

22. Acquisitions

On 1 June 2005 and 1 July 2005 the Group acquired the businesses of Collins & Leahy Limited, consisting of Laga Industries Ltd, East West Transport Limited and a shareholding in Melanesian Soap Products Limited, effectively giving the Group a 50% shareholding in Colgate (PNG) Limited. The total purchase price of K43,445,000 was settled on acquisition. The aggregate assets and liabilities arising from the acquisition were as follows:

	K'000
Property, plant and equipment	18,040
Other non-current assets	21,589
Inventory	13,343
Other current	20,353
Creditors	(19,728)
Fair value of net assets	53,597
Minorities share of Net Assets	(6,109)
Already held in Equity	(3,597)
Discount on acquisition	(446)
Total cash consideration	43,445
Less cash and cash equivalents acquired	(47)
Cash outflow on acquisition	43,398

NOTES TO AND FORMING PART OF THE ACCOUNTS

Steamships Trading Company Limited and Subsidiary Companies

22. Acquisitions (continued)

The acquired business contributed revenues of K31,942,00 and net profit of K5,790,000 in 2005. If the acquisitions had occurred on 1 January 2005, consolidated revenue and consolidated profit for the year ended 31 December 2005 would have been K75,366,000 and K8,593,000 respectively.

Nil in 2006.

23. Subsequent events

East New Britain Port Services was sold on the 1st January 2007 for K2,850,000 which was in excess of the carrying value of the investment.

24. Dividends

	Parent Entity	
	2006	2005
	K'000	K'000
(a) Ordinary shares		
Interim dividend for the year ended 31 December 2006 of 25 toea (2005 - 10toea) per fully paid share	7,752	3,100
Dividends paid in cash during the years ended 31 December 2006 and 2005 were as follows:		
Paid in cash	24,807	6,204
(b) Dividends not recognised at year end		
In addition to the above dividends, since year end the directors have recommended the payment of a final dividend of 75 toea per fully paid Ordinary share, (2005 - 55toea). The aggregate amount of the proposed dividend expected to be paid on 21 May 2007 out of retained profits at 31 December 2006, but not recognised as a liability at year end, is	23,256	17,055

The Company creates a separate category within equity to recognise amounts set aside for payment of dividends that are declared post year end but not recognised as a liability.

INDEPENDENT AUDIT REPORT TO THE MEMBERS

Steamships Trading Company Limited and Subsidiary Companies

Audit opinion

In our opinion the financial report of Steamships Trading Company Limited:

- gives a true and fair view, as required by the *Companies Act 1997* in Papua New Guinea, of the financial position of Steamships Trading Company Limited and the Steamships Trading Company Limited Group (defined below) as at 31 December 2006, and of their performance for the year ended on that date, and
- is presented in accordance with the *Companies Act 1997*, International Financial Reporting Standards and other mandatory financial reporting requirements in Papua New Guinea.

This opinion must be read in conjunction with the rest of our audit report.

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statements, statement of changes in equity, accompanying notes to the financial statements, and the directors' declaration for both Steamships Trading Company Limited (the company) and the Steamships Trading Company Limited Group (the consolidated entity), for the year ended 31 December 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Companies Act 1997*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with International Standards on Auditing, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanation of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Companies Act 1997*, Accounting Standards and other mandatory financial reporting requirements in Papua New Guinea, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations, changes in equity and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used, and the reasonableness of significant accounting estimates made by the directors.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

In conducting our audit, we followed applicable independence requirements of Papua New Guinea professional ethical pronouncements and the *Companies Act 1997*

PricewaterhouseCoopers

Stephen Humphries
Partner

Port Moresby
31st March 2007

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Steamships Trading Company Limited and Subsidiary Companies

The directors submit their Annual Report for the year ended 31 December 2006 for the Company and its subsidiaries.

Principal Activities and Review of Operations

Full details of the Group's activities are given in the Directors' Review on pages 4-5. The Group continues to operate in the fields of Retailing, Hotels, Manufacturing, Property, Shipping and Transport.

The directors believe that there will be no significant changes in the Group's activities for the foreseeable future.

Changes in Accounting Policies

Detail of changes in accounting policies are shown in Note 1(m) to the accounts.

Result

The Group operating profit for the year attributable to shareholders was K47,479,000 (2005: K40,208,000).

Dividend

The directors advise that a final dividend of 75 toea per share will be paid immediately after the Annual General Meeting on 21st May 2007. The exchange rate Kina to Australian Dollar applying on 7th May 2007 will be used to calculate the dividends to shareholders resident outside Papua New Guinea.

Rounding Off

Amounts in the Directors' Report and accounts have been rounded off to the nearest thousand kina.

Directors' & Officers' Liability Insurance

The Company has paid a premium of K134,375 (K192,500 - 2005) for directors' and officers' liability insurance in respect of directors and executive officers of the Company and its controlled entities.

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Steamships Trading Company Limited and Subsidiary Companies

Interests Register

Directors have disclosed the following interests in shares in the Company and provided general disclosure of companies in which the director is to be regarded as interested as set out below:

Particulars of Directors	Relevant Interests	Beneficial Shares Held
W.L. Rothery Director since 1997 Chairman since 2006	Executive and Director: John Swire & Sons Pty Ltd and group companies. Director: John Swire & Sons (PNG) Ltd and group companies.	Nil
G. Aopi, CBE Member Audit Committee Director since 1997	Chairman: Telikom PNG Ltd; Marsh Ltd; CDI Foundation. Director: Oil Search Ltd; Bank South Pacific Ltd; Kumul Hotels Ltd; POMSox Ltd; F.M. Morobe Ltd; Mirad Ltd; National Roads Authority and various other private companies.	Nil
Sir Michael Bromley, KBE Member Audit Committee Director, 1986 to 1996 Director since 2000	Director: Chemica Ltd; Niugini Energy Ltd; Maps Tuna Ltd; Sek No. 35 Ltd and various other private companies.	288,000
David H. Cox Managing Director since 2004 Director since 2003	Nil	Nil
G.J. Dunlop Managing Director 2000 to 2003 Company Secretary 1987 to 2003 Member Audit Committee Director since 1995	Director: John Swire & Sons (PNG) Ltd and group companies. Director: John Swire & Sons Pty Ltd.	Nil
G.L. Cundle Director since 2006	Director: The China Navigation Company Ltd; John Swire & Sons (PNG) Ltd; and various other companies in the Swire Group	Nil
W.T. Kamit, CBE Director since 2005	Director & Secretary: Bunowen Services Ltd; Kamchild Ltd; Bongoro Enterprises Ltd; Gadens Administration Services Ltd. Senior Partner Gadens Lawyers. Director: New Britain Palm Oil Ltd; South Pacific Post Ltd; Post Courier Ltd; Allied Press Ltd; Nautilus Minerals (Niugini) Ltd; Lihir Gold Ltd	Nil
W.A. Lawrence, OBE Chairman, Audit Committee Director since 1983	Director: Westpac Bank-PNG-Ltd; Santos Niugini Exploration Ltd; Barracuda Ltd.	Nil
C. W. Raper Finance Director & Company Secretary since 2005	Director & Secretary, John Swire & Sons (PNG) Ltd and group companies.	Nil

TABLE OF COMPARISONS

Steamships Trading Company Limited and Subsidiary Companies

Remuneration of Directors

Directors' remuneration, including the value of other benefits, received or receivable from the Company during the year, is as follows:

	Dec 06	Dec 05
	K'000	K'000
W.L. Rothery	18.0	18.0
CD Pratt, CBE (retired 27th February 2006)	-	20.2
Sir Daniel Leahy (retired 16th May 2005)	-	9.0
G.J. Dunlop	22.5	22.5
G. Aopi, CBE	22.5	22.5
Sir Michael Bromley, KBE	22.5	22.5
D.H. Cox	441.0	429.0
G.L. Cundle	18.0	-
W.A Lawrence, OBE	22.5	22.5
W. Kamit, CBE	18.0	9.0
C.W. Raper	150.0	8.0

Remuneration of Employees

The number of employees other than directors, whose remuneration and other benefits was within the specified bands are as follows:

	Dec 06	Dec 05		Dec 06	Dec 05
K100,000 - K109,999	1	2	K350,000 - K359,999	2	-
K110,000 - K119,999	1	-	K360,000 - K369,999	1	3
K120,000 - K129,999	-	1	K370,000 - K379,999	1	-
K130,000 - K139,999	-	2	K380,000 - K389,999	1	2
K150,000 - K159,999	-	2	K390,000 - K399,999	1	1
K170,000 - K179,999	1	-	K400,000 - K409,999	1	-
K180,000 - K189,999	2	1	K410,000 - K419,999	1	1
K190,000 - K199,999	1	2	K420,000 - K429,999	-	2
K200,000 - K209,999	1	2	K430,000 - K439,999	1	2
K210,000 - K219,999	-	3	K450,000 - K459,999	1	-
K220,000 - K229,999	1	-	K460,000 - K469,999	1	-
K230,000 - K239,999	2	3	K480,000 - K489,997	2	-
K240,000 - K249,999	-	2	K490,000 - K499,999	1	1
K250,000 - K259,999	1	4	K500,000 - K509,999	1	-
K260,000 - K269,999	-	3	K510,000 - K519,999	1	-
K270,000 - K279,999	-	1	K520,000 - K529,999	1	-
K280,000 - K289,999	4	1	K540,000 - K549,999	-	3
K290,000 - K299,999	-	2	K550,000 - K559,999	1	-
K300,000 - K309,999	1	1	K580,000 - K589,999	1	-
K310,000 - K319,999	-	2	K590,000 - K599,999	1	-
K320,000 - K329,999	3	1	K600,000 - K610,999	1	-
K330,000 - K339,999	1	1	K680,000 - K689,000	1	-
K340,000 - K349,999	3	-			

In addition, an amount of K11,129,773 (2005: K9,593,000) was paid to SCL Nominees Limited for management services.

Auditors' remuneration and donations. Details of auditors' remuneration and donations are shown in Note 2 to the accounts.

For and on behalf of the Board:

Port Moresby
28 February 2007

W. L. Rothery
Chairman

D.H. Cox
Managing Director

TABLE OF COMPARISONS

Steamships Trading Company Limited and Subsidiary Companies

Shares are listed on the Australian Stock Exchange and the Port Moresby Stock Exchange.
All shares carry equal voting rights.

SHAREHOLDINGS

At 31 January 2007, there were 401 shareholders

256	holding	1	-	1,000 units
105	holding	1,001	-	5,000 units
20	holding	5,001	-	10,000 units
20	holding	10,001	-	and over

12 shareholders held less than a marketable parcel.

The 20 largest shareholders were:		%
John Swire & Sons (PNG) Limited	22,362,651	72.12
Brislan Nominees Pty Ltd	6,178,286	19.92
National Superannuation Fund	1,636,069	5.28
John E Gill Operations Ltd	54,727	0.18
Kelvenside Pty Ltd	50,000	0.16
RSM Pension Fund AC RSM Pension Fund AC	36,513	0.12
Mrs M Elkington	33,183	0.11
Roger Wayne Harrison	31,000	0.10
PCSM Pension Fund	23,580	0.08
Mr R Mahtani	21,700	0.07
Malcolm Burns Reid	21,626	0.07
Hylec Investments Pty Ltd	20,494	0.07
Engoordina Pty Ltd	15,078	0.05
Dr Gordon Bradley Elkington	12,966	0.04
Winpar Holdings Ltd	10,230	0.03
Derrick Charles Whitaker	10,348	0.03
Ms J Forbes	10,000	0.03
Miss Shirin Moayyad	10,000	0.03
Ms. Maureen Christie	9,240	0.03
BSP Capital Ltd	8,785	0.03
	30,556,476	98.55

APPLICABLE LEGISLATION

The Company is incorporated in Papua New Guinea and is not generally subject to Australian Corporations Law including, in particular, Chapter 6 of the Australian Corporations Law dealing with the acquisition of shares (including substantial shareholdings and take-overs). The Company is subject to the requirements of the Papua New Guinea Companies Act 1997, Securities Act 1997 and the Takeovers Code. The Companies Act and the Securities Act regulate the issue and buy-back of shares and contain provisions as to the trading in securities, provisions as to financial benefits to related parties, substantial shareholders provisions, remedies in cases of oppression or injustice and actions by, and access to, records by shareholders.

The Takeovers Code regulates offers where a person already holds more than 20% of the voting rights in a company or where a person becomes the holder of more than 20% of the voting rights in a manner permitted by the Code.

A code offer, which can either be a full offer or a partial offer, must be extended to all holders of voting securities in the Company. The Code also contains compulsory purchase and sale provisions if more than 90% of the shares are acquired under an offer.

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Steamships Trading Company Limited and Subsidiary Companies

	2006	2005	2004	2003	2002	2001	2000
	K'000	K'000	K'000	K'000	K'000	K'000	K'000
Balance Sheet							
Paid up capital	24,200	24,200	24,200	24,200	24,200	24,200	24,200
Reserves	218,833	196,161	162,157	153,037	147,676	144,761	145,817
Shareholders' funds	243,033	220,361	186,357	177,237	171,876	168,961	170,017
Minority shareholders' interest	11,094	10,056	6,431	4,607	4,100	6,004	7,056
	254,127	230,417	192,788	181,844	175,976	174,965	177,073
Fixed assets	227,773	193,639	173,858	160,913	169,652	172,052	176,858
Investments	16,839	10,572	11,181	8,680	11,143	18,236	12,458
Future deferred tax asset	12,944	24,207	9,885	11,708	11,268	7,566	4,328
Goodwill	3,568	3,068	-	-	-	-	-
Current assets	98,006	98,588	95,308	128,169	129,627	113,238	133,925
Total assets of the Group	359,130	330,074	290,232	309,470	321,690	311,092	327,569
Current liabilities	98,517	90,867	90,786	90,018	102,039	102,969	109,903
Non-current liabilities	6,486	8,790	6,658	37,608	43,675	33,158	40,593
Total liabilities of the Group	105,003	99,657	97,444	127,626	145,714	136,127	150,496
Net assets	254,127	230,417	192,788	181,844	175,976	174,965	177,073
Profit and Loss							
Revenue	336,302	370,037	328,880	356,426	378,228	325,527	331,560
Operating profit before income tax and abnormals	53,502	45,434	13,590	6,017	(3,026)	(4,443)	9,820
Abnormal items	15,115	13,389	11,118	6,726	8,279	6,562	4,768
Income tax expense	(18,357)	(16,589)	(6,969)	(3,433)	(1,108)	92	(3,233)
Minority interests	(2,781)	(2,026)	(3,036)	(2,398)	321	(1,716)	(1,979)
Net profit attributable to shareholders	47,479	40,208	14,703	6,912	4,466	495	9,376
Depreciation transfer	1,467	1,467	1,467	1,467	1,467	1,467	1,467
Dividends paid or provided	(31,008)	(20,157)	(5,583)	(3,102)	(1,551)	(1,551)	(4,652)
Earnings retained this year	17,938	21,518	10,587	5,277	4,382	411	6,191
Ratios							
Current assets to current liabilities	0.99	1.09	1.05	1.42	1.27	1.10	1.22
Borrowings to shareholders' funds	10.13	12.97	15.39	32.85	46.03	44.88	50.21
Net asset backing per share (toea)	8.20	7.43	6.22	5.86	5.68	5.45	5.48
Net profit to revenue %	14.12	10.87	4.47	1.94	1.18	0.15	2.83
Net profit to shareholders' funds %	19.54	18.25	7.89	3.90	2.60	0.29	5.52
Net profit per share (toea)	153.12	129.67	47.42	22.29	14.40	1.60	30.24
Dividends paid and provided (toea)	100.00	65.00	18.00	10.00	5.00	5.00	15.00
Earnings retained in relation to total earnings %	37.78	53.52	72.01	76.35	98.12	83.03	66.03