

OPERATIONS REVIEW

INTERNATIONAL TRANSPORTATION, LOGISTICS AND TERMINALS

Our international transportation, logistics and terminals businesses experienced increasingly adverse economic conditions during 2001. There is unlikely to be any improvement in the immediate short-term and the difficult business environment seems set to persist certainly well into the second half of the year.

business performed well in achieving a 20% increase in liftings but tempered by a 9% drop in average revenues, whilst the Australia trades suffered a 9% drop in average revenues against a 10% increase in volumes. Our embryonic Intra-Europe business performed well achieving a 5.7% increase in average revenues against a 50% increase in containers carried.



CONTAINERISED TRANSPORTATION

All trade routes experienced worsening business conditions during 2001. The Trans-Pacific business recorded a 10% rise in liftings but suffered a 13% drop in revenue per TEU. On the Asia-Europe routes, liftings increased by 2.2% while average revenue per TEU fell by 13%. Our business in the Transatlantic trades fared better since, while total liftings rose by 2%, average revenues per TEU actually showed modest gains over the levels obtained during the previous year. Our Intra-Asia

Balanced against these effects of the slowdown of global economic activity were certain benefits to both our fixed and variable cost bases. The continuing strength of the US Dollar served to reduce operational costs and overheads whilst the average cost of bunkers for the year were 17.5% lower than in 2000. In addition OOCL took delivery under long-term charters of a further two 5,560 TEU newbuilding vessels during the year as part of our fleet modernisation and expansion plans and as scheduled within our organic growth projections. This larger and more efficient tonnage lowers our unit costs. The result of the introduction of these two new vessels, together with the full year effect of the five

similar sized vessels delivered during 2000, was to reduce our voyage costs by 10.4% on a per TEU / per day basis as a result of both improved vessel efficiency and the greater economy of scale.

In line with our long-term business plans OOCL had, at the end of 2000, placed orders for two 7,400 TEU newbuildings, for delivery during the second quarter of 2003, and held options for a further four. During the course of 2001 two of these options, for delivery in early 2004, were exercised and orders were placed for a further two vessels to be delivered in mid 2004. At the same time the capacity of all six vessels was re-rated to 7,700 TEU. In addition, we have entered into a fleet enhancement programme in conjunction with our alliance partners in the North Atlantic trade which involves the order of a newbuilding ice-strengthened vessel of 4,100 TEU. Simultaneous with its scheduled delivery in April 2003 OOCL has committed to sell the *OOCL Canada* of 2,330 TEU thereby enhancing our route capacity. Finance for four of these vessels has been secured whilst the other three are under long-term bareboat charter arrangements.

Inclusive of one 5,560 TEU under long-term charter and delivered in February 2002 and the four previously announced 2,754 TEU vessels under long-term charter arrangements for delivery in 2003, OOCL is committed to the delivery of a total capacity of 66,000 TEU with options for a further 15,000 TEU.

LOGISTICS

Cargo System, the Group's international freight consolidation and logistics services unit, continued its aggressive development through

the utilisation of innovative and highly customised information solutions for its diverse and growing customer base.

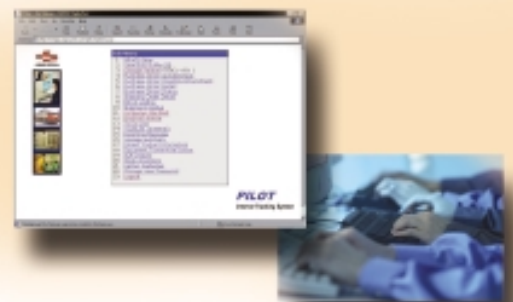
The introduction of market leading web-based applications has proven to be the single most important factor in supporting Cargo System's high level of sustained growth. The unit's suite of products provides visibility down to the Item / SKU level throughout the logistics network from purchase order issuance to customer delivery. The utilisation of leading edge technology has resulted in data integrity across its global network, timely response to customers and simple integration with other systems.

Consistent with the Group's strategic plan to significantly broaden its logistics service capabilities, Cargo System will provide an extensive network of warehousing, distribution and multi modal transportation services throughout key locations in China and other select Asia trade locations.

INFORMATION TECHNOLOGY

The Group continues its policy of further investment in its IT capabilities as a means of achieving both internal efficiencies and cost savings for customers.

CargoSmart, which we believe is the most advanced and comprehensive open software platform in the industry, allows customers to manage their shipments with multiple carriers and to share information online. During 2001 further enhancements were made and the online management services now include Sailing Schedules, Internet Booking Requests, Shipment Details, Cargo Tracking, E-mail Notification, Relationship Manager and



Shipment Coverage. We have also developed and introduced DepotSmart as a neutral online depot operations network which utilises the power of e-commerce to streamline the operational and communication efficiency of depots and to save costs throughout the logistics chain.

CONTAINER TERMINALS

The performance of the container terminals in 2001 reflected a deterioration from the levels achieved in the previous year for a number of reasons. Although throughput increases at our two terminals in New York were

achieved, the overall handling capacity in the port also increased mainly as a result of efficiency gains amongst the other terminal operators. Global Terminal suffered from the loss of a major customer as a result of bankruptcy and the terminal at Howland Hook incurred significant restructuring charges resulting from our acquisition of the minority shareholding and subsequent management changes.

We have continued our programme of investment in these operations in both Vancouver and New York through equipment upgrades. This has however, resulted in higher depreciation and finance charges. Looking forwards, we believe that prospects are looking brighter. We are confident of significant throughput increases in Vancouver as container lines progressively select it as an alternative US gateway as the US West Coast ports approach full capacity. At Howland Hook we are in the process of restructuring its cost base which, together with significant efficiency enhancements, will result in a much improved performance this year. Global Terminal however, continues to face a number of challenges none less the likely loss of another major customer as a result of the rationalisation of services currently being undertaken by a number of carriers in the environment of the general economic slowdown. Several initiatives are underway however, which we are quietly confident will see the throughput replaced on a longer term and more secure footing.





PROPERTY INVESTMENT AND DEVELOPMENT

PROPERTY INVESTMENT

The Group continues its policy of selected investments of size and quality which have the potential for solid and consistent returns.

The Group retains its 8% interest in Beijing Oriental Plaza which is now approaching completion. The three East Office Towers became available for occupation in May 2001 following the three West Office Towers and the shopping mall which were completed during 2000. 280 service apartment units were completed in July 2001 followed by the two Central Office Towers in September 2001. Letting has proceeded according to schedule and the leases on those units first leased will shortly fall due for renewal in a stronger market than was originally the case. The hotel (Grand Hyatt) was opened in September 2001 and the occupancy rate has been in line with expectations.

There is the potential for a call for further funding from shareholders during 2002 which would involve the injection of a further US\$9.2 million by the Group. It is considered unlikely however, that such a call will be made.

Wall Street Plaza, the Group's investment property in the financial district of New York, USA enjoyed a successful year during 2001. Benefiting from near 100% occupancy through the year and from lower interest and other costs it contributed significantly to the overall performance of the Group.

As at 31st December 2001 the building was valued, on an open market basis, at US\$90 million representing a US\$20 million reduction from that provided by the same valuer at the end of 2000. A provision has been made therefore for this diminution in value. Although no market transactions for similar quality buildings in the area occurred between the events of 11th September 2001 and the end of the year, demand for prime office space in the downtown Manhattan area has suffered as a result of both those terrorist attacks and the general economic downturn in the US. Although there are some signs that mid-town tenants may be considering a move from their existing higher priced premises, the longer term future at this stage remains difficult to assess.

PROPERTY DEVELOPMENT

Our activities during 2001 remained concentrated upon Shanghai with its growing population of middle class executives and professionals whose increasing disposable incomes have not only stimulated demand in the primary market for residential units but also in the fast developing secondary market. We have established a reputation for the on time completion of a high quality product. The increasingly active secondary market is itself a stimulant to the demand for further new units. With a total dedicated staff now of more than 100, the Group's property development team under Orient Overseas Development Ltd has focussed in 2001 on

Property Development and Investment

As a property developer and investor, we continue to select choice locations and quality projects with the objective of securing a solid and continuing return. We have established ourselves as a quality residential developer, and will continue to build upon the brand name in Shanghai and beyond.





Zhenning Lu in the Changning district of Shanghai, was received in June 2001 at which time 89% of the project had been sold. It is now 100% sold. In September 2001 the occupation permit from the relevant authorities was received for the two residential towers of phase 1A of Century Metropolis comprising 63,000 sq m of gross floor area located at Hung Qiao Lu also in the Xuhui district. This project in total involves the development of a gross floor area of 240,000 sq m with the remaining phases to be completed during 2002 and 2003.

forward project sourcing, operational efficiency, quality control and prudent financial planning with the objective of becoming a stand alone business. We are in the process of restructuring the various corporate entities under a newly incorporated PRC holding company and, as and when permitted, we shall also seek to establish a financial independence. With RMB denominated assets earning RMB denominated revenues it is only logical and sensible to create RMB denominated liabilities as soon as it is feasible and local regulations permit.

In September 2001, Orient Overseas Developments Ltd reached an agreement with the Luwan District government of Shanghai over a 37,000 sq m residential development site successfully bid in May 2001. The total gross floor area is estimated at 150,000 sq m and we expect the project to be completed and fully sold by no later than 2007.

Handover procedures relating to Joffre Gardens, the approximately 70,000 sq m development at Nan Chang Lu in the Xuhui District of Shanghai, began in January 2001 following receipt of the occupation permit in December 2000. It is now 100% sold. The occupation permit for The Courtyards, the similar sized residential development at