Chairman's Letter

RESULTS FOR 2003

2003 has turned out to have been one of if not the best year to date for the container liner industry. To the surprise of most, and from very uncertain beginnings, the market gathered strength at an unprecedented pace during the course of the year. At the interim stage of 2003, I voiced concerns that the nascent recovery of the world's major economies remained frail and that the significant increases in both container liftings and average freight revenues during the first half of 2003 were greatly assisted by the weakness of the comparable period of 2002 and might not be sustained into the second half of the year. These concerns turned out to have been unfounded with the growth in volumes and the increase in rates having, in the event, accelerated during the second half of 2003. Equally, the perennial fears that the growth in the volume of containers moved would be insufficient to absorb the effects of the introduction of a significant level of newbuilding tonnage were also groundless. It should be noted, however, that the capacity increases were sufficient to alleviate the upward pressure on freight rates to the extent that in the case of the Trans-Pacific for example, they remain below the levels achieved in 1999 and 2000.

Against this background of beneficial market conditions, and aided by both a continued focus on cost control and the benefits deriving from the economies of scale which accrue from our fleet expansion, I am pleased to be able to report a record level of performance by Orient Overseas (International) Limited and its subsidiaries (the "Group") for the year of 2003 as a whole. The Group recorded a profit before tax and minorities of US$353.3 million for the financial year 2003. A profit attributable to shareholders of US$329.0 million was recorded which represents an increase of 536% over the attributable profit of US$51.7 million which we recorded in 2002. This is a remarkable achievement but must be viewed in the light of the prevailing economic and market conditions which have produced a set of circumstances almost unprecedented in the history of the industry.

The Board of Directors recommends the payment of a final dividend of US12.8 cents (HK$1) per share to ordinary shareholders. Together with the interim dividend, this represents a 566% over the total dividend paid for the financial year ended December 2002.

The Directors are also recommending a bonus issue of shares on the basis of one bonus share of for every 10 existing issued ordinary shares and have resolved to change the board lot size for trading in OOIL shares from 2,000 to 1,000.

The result for the year as a whole is much superior to that predicted in the middle of 2003 and the forecasts for the trading environment during 2004 remain optimistic.

As hitherto, the Group's operations remain organised into two distinct operating entities to allow each the required independence and ability to concentrate upon their respective businesses.

Our International Transportation, Logistics and Terminals division enjoyed an unprecedented trading environment during 2003 as we experienced a much better supply and demand balance despite the substantial growth in capacity. During the second half of 2002 business confidence generally had started to recover from the depths of earlier in the year and container volumes had begun to show much higher growth rates. This continued through into 2003 and, if anything, accelerated as the year progressed. Coupled with a lower rate of tonnage increase than had been forecast, the supply and demand balance changed its bias to the extent that space became more scarce and freight rates consequently firmer.

I am pleased also to report that our container terminal businesses in North America were all profitable for 2003. For various reasons this represents the first time that they have all been profitable in the same year. Overall, the four terminals, two in the Port of New York and New Jersey and two in the Port of Vancouver, achieved an increase of just over 7% in throughput, in terms of actual lifts, and an 11% rise in revenues per container handled. This translates into a 133% increase in net recurrent pre-tax income although this figure is distorted by the swing from loss to profit at Global Terminal in New York. However, we expect these levels of profitability to be maintained or bettered during 2004.

As hitherto we continue to make those investments in these terminal facilities necessary to upgrade the equipment and to maintain and improve the services we provide to our customers. In addition we remain alert to the opportunities which, although infrequent, do arise from time to time to invest in other terminal projects in which we see good prospects in terms of the location and hinterland necessary to produce the profitability levels required.

During 2003 we have continued the development and scope of our automated IT platforms. Major enhancements have been made to IRIS-2, our enterprise system, to include interface capabilities with Cargo*Smart*, e-Payment and Scheduling Smart, and to cater for Bills of Lading and Manifests issued by N.V.O.C.C.s. It's market leading functionality has once again been demonstrated by the fact that a second licensing agreement has been signed to allow use of the system by another major container line. Both the first and this second licensee conducted extensive exercises to identify suitable and available proprietary systems. That both concluded that IRIS-2 was their better and preferred solution demonstrates that no other system compares favourably.

In 2003, Cargo*Smart*, a provider of one of the most advanced portals for the ocean container transportation industry, continued to strengthen its product range by adding and enhancing features that complete the basic shipment cycle from booking through to invoicing, thereby extending its service to help a broader segment of customers and their associates manage their shipments across multiple carriers. The new products and enhancements continue to assist customers to plan, process, monitor, and share their shipment information more efficiently.

OOCL Logistics is the Group's logistics management division. Founded as a global freight services provider, OOCL Logistics today is a major global 3PL (Third Party Logistics Provider) as well as an LLP (Lead Logistics Provider). By combining leading-edge IT solutions, with a full menu of logistics services, it provides customers with integrated logistics solutions and manages multiple carriers, service providers and transportation modes with visibility and event management capabilities. It offers a wide range of value added services through its worldwide network. While bearing the well-recognised OOCL brand name, OOCL Logistics is a neutral 3PL/LLP with the goal to maximise value for its customers. It has a customer focussed service philosophy, technology driven operations and process oriented business practices.

In line with the Group's overall goal of significantly expanding its logistics services capabilities, OOCL Logistics is focused on end-to-end logistics solutions that maintain a high level of customer satisfaction through consistent service quality. Information technology is at the core of modern logistics. OOCL Logistics prides itself on its sophisticated, customer driven technology solutions. It continues to deliver advanced, integrated web solutions that support a full range of transportation, warehousing, information integration and management reporting requirements. To extend its IT leadership, OOCL Logistics embarked on a new IT initiative in 2003, building on the technology successes of the Group, which aims to provide the engine to manage the entire logistics supply chain from manufacturer to retailer. At the same time, OOCL Logistics is continuing to build upon its long-standing presence and expertise in China, a market we regard as having the greatest potential and enormous demand for logistics services. We intend to maintain our leadership position in China's logistics market in the years to come.

Our Property Development and Investment division returned a solid year in 2003. Despite the numerous issues arising due to SARS, the results of our development portfolio in Shanghai remained satisfactory. This can be attributed to both the experience of the local development team and the continued brand name premium we have established in Shanghai. In addition, we began during the year to expand our horizons a little to areas immediately outside the Shanghai City limits, efforts which we believe will make a valuable contribution to the Group going forwards.

For our property investment business, we continue to believe that both China's entry to the WTO and the gradual build up to the 2008 Olympic Games will slowly but surely benefit all sectors of the Beijing property market. Beijing Oriental Plaza, in which the Group continues to hold an 8% interest, has yielded a modest but positive result at the project level for the financial year ended December 2003 and we look forward to a growing contribution at the Group level in the future. Until such time, we continue to view the project as a long term investment. During 2003, the Group increased its percentage freehold ownership of the land underlying Wall Street Plaza from 66% to 95% at a cost of US$10 million. As at 31st December 2003, the building was valued on an open-market basis at US$100 million, which allowing for the capitalisation of the amount spent to acquire the increased freehold interest, represents no change from the prior year. The gradual recovery in the New York property market has benefited Wall Street Plaza, and we look forward to its continued and positive contribution to Group performance.

The outlook for our core international transportation and logistics businesses remains positive. During the course of 2003 the supply and demand balance moved firmly in our favour and at the present time it is hard to find any data to suggest that this favourable situation will alter in the near term. Indeed, at the time of writing the prospects for the longer term appear brighter than they have for some time. In the past, our concerns have traditionally been over the supply side of the equation with new tonnage generally available between 18 months and two years of having placed an order. The present situation, unique it seems, is that with all sectors of the shipping industry having of late been enjoying exceptional levels of performance, the shipyard order books are virtually full for probably the next 3.5 years. As such, the supply side increases are fixed for a period much longer than is usually the case. With greater confidence therefore on the supply side, concern has now switched more to the demand side and the sustainability of the recent levels of container volume growth. It should be remembered that this is very much an international business and indeed, OOCL depends upon its base in Hong Kong for not more than 10% of its revenues. China's accession to the WTO, the continuing process of containerisation and the return to higher levels of global economic growth all tend to suggest that the presently better supply and demand balance is set to remain with us for 2004 and perhaps beyond. More profound in its effect at present perhaps is the process of globalisation. It would seem that the poorer macroeconomic conditions of the past few years in the world's major consuming economies have placed increased pressure on businesses, largely unable to influence their revenues, to concentrate efforts upon their cost bases and to seek lower manufacturing and or assembly costs. This has resulted in a shift of these processes to lower labour cost areas, namely the Far East and specifically China. The impact of these changes in trade patterns is a compound one since it not only generates increased container movements to return the finished product back to its consumer market but also creates other movements, most notably in the Asian regional trades, in the transport of raw materials and components. This goes a long way potentially to explaining the very steep rise during 2003 in Intra-Asian container volumes.

General freight levels at the time of writing remain firm on all our trade routes. Whilst for the Trans-Pacific, the all important negotiations of the annual service contracts remain in progress, we do not expect the outcome to demonstrate any softening in rates of which, during 2004, we shall enjoy the benefit for a full 12 months. Similarly we do not foresee any softening in our other trades and for our Intra-Asia services we may experience some unexpected strength in rates as it now appears that there is little if any extra tonnage available, in addition to the increase in trunk route vessels carrying regional cargo, to absorb the continuing volume increases.

2003 has been an exceptional year for the Group and I must pay tribute to the staff who have made this possible. OOIL has a full-time staff on land and at sea of over 5,000 people. It as a committed and stable workforce and the Group includes "People" as one of its Core Values. "People Development", throughout the whole organisation, remains a cornerstone of corporate policy. Quality in service and products has always been the emphasis and now with our positioning as a knowledge based organisation as we continue our IT investment programmes, we place an even greater emphasis on the development of our people. We aim to provide an environment in which they may extend their personal horizons and realise their full potential in partnership with the Company as a whole.

The Group and its employees also take seriously and take pride in responsible corporate citizenship. Recognising that the communities in which we live and work contribute to our success, we focus our community efforts on the provision of youth education, charity relief and cultural promotion. Every week, throughout the world, OOCL employees give to the community by participating in charity events, fundraising or by dedicating their time to ongoing acts of help or assistance. A major initiative is the Group's involvement in Project HOPE (Health Opportunities for People Everywhere) by assisting with the transportation of the latest diagnostic medical equipment and supplies to the Shanghai Children's Hospital, China, to allow those less fortunate children to receive the best medical care and attention possible. Other beneficiaries include cancer, diabetes and leukaemia funds in Hong Kong, Australia, Europe and the USA; children's homes in Hong Kong and France; food banks in the US and many others.

In line with OOIL's long tradition of giving back to the communities in which we live and work, the Tung OOCL Scholarship supports the education of youth. OOIL and The Tung Foundation together spend over US$1 million per year on educational scholarships for students in China and Hong Kong and for the children of employees globally.

C C Tung
Chairman and Chief Executive Officer
Hong Kong, 19th March 2004

As a total logistics service provider, drawing on the strengths of our powerful information system, we offer customers integrated and tailor-made logistics solutions at every stage in the supply chain.

Supply Chain