# Chairman's Letter

## RESULTS FOR 2004

At this time last year I was able to report that 2003 had turned out to be one of if not the best year to date for the container liner industry. 2004 however, has exceeded all expectations and we have outperformed 2003, achieving record levels of total liftings, total revenues and margins. The cyclicality in our industry has changed markedly. In the past we have felt that stability had been achieved were we to have experienced two consecutive half year periods of strong volume growth balanced against a reasonable tonnage supply growth to result in firm freight rates. Typically in the past, we had had to contend with a weak first half followed by a strong second half to each year or vice versa. Beginning during the second half of 2002 however, we have experienced nothing other than healthy volume growth and strengthening freight rates. 2004 ended therefore, with an unprecedented fifth consecutive half year period of strong market conditions.

Given the more cyclical history of the industry a number of commentators had forecast earlier in 2004 that the market could not continue at such levels and that falling demand and volume growth during the year would see a supply surplus arise with freight rates falling accordingly. Indeed, some forecasts at the beginning of the year were for very low single digit volume growth on the Trans-Pacific trades as a whole. This did not happen! Volumes continued to grow strongly and freight rates to firm accordingly as space became tight during the peak season and exacerbated by the effective withdrawal of capacity due to the congestion problems experienced on the US West Coast and also to an extent, in northern Europe.

Although able to reap the benefits of this market environment we have, nevertheless, contained our focus on cost control and with the yet further benefits of our appropriately timed fleet expansion and the scale economies derived from the deployment of new and more efficient vessels, I am pleased to be able to report this record level of performance by Orient Overseas (International) Limited and its subsidiaries (the "Group") for the year of 2004 as a whole. The Group recorded a profit before tax and minorities of US$700.7 million for the financial year ended 31st December 2004, 98% higher than for the year before. A profit attributable to shareholders of US$670.4 million was recorded which represents an increase of 104% over the attributable profit of US$329 million which we recorded in 2003. This is another remarkable achievement by the Group but, as I cautioned last year, must be viewed in the light of the prevailing economic and market conditions which have continued to provide a set of circumstances unprecedented in the history of the industry.

The Board of Directors recommends the payment of a final dividend of US18 cents (HK$1.4) per share to ordinary shareholders. Together with the interim dividend, this represents a 98% increase over the total dividend per share paid for the financial year ended December 2003 and maintains the dividend payment level at approximately 25% of profits attributable to shareholders.

With the outlook for the coming year remaining strong, the Directors are also recommending, as for last year, a bonus issue of shares on the basis of one bonus share for every 10 existing issued ordinary shares.

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 Container Transport, Logistics and Terminals division enjoyed an unprecedented trading environment during 2004 as volume growth kept pace with or indeed, outpaced the rate at which new tonnage was deployed. Business confidence continued to remain buoyant throughout the year and, as a result, total liftings were increased by 21.6% compared with 2003 in which year they had increased by 18.7%. Importantly also, the average load factor for 2004 showed a 2.4% improvement over 2003.

I am pleased also to report that our container terminals in North America, two in the Port of Vancouver and two in the Port of New York and New Jersey, made substantial progress in 2004. Combined revenue grew by 15.2% on a 10.4% rise in container box throughput volumes and pre-tax earnings eclipsed 2003 results by 47% as margins expanded. With business conditions currently healthy at most North American container terminals, 2005 should be another profitable year for the Group's terminal division.

As in prior years, we continue to invest in new equipment and other improvements at each of our terminals in order to meet the ever-increasing level of service demanded by container shipping lines, driven in turn by the sophisticated logistics requirements of their customers. We continue to explore expansion opportunities at our North American terminals and remain alert to opportunities that may arise from time to time to invest in other terminal projects, particularly in Asia. In line with this policy, Letters of Intent have been signed with the Port Authorities of both Tianjin and Ningbo related to investment in the expansion of container terminal capacity in both of these ports. As a result, we shall continue to benefit from the ongoing growth of Chinese trade.

During 2004 OOIL has continued to invest in its technology infrastructure to improve internal processes and customer service. These information technology developments were focused on four key areas: enhancements to IRIS-2, OOCL's central carrier information system; the launch of a sailing schedule application, SchedulingSmart; the launch of an equipment management system, OperationSmart; and enhancements to its award winning multiple-carrier Internet portal and integration services provider, Cargo*Smart*.

2004 was another milestone year for OOCL Logistics after 25 years in operation. To enhance its ability to create value for customers, it underwent a major corporate reorganisation during the year but its business model remains as being an independent 3rd Party Logistics Provider whilst, at the same time, providing support for the OOCL business as a whole. In the interests of customer focus, the company established three new business units: International Logistics, China Logistics and E-Business.

The International Logistics group focuses on serving customers with global sourcing and supply-chain-management needs. The group creates value through innovative end-to-end international logistics services.

The China Logistics group develops sophisticated transportation, warehousing and distribution services in the PRC, based on its extensive nation-wide logistics network and unique China knowledge.

The E-Business group provides next-generation applications and e-solutions to reduce bottlenecks and to increase efficiency and responsiveness of the supply chain taking advantage of the OOCL Group's industry-leading technology platforms.

The Corporate Headquarters of OOCL Logistics were relocated to Hong Kong, which has allowed it to leverage from the Group's core assets and operating efficiencies. To improve service quality and to reduce costs, the logistics assets of the OOIL Group – including warehouses, depots, trucks and certain system products and assets – were transferred to OOCL Logistics during 2004.

Strategically, OOCL Logistics last year laid the foundations for future growth and expansion. In 2005, it will concentrate on increasing its range of products and services, including end-to-end global logistics, supply-chain solutions in China, regional trans-shipment, value-added services, Chinese domestic distribution and IT solutions. Its E-business unit will take advantage of the overall IT expertise of the OOIL Group to create supply-chain efficiencies for customers and to act as a platform for innovation. To improve customer-service quality, it will launch a global service centre during 2005 to offer round-the-clock logistics support.

Our Property Development and Investment division experienced a solid performance during 2004. Performance was satisfactory and ahead of expectations. In addition, we were successful in the acquisition of new projects during the year. In particular, we have assembled land parcels for further projects in Kunshan, Jiangsu Province and central Shanghai. These acquisitions bring our pipeline in total to over 900,000 sq m of gross floor area. Nevertheless, our total investment in both investment and development projects remains at less than 10% of total Group assets and we intend that this percentage should remain at around this level.

Our property investment business produced a result in line with expectations. We continue to hold an 8% interest in Beijing Oriental Plaza and we expect the project to continue to yield a positive result at the project level in the near term. As at 31st December 2004, Wall Street Plaza was valued at US$100 million. Its occupancy rate continues to remain above 99%, a commendable achievement when compared with the overall Class "A" vacancy rate for Lower Manhattan of approximately 13.7%. We look forward to its continued and positive contribution from Wall Street Plaza to Group performance.

The still improving expertise and experience of our local development team and the growing brand name premium which we have already established continue to assist us in the creation of a stand alone real estate development and investment business in China. We will also continue to seek property investment opportunities which provide a more than adequate return to the Group.

The overall Group result for the year of 2004 as a whole is much superior to that predicted earlier in the year and the forecasts for the trading environment during 2005 are for little overall change despite the ever increasing pressure on costs applied by external vendors. The outlook for our core container transport, logistics and terminals business remains positive. During the course of 2004 the supply and demand balance remained 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. On the horizon however, are some predictions that during 2006 volume growth will slow at a time that a peak in newbuilding deliveries is expected to occur. If the predicted figures turn out to be the case there could well be a softening in the market. However, to estimate demand side volume growth is a notoriously difficult task and, I have to say, historical estimates have invariably turned out in the event to be somewhere wide of the mark.

Until now estimates by independent commentator and analysts have been for a supply side increase in tonnage during 2006 of up to 15% of the existing global container fleet. Evidence shows that tonnage increase estimates are more often than not over-estimates since they relate to static slots only and take no account of, for example, changing trade patterns or indeed of the effects of congestion. This latter problem with which the industry is presently having to contend is due to the lack of investment over the recent past in the land based infrastructure necessary to cope with the higher volume growth levels experienced over the past few years. As a result, on both the west coast of North America and, to some extent, in northern Europe significant delays have been experienced especially during the peak shipping season as the terminals, the road systems and the railways reach saturation levels.

Today's estimates for demand side volume growth in 2006 put the increase as low as 9.7% compared with close to 13% for the preceding three years. These estimates tend to be based upon global GDP growth estimates and, as a result, take no account, for example, of the continuing effects of the outsourcing of production and assembly processes to the Far East or for the opening up of the markets of the former Eastern Europe to Far East produced consumer goods. More importantly perhaps, they cannot account for the potential further erosion in the unit cost of consumer goods which leads to volume growth at significantly higher levels than value growth.

Therefore, even were a supply surplus to arise it is likely to be less severe than some are predicting and therefore, is likely to have only a marginal effect upon freight rates. Indeed, some of these same independent commentators and analysts are now starting to come around to this point of view once they account for the congestion factor and its potential impact upon effective tonnage supply, especially on the Trans-Pacific trade lanes.

Overall freight levels at the time of writing remain firm on all our trade routes. For the Trans-Pacific, the all important negotiations of the annual service contracts are in progress, but we do not expect the outcome to demonstrate any softening in rates. Similarly we foresee rates remaining firm on all of our other trades. Concerns remain however, over rising third party costs, the potential impact on the global economy of increasing oil and other commodity prices and the wider geopolitical issues such as protectionism.

2004 has been another record breaking 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 5,500 people. It is a committed and stable workforce and the Group continues to include "People" as one of its Core Values and "People Development", throughout the whole organisation, remains a cornerstone of corporate policy. It is our consistent investment in people as well as in IT and the quality processes which have established a strong cost structure that supports and enhances our performance through the various business cycles.

The quality of our services and products has always been our focus 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. Their contributions to the communities in which they work are described elsewhere in this report and I commend them wholeheartedly for the efforts which they put into this responsibility.

**C C Tung**
*Chairman*
Hong Kong, 10th March 2005




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