Operations Review

CONTAINER TRANSPORT, LOGISTICS AND TERMINALS

There was a strong start to 2005 in terms of container volume growth and this continued throughout much of the year. The US economy performed well and consumer demand and retail sales remained robust driven largely by a still buoyant housing market. Concerns were, and continue to be expressed over the sustainability of the twin deficits but with the job market growing, inflation under restraint and real wages still improving the outlook, certainly for the shorter term, remains optimistic. Through the year the major European economies continued to struggle but towards the end of the year began to show some signs of recovery. Japan, importantly as the second largest economy, also began towards the end of the year to show significant signs of recovery and a return to domestic economic growth whilst the effect of China on the global economy continues to grow.

Container Transport and Logistics

	2005		2004
(US$ millions)			
Volumes (teu)	**3,523,218**	+7.8%	3,267,235
Revenue	**4,229.9**	+12.8%	3,748.4
E.B.I.T.D.A.	**777.4**	+0.7%	772.0
Depreciation/Amortisation	**(127.2)**	+0.8%	(126.2)
E.B.I.T.	**650.2**	+0.7%	645.8
Finance Costs	**(51.4)**	+46.9%	(35.0)
Profit Before Tax	**598.8**	-2.0%	610.8
Tax & M.I.	**(22.5)**	+226.1%	(6.9)
Net Profit	**576.3**	-4.6%	603.9

CONTAINER TRANSPORT

2004 had been an exceptional year by any measure and there were real doubts at the beginning of 2005 that we could come close to achieving the same level of performance. Nevertheless, 2005 has matched those exceptional levels of performance. The combined effects of increased liftings and a modest rise in average revenue per TEU served to outweigh the adverse impact of the higher cost environment. Overall liftings for OOCL rose by 7.8% to 3,523,218 TEUs which, when combined with a further ca 4% recovery in average revenues per TEU, resulted in a 12.1% increase in total revenues to US$4.028 billion. As mentioned however, there were significant adverse movements on the cost side.

Overall costs per TEU rose by 7.4% compared with 2004. Variable costs per TEU rose by approximately 3.5% compared with 2004 as a result of increased terminal charges and the higher cost of third party transportation services. Fixed costs also rose significantly, bunker costs were higher by 38% on a per TEU basis and by 43.7% on an average price per ton basis. In absolute terms, the total cost of bunkers in 2005 was US$139 million higher than for 2004. Repositioning costs were also higher, by 11.4% on a per TEU basis, as the imbalance between inbound and outbound cargoes continues to grow. The costs of chartering in vessels for our Intra-Asia and Australasia services, rose by 16%, or US$34.5 million in absolute terms, as we continued to renew and fix new charters into the stronger charterhire market. The overall load factor for 2005 remained unchanged at around 84% despite an 8.8% increase in loadable capacity as the fleet expanded during 2005.

OOCL's Trans-Pacific services produced another solid performance during 2005 consolidating their position as the single largest contributor to overall OOCL profitability. A 10.7% increase in liftings combined with a further but only marginal recovery in average freight rates per TEU resulted in an 11.1% increase in total revenues. Liftings to the US East Coast continued the trend of experiencing the higher volume growth rate, reaching 37% for 2005 compared with 28% for 2004.

The recovery in the Asia/Europe and Asia/Mediterranean trade routes which showed significant improvements during 2003 and 2004 continued through 2005, albeit at a slower pace. 2004 had registered a 27.2% rise in total liftings but 2005 registered a more modest increase with volumes growing by 5.2%, a reflection however, of the much lower increase in loadable capacity during the year. Average freight rates showed a more modest increase following the 8.4% of 2004 by recording a 2% improvement and contributing to a 7.4% increase in total revenues for 2005.

The performance on the Transatlantic routes by comparison, continued to experience improvements and served to double their contribution to Group profitability. During 2005 liftings increased by 4.4% and average revenues per TEU rose by a further 13.2% resulting in an 18.2% rise in total revenues.

Orient Overseas Container Line

	TOTAL LIFTINGS (TEUs)			TOTAL REVENUES (US$'000)		
	2005		2004	**2005**		2004
Trans-Pacific	**1,124,967**	+10.7%	1,016,635	**1,767,341**	+11.1%	1,591,175
Asia-Europe/ Intra-Europe	**544,031**	+5.2%	517,054	**777,920**	+7.4%	724,626
Transatlantic	**326,643**	+4.4%	312,769	**485,887**	+18.2%	410,995
Intra-Asia/ Australasia	**1,527,577**	+7.5%	1,420,777	**996,991**	+14.9%	867,418
All Services	**3,523,218**	+7.8%	3,267,235	**4,028,139**	+12.1%	3,594,214

Following on from the 24.9% increase achieved during 2004, OOCL's Intra-Asia and Australasia businesses experienced a year of more modest volume growth achieving a further 7.5% increase in liftings. Following on from a 14.9% increase in average revenues per TEU in 2004 a further 7% increase was achieved during 2005. As a result, total revenues increased by 14.9% and

the contribution to Group profits was significantly increased. This achievement is all the more commendable given, in absolute terms, the 51% increase in bunker costs and 23% increase in charterhire costs suffered in these trades.

During the first half of 2005 OOCL took delivery of the "*OOCL Atlanta*" and the "*OOCL Tianjin*". Both are 8,063 TEU vessels built by Samsung Heavy Industries Co, Ltd ("Samsung") in South Korea and were deployed within our Trans-Pacific service. They were numbers seven and eight in our total series of twelve. Numbers nine and ten, the "*OOCL Asia*" and "*OOCL Europe*", are to be delivered in March and July of this year. Completion of this series of "SX" Class vessels will take place with the delivery of numbers eleven and twelve in early 2007.

In addition to this "SX" Class series, our "S" Class series is being augmented by the delivery, as previously announced, of eight 5,888 TEU vessels, to be built by Imabari Shipbuilding Co, Ltd in Japan. The first, the "*OOCL Vancouver*", was delivered earlier this year. Three more remain to be delivered during 2006 with the remainder to follow during the first half of 2007. During 2005 we contracted for a further two panamax sized newbuilding vessels bringing to a total of six 4,500 TEU capacity vessels to be built by Samsung in South Korea. We also continue to hold contracts for a previously announced pair of similarly sized vessels to be built by Hudong - Zhonghua Shipyard, which constitute our first venture into China for containership newbuildings. Final decisions with regard to the deployment of these panamax sized vessels remain to be taken but they do provide us with the ability to operate an all water Panama Canal service to the US East Coast should circumstances ever require it. Such a loop requires eight vessels and they are to be delivered one this year, five during 2007 and two during 2008.

As commented upon in previous years, these various newbuilding programmes are in line with our long-term business plans. OOCL's internal organic growth plans, to be supported by sustained profitability, remain in place and the further long-term charterparty arrangements mentioned above, together with the existing fleet of eight 5,560 TEU "S" Class vessels under medium-term charterparties, which have now begun to reach their first renewal dates, provide us with the flexibility we require to convert vessels earmarked for fleet expansion into replacement tonnage should market conditions so dictate. Newbuilding prices remain at historical highs, albeit at a slightly lower level than last year, and the orderbook remains unusually long, still at around 3.5 years. Historically, OOCL has been highly successful at timing its forays into the newbuilding market, managing always to contract at close to the bottom of the price cycle and take delivery at close to the top of the freight rate cycle. As set out above, our newbuilding needs are, for the most part, satisfied until into 2009 and therefore time is very much on our side in when, again, to enter the newbuilding markets.

LOGISTICS

For the financial year 2005, OOCL Logistics ("OLL") achieved a revenue growth of 30.6% and substantially improved its management structure and processes. We shall continue to focus on growing our scale in the next few years.

The International Logistics unit achieved its targeted growth in the Asia to North America market while maintaining a stable business in the Asia to Europe market. We experienced encouraging growth in the Intra-Asia trades, especially China to Japan and China to Korea. We will continue to enhance our core competencies and to develop new products based on our individual customer centric business model which aims at providing international supply chain management and execution services to our customers.

Our China Logistics made encouraging progress in building up its warehouse infrastructure. During 2005, we leased additional warehouses in Xiamen, Ningbo, Qingdao, Tianjin and Dalian in addition to our existing facilities in Shanghai, Dongguan and Shenzhen. The majority of them became operational during the second half of 2005. We also acquired a piece of land in Tianjin of 25,000 sq m upon which we shall construct a warehouse targeted to be completed during the final quarter of 2006. New computer systems (Inventory Podium and Warehouse Podium) have been developed and were commissioned in late 2005 to support the day-to-day operations and provide a global inventory visibility to customers.

Our E-Business made the first logistics system solution sale in 2005 for a reefer customer in South China.

In North America, we entered into the domestic logistics related business by forming alliances with independent operators. We also commenced our leased warehouse operation in Chicago in early 2006. We will continue to develop our warehousing capacity as well as to diversify our logistics services in North America.

During 2005, we opened self-owned offices in Australia, India, The Philippines and Malaysia. Adopting a decentralised and empowered management structure, we witnessed encouraging business developments in many regional offices. We shall capitalise upon the benefits and advantages in the coming years.

INFORMATION TECHNOLOGY

In line with the Group's belief in improving efficiency and customer satisfaction through its IT capabilities, further investments were made in both hardware and software during 2005. To capitalise further upon the value of its solid foundations, OOCL has further enhanced the features and functionality of IRIS-2 to further improve our customer service and information quality. To elevate further the reliability of the system, Gemstone 64-bit Phase I was successfully cutover to production during 2005. This has brought with it performance improvements of 20-50% on system response times and will also allow the system to scale beyond the 32-bit object count limit of two billion persistent objects in the future. This will allow OOCL to scale up to meet its organic growth strategy. Such scalability has always been a priority and the aim has been to provide for way beyond projected future growth. The introduction of Gemstone 64-bit Phase 2 during the third quarter of 2006 will remove all scalability concerns by increasing the current two billion object capacity to a minimum of 100 billion.

In order to provide a reliable and secure technology infrastructure for the OOIL Group, which has always placed quality as one of its prime core values, OOCL has successfully obtained the BS 7799 Information Security certification in 2005 with OOCL Data Centre accredited to have met all pre-requisites for the certification accredited by UKAS, the leading worldwide certification body, according to the British Standard.

In relation to logistics, resources have been invested in the development of tailor-made E-Business solutions to enable our customers to manage and execute their supply chain and distribution networks more efficiently. A series of system capabilities under the name of Podium are in development. During the second half of 2005, we implemented Inventory Podium and Warehouse Podium which extend the end-to-end visibility of our customer's global supply chain to warehouse transaction level on real time basis.

Cargo*Smart*, one of the few Internet portals providing the most advanced application and integration services to the ocean container transportation industry, celebrated its fifth anniversary in 2005. Since its launch in 2000, further offline product and integration services, to help customers of any size and technological capability to manage their multiple carrier shipment information, have been offered to users. Customers and carriers connected to Cargo*Smart* are able to reduce costs, gain efficiencies and streamline their communication through automated shipment monitoring and timelier and accurate shipment processing. With all these advanced features, Cargo*Smart* in 2005 had over 30,000 registered members from over 12,000 different organisations actively using its open platform to connect to their ocean carriers and to access consolidated shipment information from one location.

Since its launch, Cargo*Smart* has enjoyed accolades from customers, partners and industry publications across Asia, North America and also Europe. In 2005 alone, Cargo*Smart* received 5 awards for its innovative use of leading technology, outsourcing arrangements and overall value in helping customers to manage their supply chains. The awards received during 2005 were:

- 100 Great Supply Chain Partners awarded by Global Logistics & Supply Chain Strategies for 2 consecutive years;
- IT Excellence Awards in the Best Business Enabler – for Logistics awarded by MIS Asia;
- Best Practice Awards – for Outsourcing awarded by Best Practice Management Magazine;
- Reader's Poll : Best Third-Party Web Site awarded by Marine Digest and Cargo Business News; and
- Freighting Industry Award : IT Category Finalist selected by International Freighting Weekly.

Cargo*Smart* has recently been experiencing growing global demand for its integration solutions. Technical sophisticated customers are increasingly requesting shipment data to be transmitted to and from their systems using different media to improve visibility, data accuracy and productivity. Cargo*Smart* will continue to create and develop further user friendly features for its registered members in the years to come.

CONTAINER TERMINALS

An overall total of 1,162 vessels called at the Group's four principal North American container terminals in 2005, resulting in a combined container box throughput of 1,397,711 lifts, equivalent to approximately 2,361,000 TEUs. While the number of vessel calls was 7.6% above the 2004 level, the total lift volume was 12.4% higher, reflecting the continuing trend towards larger ships being introduced into the major trade routes serving North America. Combined revenue from container activity grew by 21.4% in 2005 to US$379 million and operating margins expanded as an average increase of 8.0% in revenue per lift overshadowed a corresponding 4.8% rise in costs. As a result, pre-tax earnings grew by a healthy 52.0% from a year ago.

TSI Terminal Systems Inc. ("TSI") operates two Canadian terminals in the Port of Vancouver in British Columbia, namely Deltaport and Vanterm. While the facilities experienced only a marginal 0.9% increase in the combined number of vessel calls in 2005 as compared with 2004, the average size of the container ships that were serviced at either facility during the year has increased dramatically and combined container-related revenue grew by an impressive 20.4% on a 7.5% increase in throughput volume to 821,555 lifts. TSI's growth in 2005 would have been even more dramatic but for its share of logistic woes that have become all too common in the industry in recent years, from its having to declare force majeure early in the year as a result of a severe shortage in rail car supply to a lengthy truckers strike during the summer. Despite these setbacks, TSI was helped by a widening operating margin and managed to boost pre-tax earnings from container-related operations by 39.3% from a year ago.

TSI introduced its Balanced Growth Program in March 2005 and has continued to provide excellent service as evidenced by the recent renewal of several long-term contracts by existing customers. It continues to invest in new equipment and a new terminal operating software system from Navis will be introduced during 2006 in order to meet the ever-increasing level of service demanded by container shipping lines. After having completed a long-term contract in October 2005, TSI exited the business of serving as stevedore for cruise ships which call at Vancouver during the summer. While consistently profitable, cruise-related revenue amounted to just 5% of the higher-margin container-related revenue. With Pacific trade booming and Alaska cruises increasingly selecting Seattle as a home port, management decided it would be prudent to devote all of its resources to the growing core business of servicing container ships.

Vanterm saw an increase in the number of containers moving through its facility by 11.7% to a total of 251,696 lifts in 2005. Improvements to the facility in order to upgrade throughput capacity were completed during the year at a cost of approximately US$30 million, funded partially by the Vancouver Port Authority, including a 33% increase in the yard stacking capacity to 10,500 TEUs and a 103% increase in intermodal yard trackage to 10,200 ft. Two new 65-ton, 22-wide super post-Panamax cranes were fully operational by mid-2005 and the terminal also took delivery of four new 1-over-5 capacity rubber-tired gantry cranes. TSI also extended Vanterm's lease with the Vancouver Port Authority to the year 2022.

Deltaport likewise experienced an increase of 5.7% in the number of containers moving through its facility for a total of 569,859 lifts in 2005. During the year, TSI completed a Heads of Agreement with the Vancouver Port Authority for a new 50-year lease in conjunction with a major expansion planned for Deltaport which will add a third berth, 50 additional contiguous acres of container yard space and three more super post-Panamax cranes. Provided that final environmental approval is obtained in the fall of 2006, operations utilising the new berth are projected to commence in 2009. In the meantime, Deltaport took delivery of four new 1-over-5 capacity rubber-tired gantry cranes and a new 65-ton, 22-wide super post-Panamax crane was introduced into operations in mid-2005.

On the East Coast of the United States, Global Terminal in Bayonne, Jersey City, New Jersey is situated along the Port Jersey Channel in the outer harbour of the Port of New York and New Jersey. Besides offering the shortest distance from the open sea, Global remains the Port's only major marine container terminal with unrestricted air-draft access as it lies outside of the Bayonne Bridge. Continuing to build its business in 2005, Global ended the year with a 157% increase in pre-tax earnings as compared with 2004. Revenue was up 40.1% as a result of a 28.9% increase in vessel calls and a 31.8% increase in container lifts which yielded a throughput of 481,426 TEUs, the highest annual throughput handled by Global in its 33 years of operations. These statistics come off the low base which resulted from the loss of much of its business in 2002, as previously reported. Unit revenue increased by 6.2% and operating margins expanded as unit cost fell 2.5% on account of the significantly higher volume.

In 2005, the US Army Corps of Engineers completed the dredging of the Port Jersey Channel to a depth of 41 ft and remains on schedule to reach its final objective of a 50 ft depth channel in 2008. During the year, Global continued facility and equipment improvement projects which have improved operational performance. Most notable was the installation of an automated optical character recognition gate complex that has markedly increased the accuracy of receiving and delivery information while virtually eliminating trucker queue waiting time. This in turn yielded important environmental benefits by greatly reducing emissions from idling diesel trucks. The delivery of two additional rubber-tired gantry cranes enhanced the terminal's ability to increase capacity through higher densification and Global will take delivery of two additional 65-ton, 22-wide, super post-Panamax cranes in early 2006, bringing its total complement to six post-Panamax cranes. Pending governmental and environmental approvals, the existing berth at Global will be extended by 800 ft to a final length of 2,600 ft with scheduled completion in late 2007. Also planned for implementation by the end of 2006 will be the introduction of a new NAVIS Terminal Operating System which should further improve terminal efficiency.

New York Container Terminal ("NYCT") is located on Staten Island and remains the only major marine terminal for the handling of containerised cargo physically situated in the State of New York. During 2005, NYCT posted a 10.7% increase in container throughput volume and finished the year with a total of 287,637 lifts or 482,621 TEUs. Overall revenue was up 16.4% and pre-tax earnings from operations posted a 32.0% increase, benefiting from the terminal's focus on increasing marine productivity and overall cost control.

The four new 65-ton, post-Panamax cranes which were delivered in 2004 were commissioned and put to work in January 2005. However, these new cranes were not used on larger vessels until after the Port Authority completed the extension of the existing berth by 500 ft in July. The fact that marine productivity increased by approximately 20% after July is a clear indicator of the efficiencies which can be derived from working with larger volumes of boxes from a single vessel.

Progress continued during 2005 on two key infrastructure projects, the dredging of the approach way to NYCT and the build out of an intermodal rail yard. Supported by a combination of Port Authority and Federal funds, both of these projects are scheduled for completion by mid 2006 and accordingly, the terminal expects volume to increase by over 50% in the second half of the year. It is in anticipation of this future volume growth that NYCT undertook two other projects during the second half of 2005. The first included a significant upgrade to the gate complex by the introduction of optical character recognition cameras and remote processing, while the second involved tearing down approximately 100,000 sq ft of underutilised old warehouse space in order to accommodate more grounded containers. Both of these projects are scheduled for completion by the end of the first quarter of 2006.

Looking to the future, NYCT appears poised for significant growth as the Port Authority has agreed in principle to the terminal's request to build a new 1,200 ft berth and associated upland on an adjoining 38 acre parcel of land. During 2006, the terminal will work with the Port Authority and various State and Federal agencies to obtain the necessary permits and by the end of the year, the viability of this major expansion project should be determined and a build out schedule will be available.

PROPERTY INVESTMENT AND DEVELOPMENT

PROPERTY INVESTMENT

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

The Group retains its 8% interest in Beijing Oriental Plaza. Consisting of a retail mall, office towers, service apartments and a 5-star hotel, the project totals some 585,000 sq m in gross floor area. While the project is now achieving modest profits at the project level, we do not expect it to contribute in the near term to Group profitability as a result of the different accounting standards. The total cash investment by the Group remains at approximately US$87 million. Further equity injections are not expected.

Wall Street Plaza, the Group's investment property in New York City's financial district, maintained an occupancy rate of 99% for the better part of the year and at the time of writing is 100% let. Wall Street Plaza remains profitable and is strongly positioned to continue to contribute to the Group's performance. As at the end of 2005, the building was valued, on an open market basis, at US$100 million.

PROPERTY DEVELOPMENT

The Shanghai real estate market slowed during 2005. The majority of the Company's inventory, however, had already been disposed of. As a result, the decline in sale prices did not have a material effect upon the earnings of the development portfolio. While we remain cautious of the potential effects of the slowdown, we remain confident in the medium and long-term future of Shanghai and its surrounding areas.

During 2005, we completed and began handover of Phase 2B of Century Metropolis in the Xu Hui District of Shanghai. The total GFA of the phase was 59,664 sq m. The entire 230,000 sq m Century Metropolis Project has now been fully completed.

The project on the Changle Lu site in the Luwan district of Shanghai will have a total gross floor area of approximately 145,000 sq m. We are in the process of finalising the master plan with the Shanghai City Government and expect construction to begin during 2006.

During 2005, we continued to work with the Kunshan Government on the master plan of our Kunshan project, located on the eastern edge of Kunshan, adjacent to Jiangsu Province International Business Centre, a business zone established by the Provincial Government. The site is located 35 km from People's Park in Shanghai and 19 km from downtown Kunshan. Located in the heart of the Shanghai-Suzhou-Nanjing corridor, the project will be a mixed use development totalling 600,000 sq m consisting of residential, offices, retail and hotel elements.

During 2005, the Group continued to source projects in downtown Shanghai. The Group successfully tendered for a site on Changning Road, Shanghai. The project will have a total gross floor area of 240,000 sq m, and will consist of offices, serviced apartments, retail units and a hotel. In addition, the Group successfully tendered for a site on Heng Shan Lu. The project will have a total gross floor area of 15,000 sq m consisting of retail units and serviced apartments. Given the location and cost structure of both these sites, we are confident that the projects will produce solid returns going forwards.

In total, the Group's pipeline of real estate projects has now reached some 1,000,000 sq m. With an experienced team of dedicated real estate professionals based in Shanghai we intend and fully expect to build a high quality property development and investment portfolio that will yield the Group meaningful returns going forwards.

  

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.