Management Discussion and Analysis

ANALYSIS OF RESULTS

In the first six months of 2001, Orient Overseas (International) Limited Group achieved a profit attributable to shareholders of US$49.1 million, representing an increase of US$24.9 million, or 103% over that of US$24.2 million for the corresponding period of 2000. This result was achieved due principally to an improvement in the quality of our services, a continued tight control over operating costs, a strong US dollar, lower fuel and interest costs and therefore specifically, a better than expected performance from the international containerised transportation business but also from the property investment and development businesses.

Turnover for the six months ended 30th June 2001 amounted to US$1,188 million, an increase of US$27 million when compared with the corresponding period in 2000. Profit before taxation for the first half of 2001 was US$54.7 million, compared with US$35.2 million for the same period in 2000.

The slowdown in the US economy, evident from late 2000 onwards, has undoubtedly taken its toll on the previously buoyant Trans-Pacific trades, inhibiting its rate of growth during 2001, but our international containerised transportation business, nevertheless, benefited from the recovery of Asian exports and the weakness of the Euro and other non US dollar currencies. The Intra-Asia trades and the Asia/Europe services both recorded steady improvements. The Transatlantic trade, benefiting equally from the weak Euro, also demonstrated an improvement in the westbound trades during the first half of 2001.

Turnover for the Group's four terminals in North America was, however, affected by the softening economy and decreased slightly as compared with last year. Throughput for the first six months of 2001 was also affected being 5.6% lower than for the same period last year. In addition, provisions amounting to US$10 million have been made in the first half of 2001 for doubtful receivables due to our terminals in New York and New Jersey as a result of disputes on the recovery of certain cost items and the bankruptcy of a customer.

The turnover of the Group's investment property was broadly equivalent to the corresponding period last year. Our investment property in New York was fully let during the period and sales of our development properties in Shanghai progressed as forecast.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June 2001, the Group had cash, bond and portfolio investment balances of US$409.1 million and a total indebtedness of US$912.1 million. The net debt to equity ratio remained stable at 0.6:1 being the same as at the end of 2000.

The indebtedness of the Group mainly comprises bank loans, finance leases and other obligations which are largely denominated in US dollars. The Group's borrowings are monitored to ensure a smooth repayment schedule to maturity. The profile of the Group's long-term liabilities is set out in Note 11 to the Accounts.

NEW-BUILDING VESSELS

During the first half of 2001, the Group took delivery of two 5,500 TEU vessels under long-term charters and concluded orders for a total of four new container vessels, each of approximately 7,700 TEU in capacity, to be delivered during 2004. The total consideration for these four vessels amounts to approximately US$320 million. Finance has been arranged for two of the vessels and negotiations relating to the other two are nearing their conclusion.

The Group also placed an order for an ice-strengthened new container vessel of approximately 4,100 TEU for delivery in 2003. Consideration for the vessel is approximately US$51 million and negotiations relating to the finance of this vessel are also nearing completion.

Together with the two vessels ordered in November 2000, the Group has a total of seven vessels on order. The Group holds options to build two further vessels of 7,700 TEU each. These new vessels in total, serve to satisfy the projected capacity needs of our international containerised transportation business for the foreseeable future. Adequate resources have been reserved to ensure that the delivery of these vessels does not impose an undue financial burden on the Group as a whole.

OTHER SIGNIFICANT INVESTMENTS

The Group continues to hold an 8% interest in the "Beijing Oriental Plaza" project in Beijing. The first phase was completed during the first half 2000 and the whole project is due to reach completion during the second half of 2002. As at 30th June 2001, the Group's total investment in this project amounted to US$93.6 million.

The Group is currently exploring new property development projects in several Shanghai districts. Discussions on partnership and finance arrangements for these projects continue.

CURRENCY EXPOSURE AND RELATED HEDGES

The Group's principal income is mainly comprised of freight revenues, receipts from terminal operations and rental income from the investment property all of which are denominated in US dollars. Over 66% of cost items were also US dollars based. Certain costs, such as terminal charges, transportation and administrative expenses for regional offices were expended in domestic currencies. The Group's policy is to hedge the payment of some major domestic currencies such as the Euro, Canadian dollars and Japanese Yen.

Over 88% of the Group's total liabilities were denominated in US dollars. The non-US dollars liabilities were backed by an equivalent value of assets denominated in the respective local currencies. Consequently, the risk of currency fluctuations affecting the Group's debt profile is effectively reduced.

EMPLOYEE INFORMATION

As at 30th June 2001, the Group employed approximately a total staff of 4,600 around the world. The Group provides employee benefits such as staff insurance schemes, provident and pension funds, discretionary bonuses, education assistance and medical & dental schemes. The Group also provides in-house training programs and external training sponsorships.