Management Discussion and Analysis

ANALYSIS OF RESULTS

For the first six months of 2002 Orient Overseas (International) Limited Group recorded a profit attributable to shareholders of US$1.03 million. This compares with a profit attributable to shareholders of US$49.07 million for the corresponding period of 2001. This dramatic fall in overall performance has been due almost entirely to a severe deterioration in the comparative performance of OOCL, the Group's core international containerised transportation business. This in turn, was the result of the very steep drop in the general level of freight rates resulting from the significantly adverse changes in the balance between the rates of growth of container volumes carried and the introduction of new tonnage into service.

Turnover for the six months ended 30th June 2002 was US$1,135.04 million, a decrease of US$52.63 million when compared with the corresponding period in 2001. Profit before tax for the first half of 2002 was US$4.12 million compared with US$54.66 million for the same period last year.

The recent problems within the industry have been largely on the supply side rather than on the demand side. Container volumes have continued to increase, albeit at a reduced rate, but this rate of increase has been overtaken by the rate at which new tonnage has been introduced into service. Whilst individually, OOCL has taken delivery of just one 5,700 TEU bareboat chartered new building during 2002 and has seen overall liftings rise by 14.6%, or 138,000 TEU in absolute terms to a total of 1.08 million during the first six months of the year, average revenues per TEU have fallen by 17.0% during 2002 as compared with the comparative period of 2001.

On the Trans-Pacific routes to the U.S. West Coast, while our total liftings have increased by 17.1% during the first six months of 2002, as compared with the same period last year, average revenues per TEU have fallen by 15.8%. Our organic growth plans have been met on all our trade routes except by the Asia to Europe trades on which we experienced a 3.7% fall in total liftings for the first six months of 2002 as compared with last year. However, it was on this trade that the effects were felt the most of our temporary suspension of certain services during the first half of the year.

Our two container terminals in the Port of Vancouver and the two in the Port of New York and New Jersey in total recorded a 5.3% increase in throughput for the first six months of 2002 and produced a result broadly in line with that for the same period last year. Deltaport and Vanterm in Vancouver achieved a total throughput in TEU terms of 533,800 representing a 31.5% increase over the comparable figures for 2001. Global Terminal and Howland Hook Container Terminal in New York are each in the process of a restructuring programme, the former in relation to its customer base and the latter in relation to its cost base. We are confident of an improved performance from both during the second half of this year.

Our investment property in the city of New York has produced a result ahead of budget aided by having been fully let throughout the period and by the continuing low interest rate environment. Our development properties in Shanghai have recorded profits significantly ahead of budget as a result of the strong residential property market. This has resulted in a faster than forecast rate of sale at a higher than forecast average sale price.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June 2002, the Group had cash, bond and portfolio investment balances of US$400.84 million and a total indebtedness of US$930.87 million. The net debt to equity ratio stood at 0.6:1, unchanged from that at the end of 2001.

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

As at 30th June 2002, the Group has one 4,100 TEU ice-strengthened vessel and six 7,700 TEU vessels on order due for delivery in 2003 and 2004. The total consideration for these seven vessels amounts to approximately US$530 million, financing of which has been arranged.

The Group had also committed in 2001 to four 2,754 TEU vessels under long-term charter arrangements for delivery in 2003. 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 upon 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 mid-2003. As at 30th June 2002, the Group's total investment in this project amounted to US$93.6 million and no further investment is required.

The Group also commenced a new property project in Luwan district, Shanghai which involves the development of a site with a gross floor area of 144,000 sq.m. and a total investment of approximately US$160 million. The Group holds an 88% interest in the project and as at 30th June 2002, a total investment of US$25.35 million had been made.

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 properties all of which is denominated in US dollars. Over 67% of cost items is also US dollar based. Certain costs, such as terminal charges, transportation charges and administrative expenses for regional offices, were expended in domestic currencies. The Group's policy is to hedge the payment of certain major currencies such as the Euro, Canadian dollars and Japanese Yen.

Over 90% of the Group's total liabilities are denominated in US dollars. The non-US dollar denominated liabilities were backed by an equivalent value of assets denominated in the respective local currency. Consequently, the risk of currency fluctuations affecting the Group's debt profile is effectively mitigated.

EMPLOYEE INFORMATION

As at 30th June 2002, the Group worldwide employed total staff of approximately 4,685. 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 programmes and external training sponsorships.