Operations Review

INTERNATIONAL TRANSPORTATION, LOGISTICS AND TERMINALS

From a very impropitious start to the year our international transportation, logistics and terminals operations experienced steadily improving business conditions from mid 2002 onwards. The recovery in freight rates over the past few months seems to have become relatively well entrenched to the extent that we can expect an improved performance in 2003. The peak shipping season during the third quarter remains critical however to the eventual outcome for the year and the uncertain political situation serves only to undermine confidence.

CONTAINERISED TRANSPORTATION

All trade routes experienced an improvement in performance during the course of 2002 as volumes increased significantly and freight rates began to firm. Overall, on a 4% improvement in the load factor, OOCL recorded total revenue growth of 2.3% on a 13% increase in total liftings but against a 9% drop in the underlying average revenue per TEU. The Trans-Pacific businesses, i.e. both East Coast and West Coast services, together saw the load factor improve by 6%. Liftings increased by 16% and total revenues by 6.6% but average revenue per TEU dropped by 8%. On the Asia-Europe routes for the year of 2002 as a whole, load factors were up by 5% and liftings by 3.5% but total revenues fell by 9% and average revenues per TEU by 12%. A similar pattern of performance was recorded by the Transatlantic services. An 8% improvement in the load factor and a 7% increase in liftings on the one hand were balanced on the other by a near 4% fall in total revenues and a 10% drop in average revenues per TEU.

Our Intra-Asia trades achieved a 10% increase in liftings on an unchanged load factor but, while total revenues improved marginally by 0.4%, average revenue per TEU fell by 9%. Our Australia services, while suffering a significant 15% fall in revenue per TEU, managed to achieve a 13.6% growth in total revenue as a result of a 34% increase in liftings, augmented by the introduction of a new loop, on a load factor improved by 6%. Our still fledgling Intra-Europe services recorded an 85% increase in liftings and an 81% increase in total revenues on a load factor improved by 17% and a fall in average revenue per TEU of just 2%.

Balanced against the benefits which accrued from these improvements in liftings, total revenues and load factors was a fall across all trade routes in average revenues per TEU.

Fundamental therefore to the preservation of profitability was and will remain the continued close control over the cost base. We also had to withstand the adverse impact of a steadily rising oil price and, later in the year, a softening US Dollar which had the effect of increasing our non-US Dollar shore based overheads and operating costs relative to revenue and our overall bunker costs. These unfavourable movements would appear likely to remain in place, certainly in the shorter term.

During February 2002 OOCL took delivery of the "*OOCL Thailand*", a vessel under long-term charter and the last in our "S" Class series of c. 5,500 TEU ships. In April and June 2003 OOCL will take delivery from Samsung in Korea of the "*OOCL Shenzhen*" and "*OOCL Long Beach*". Both are to be employed in our Grand Alliance services and are the first of the eight, now re-rated, 8,000 TEU "SX" Class vessels currently on order. In May 2003 OOCL will take delivery from Daewoo in Korea of the "*OOCL Montreal*", a 4,200 TEU ice-strengthened vessel for deployment in our North Atlantic services between Europe and Canada. Simultaneously, we shall deliver the "*OOCL Canada*", our 2,330 TEU ice-strengthened vessel, to its new owners under the existing contract of sale.

Beginning in January and ending in June 2003, OOCL has taken or will take delivery of the "*OOCL Xiamen*", "*OOCL Osaka*", "*OOCL Sydney*" and "*OOCL Melbourne*". These are 2,754 TEU vessels built by Imabari in Japan and are or will be under long-term charters for deployment within either our Australasian or Intra-Asian services.

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 indeed should remain in place and unaffected by the shorter term vagaries of the market place. Overall it is these internal plans and the longer term market trends which we must concentrate upon and be guided by so as to be prepared for future business volumes, whether they be up or down. Historically, container volumes have grown at a variously estimated average annual rate of between 6% and 8%. In order merely to stand still we must grow our owned and long-term chartered-in tonnage by a similar percentage and by more if we are to meet our internal organic growth targets which, hitherto, we always have. In accordance with these longer term projections OOCL so far has two 8,000 TEU "SX" Class newbuildings scheduled for delivery in 2003, four for delivery during 2004 and a further two for delivery in 2005.

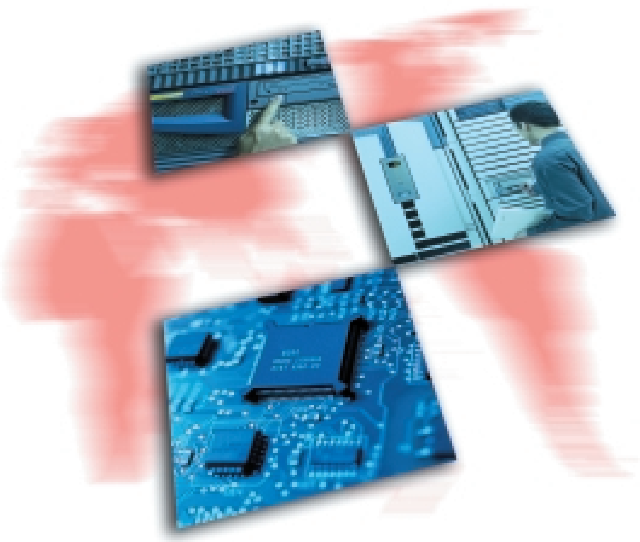
LOGISTICS

OOCL Logistics, previously operating under the Cargo System banner, sustained high double digit growth during 2002 by providing innovative freight management services and leading edge IT solutions for its diverse and growing number of customers. In accordance with its five-year business plan, several major initiatives were launched and are now at various stages of development. Two particular areas of focus have been notable in their development. The China Distribution network expansion programme has been designed to expand the base of regional distribution centres and cross-dock operations in the strategically important China market while the effort in Information Systems development has been to support OOCL Logistics as an information integrator. The broad scope of this program encompasses systems architecture, the utilisation of new technologies and the development of new features and applications.

INFORMATION TECHNOLOGY

The Group continues its policy of further investment in its IT capabilities as a means of achieving greater customer satisfaction and cost efficiency through "Simplification, Standardisation and Automation". By the implementation of these three imperatives, which follow automatically from the one to the other, we can achieve our further goal of "Self Service". This entails the further automation of processes to the extent that our staff are systematically and increasingly freed from the constraints of day to day process management and are progressively more available to concentrate on exception management and the continuing improvement and broadening of our customer services. It is essential to ensure that in these developments, we not only retain but increase and improve the human involvement and personal service provided in order to enhance dynamic management on a real time basis. To facilitate these processes and to aid in the decision making process, we have developed various internal systems. THAMES ("Traffic Hourly Adjusted Monitoring & Enquiry System") and MERIT ("Model for Empty Repositioning & Inventory Tracking") have enhanced the speed of and data transparency in monitoring regional booking traffic and equipment inventories. They have also enabled proper decision making at the regional level and allow a greater control and autonomy to the regions in the management of their own business volumes.

Cargo*Smart*, as one of the most advanced and comprehensive open software platforms in the industry, allows customers to manage their shipments with multiple carriers and to share information online. Cargo*Smart* won the World Trade Magazine's 2002 Supply Chain technology Innovation Award - selected as the Most Innovative Technology service provider. In addition to Sailing Schedules, Internet Booking Requests, Shipment details, Cargo Tracking, E-mail notification, Relationship Manager and Shipment Coverage, further enhancements were made during 2002 and the online management services now include Customised Reports, Customised Sailing Schedules, B/L Document Manager, allowing customers to print Bills of Lading over the Internet, Multi-Carrier Integration ("MCI") with enhanced customer registration, invoice and shipment enquiry. Payment Advice and ePayment are targetted for delivery in June 2003.



To improve our internal efficiencies yet further, several new releases of IRIS-2 were delivered in 2002. These enhancements included Internet Work Order ("IWO") which provides job order confirmation, and enquiry and print features for vendors over the Internet. The Detention and Demurrage module and the Accounts Receivable Combined Invoice module are to improve the efficiency of shipment detention and demurrage tracking and provide accurate invoices to customers to improve the overall collection of detention and demurrage revenue.

We have also continued the development of Depot*Smart* as a neutral online depot operations network to utilise the power of e-commerce to streamline the operational and communications efficiency of depots and to save costs throughout the logistics chain. Major enhancements include modules to improve input efficiencies, enhance billing visibility, eliminate regular manual checking processes and to enable proactive checking via system alerts.

CONTAINER TERMINALS

The performance of the container terminals in 2002 overall reflected a deterioration from the levels achieved in the previous year for a number of reasons. However, the results of the individual terminals varied greatly. The strength of domestic Canadian import demand together with the growing attraction of Vancouver as a fast and efficient gateway to the US mid-West enabled our two terminals in Vancouver, Deltaport and Vanterm, to achieve a combined 26% increase in the number of containers handled. Although revenues per lift fell slightly the two terminals

together produced a 75% increase in operating profits. During the disruption at the US West Coast terminals in late 2002 a certain amount of cargo was diverted via Vancouver and this allowed the physical demonstration of the advantages of Vancouver in terms of its speed, efficiency and competitiveness. With a growing number of Trans-Pacific services making Vancouver their first port of call we are confident of a bright future and yet further performance improvements from these operations.

The Port of New York and New Jersey has seen a number of developments over the past few years. New facilities have begun operations whilst at the same time the general climate in the industry in late 2001 and early 2002 led a number of major liner companies to re-evaluate and in some cases rationalise their services. The result of these exercises was that by March 2002, having already lost one of its two major customers through bankruptcy, Global Terminal lost the other. Its throughput for the year of 2002 therefore suffered a dramatic fall of 58%. Compounded by a slight drop in revenue per lift these were unviable business volumes and as a result Global Terminal recorded a significant loss for 2002. Later in 2002 however, strong US import demand together with the uncertainties created by the disruption to the US West Coast ports lead to the introduction of capacity increases in the Trans-Pacific all water services to the US East Coast. With new business secured as a consequence, combined with diverted traffic as a result of the congestion at some other terminals in the Port of New York and New Jersey, Global Terminal had returned to profitability by early 2003 and we are confident of a much improved result for the year of 2003 as a whole. We remain positive in relation to the longer term future of this Terminal, which is the only terminal in the Port in which the freehold interest is held by the operator. Its location is also unique in that it is the only major terminal in the port which does not require vessels to pass under the Bayonne Bridge and be subject to the air draft restrictions involved. In 2002 for the first time, the combination of an unusually high tide and a low deadweight caused the master of a vessel to refuse to pass under the Bayonne Bridge and to divert to Global Terminal.

Our terminal at Howland Hook on Staten Island also suffered from the loss of a customer during the latter part of 2002 but, for the same reasons as above, we are confident that it will recover this slight drop in volume. For 2002 as a whole its throughput remained almost unchanged from 2001 as did its revenues per lift. However, resulting from the management changes which we made in late 2001 and an ensuing focus upon the cost base, the terminal managed to achieve a positive result for 2002. We are confident that, following a further restructuring of its cost base, now almost complete, together with a recapture of the business volumes lost, the performance of the Howland Hook Terminal will improve yet further during the current year.

PROPERTY INVESTMENT

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

The Group retains its 8% interest in Beijing Oriental Plaza which is now almost completed. With regard to construction, the West Service Apartments were completed in April 2002 now leaving only the East Service Apartments on which construction is due for completion during April 2003. The status with regard to leasing is that the Shopping Mall is over 80% let and the East and West Office Towers are over 50% let. The Hotel Service Apartments and the hotel itself are currently enjoying occupancy rates of 80% or above. The project overall would be profitable were it not for the heavy annual depreciation charges.

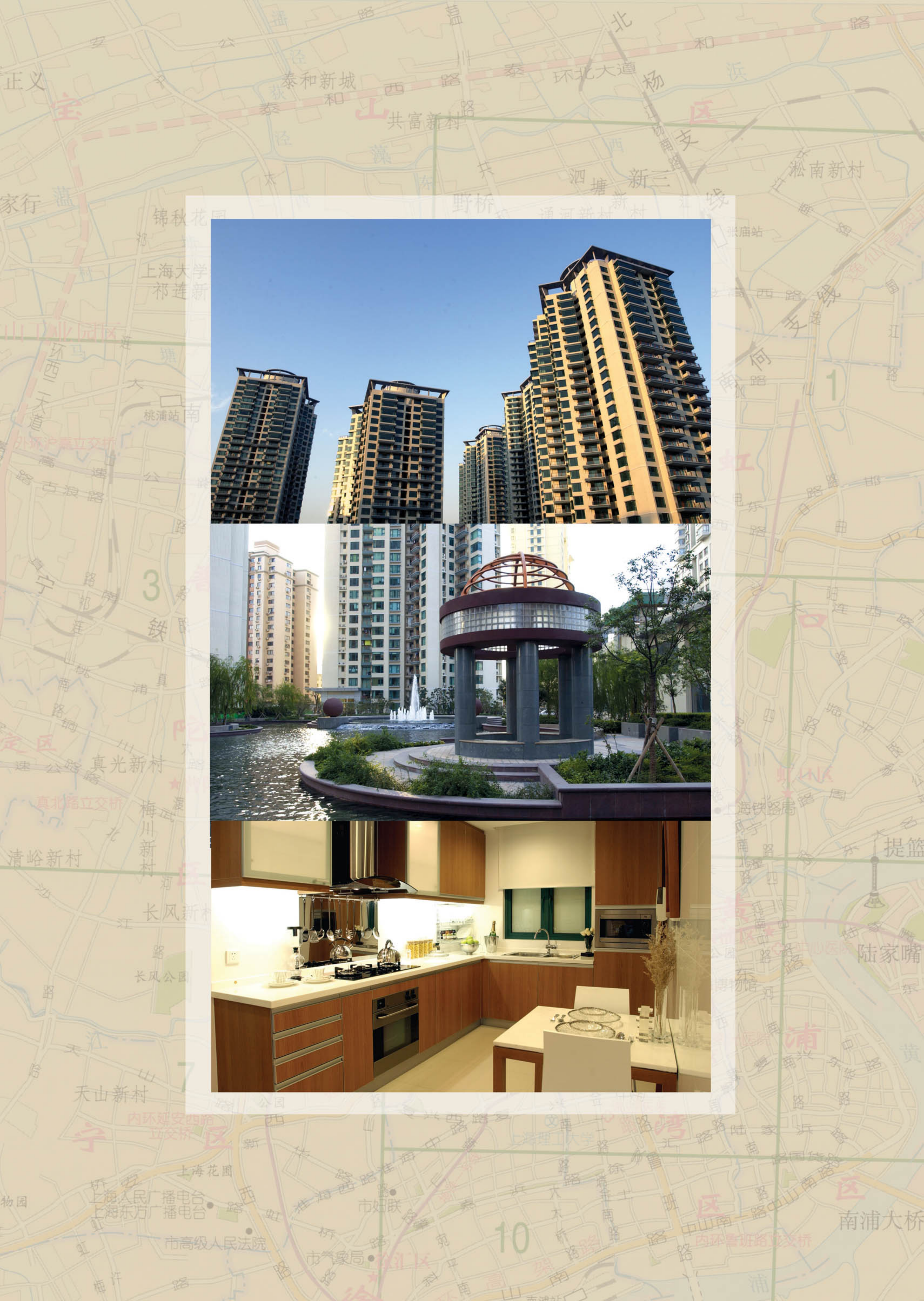
Hitherto, there has been the potential for a call for further funding from shareholders which would have involved the injection of a further US$9.2 million by the Group. However, during the course of 2002, a portion of the project's total loan facility was converted into US Dollars and, as a result, it is not now expected that any additional funding by shareholders will be required.

Wall Street Plaza, the Group's investment property in the financial district of New York, USA began 2002 benefiting from a near 100% occupancy rate and from lower interest and other costs. The return of a significant proportion of the rentable space by one tenant under Chapter XI protection had its expected impact upon performance but nevertheless the performance overall for the year was not far below budget. In early 2003 the vacancy rate for Wall Street Plaza was at around the 11% level, compared with a year end estimate 13.2% for the Downtown Manhattan area as a whole. Market sentiment remains poor with many New York businesses having re-evaluated their need for Manhattan offices following the events of 11th September 2001. Nevertheless, we are confident that the successful conclusion to lease negotiations currently under way will see the vacancy rate for Wall Street Plaza reduced to around 2.8% by the end of March 2003.

As at 31st December 2002 the building was valued, on an open market basis, at US$90 million representing no change from that provided by the same valuer at the end of 2001.

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.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淞南新村
锦秋花园
上海大学
祁连新村
张庙站
桃浦站
真光新村
清峪新村
长风新村
长风公园
天山新村
上海铁路局
陆家嘴
上海花园
上海人民广播电台
上海东方广播电台
市高级人民法院
市妇联
市气象局
南浦大桥

PROPERTY DEVELOPMENT

Shanghai's high-end residential market strengthened markedly during 2002 despite the re-emergence of deflation. The upward movement was caused by continued income growth, pent-up demand, the prospect of the tax rebate policy not being extended, a lack of supply of resettlement housing, the implementation of more market driven measures of resettlement compensation and continued foreign investment into China from abroad.

Correspondingly, the secondary market also moved up significantly. The ratio between first hand and second hand transactions achieved parity in 2002. This is a record percentage for recent years and a positive development for the market. Looking forward, we anticipate that there may be a slight but temporary short-term slowdown in the hitherto rapid growth of the high-end residential sector. However, the mid-tier market should remain strong and over the medium to longer term, we expect the market generally to continue in its upwards direction due mainly to the strong growth in personal income levels and therefore, the growing affordability of private residential ownership and the continuing release of pent-up demand.

With a dedicated staff of 100, the Group's property development team under Orient Overseas Developments Ltd ("OODL"), focused on the planning, building and delivery of improved products within an increasingly competitive environment. In addition, OODL continued its efforts to achieve higher operational efficiency and to enhance its already established brand name within the residential property sector in Shanghai. Sourcing efforts have progressed in a way consistent with our market view and corporate strategy. With a holding company structure now established and formalised, OODL will continue to move towards more firmly establishing a stand alone and profitable property investment and development business in Shanghai and beyond.

During 2002, progress continued at Century Metropolis, the residential project in the Xu Hui District of Shanghai, totalling 240,000 sq m. The sales price and rate of sale were in line with projections and a solid return is expected from the project. OODL successfully completed the hand over of Phase 1A totalling 65,000 sq m and began the handover procedures of Phase 1B totalling 83,000 sq m. Phase 2A was topped out in December 2002 and construction is expected to begin on Phase 2B during the first half of 2003. Phase 2A, a low density phase totalling 30,000 sq m, was awarded the "Best Ten Most Valuable Residential Investment Properties Award" during the year.

Resettlement efforts continued during 2002 regarding the Changle Lu site in the Luwan District of Shanghai. The project has a total Gross Floor Area of 135,000 sq m and will feature a high end residential complex in one of Shanghai's most prestigious locations. Excavation works will begin during the second half of 2003 and sales are scheduled to commence towards the end of 2004.

A letter of intent was signed in December 2002 with the Government of the Huang Pu District of Shanghai in relation to a residential site. The progression of this potential development project will continue during 2003.