Operations Review

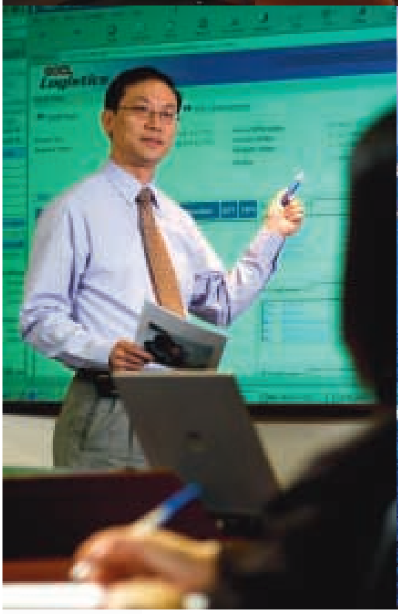
INTERNATIONAL TRANSPORTATION, LOGISTICS AND TERMINALS

2003 began rather uncertainly. Although the growth in container volumes had picked up strongly during the latter part of 2002, concerns remained over the strength and durability of any US economic recovery, the problems within the other major economies, especially those entrenched and structural problems in Japan and Germany, and the sustainability of the fast growing Chinese economy.

International Transportation and Logistics

	2002		2003
Volumes (teu)	2,264,882	+18.7%	**2,687,545**
Revenue (US$ millions)	2,218.1	+33.9%	**2,969.6**
E.B.I.T.D.A.	169.7	+154.4%	**431.8**
Depreciation/Amortisation	(100.2)	+8.5%	**(108.7)**
E.B.I.T.	69.5	+364.9%	**323.1**
Finance Expenses	(24.4)	-20.5%	**(19.4)**
Profit Before Tax	45.1	+573.4%	**303.7**
Tax & M.I.	(4.2)	+57.1%	**(6.6)**
Net Profit	40.9	+626.4%	**297.1**






CONTAINERISED TRANSPORTATION

All trade routes achieved an appreciable improvement in performance during the course of 2003 as volumes rose significantly and freight rates for most routes continued their strong recovery. Overall liftings for OOCL rose by 18.7% to 2,687,545 TEU which, combined with a 15.1% recovery in average revenues per TEU, resulted in a 36.6% increase in total revenues to US$2.8 billion. There were adverse movements on the cost side however. Variable costs per TEU remained largely unchanged, being mainly terminal charges and the cost of third party transportation services. However, bunker costs were 17% higher than in 2002, on an average price per ton basis, resulting in total additional expenditure of US$61.4 million, US$21.4 million on a like for like basis after allowing for the fleet expansion which took place during the year. The 2003 resumption of our drydocking programme, postponed during 2002, resulted in additional costs of US$10.0 million and higher charter and slot hire expenses represented a further increase year-on-year of US$37.0 million. Additionally, we have suffered from the devaluation of the US Dollar against the world's major currencies. In approximate terms, any one cent upward movement of the US Dollar / Euro exchange rate represents a US$1 million increase to our cost base. A one yen fall in the Japanese Yen / US Dollar exchange results in a similar cost increase in US Dollar terms. The overall load factor reduced slightly from 84.1% to 82.0% but remains a considerable achievement when compared with the average 21.8% fleet expansion which took place during 2003.

OOCL's Trans-Pacific trades achieved a significant turnaround from a small loss in 2002, as a result of the unviably low rates which resulted from the service contract renegotiations in early 2002, to once again resume a position as a significant contributor to the overall OOCL profitability. A 12.1% increase in liftings combined with a 22.0% recovery in average freight rates per TEU resulted in a 37% increase in total revenues. Liftings to the US East Coast experienced the steeper increase at 18.4%. It should be noted that the recovery began only from 1st May 2003 as the new service contract year commenced.

The recovery in the Asia-Europe and Asia / Mediterranean trade routes has been as equally prominent. For 2003 a 20.8% rise in total liftings and a 35.4% recovery in average freight rates resulted in a 63.5% increase in total revenues. By comparison, liftings on the Transatlantic routes experienced a much more modest increase of just 2.9% but, assisted by a general




redeployment of some tonnage onto the other two stronger main east-west trades, average revenues per TEU rose by 13.5% resulting in a 16.8% rise in total revenues.

OOCL's Intra-Asia and Australasia businesses experienced by far the greatest volume increase at 31.1% and, assisted by a marginal 2.2% rise in average revenue per TEU, total revenues rose by 33.9%. This only modest rise in freight rates would suggest that during 2003, there was sufficient tonnage available on the charter market combined with additional trunk line vessel capacity, to match the volume increases. However the very steep rise during the latter part of the year in charterhire rates for the medium to smaller size ships deployed within these trades, would suggest that this supply is now, at best, limited with the potential consequence for 2004 that any continued strong rise in volumes will have a positive impact upon freight rates. Our Asia to Australasia routes also experience strong growth especially on the southbound trades. Overall, 23.5% and 14.6% rises in liftings and average revenue per TEU respectively, resulted in a 41.6% increase in total revenues.

Orient Overseas Container Line

	TOTAL LIFTINGS (TEU'S)			TOTAL REVENUES (US$000'S)		
	2002		2003	2002		2003
Trans-Pacific	771,428	+12.1%	**865,098**	936,154	+36.9%	**1,281,239**
Asia-Europe/ Intra-Europe	355,067	+14.5%	**406,648**	335,656	+56.6%	**525,786**
Transatlantic	270,404	+2.9%	**278,200**	294,125	+16.8%	**343,518**
Intra-Asia/ Australasia	867,983	+31.1%	**1,137,599**	451,440	+33.9%	**604,657**
All Services	2,264,882	+18.7%	**2,687,545**	2,017,375	+36.6%	**2,755,200**

Between January and June 2003, OOCL took delivery of the "*OOCL Xiamen*", "*OOCL Osaka*", "*OOCL Sydney*" and "*OOCL Melbourne*". All are 2,762 TEU vessels built by Imabari in Japan and are under long-term charterparty arrangements. They were deployed within our Intra-Asian and Australasian services. In May 2003, OOCL took delivery of the "*OOCL Montreal*", a 4,402 TEU ice-strengthened vessel for deployment in our North Atlantic services between Europe and Canada. Simultaneously, the "*OOCL Canada*", our former 2,330 TEU ice-strengthened vessel, was delivered to her new owners under a pre-existing contract of sale.

In April and June 2003, OOCL took delivery from Samsung in Korea of the "*OOCL Shenzhen*" and "*OOCL Long Beach*". Both were deployed in our Grand Alliance Asia-Europe services and were the first to be delivered of what is now our programme of twelve 8,063 TEU "SX" Class vessels ordered from Samsung. In January and February 2004, OOCL took delivery of the "*OOCL Rotterdam*" and "*OOCL*

Hamburg", numbers 3 and 4 in the series. Numbers 5 and 6, the "*OOCL Qingdao*" and "*OOCL Ningbo*" will be delivered in April and May 2004 respectively. These vessels remain the largest containerships by declared capacity yet delivered. Of the remaining six vessels in the series, two will be delivered during each of the first halves of 2005, 2006 and 2007.

During 2003, OOCL also committed to long-term charterparty arrangements under which a series of eight 5,888 TEU vessels, to be built by Imabari in Japan, will be delivered, one in late 2005, three in early 2006, one in late 2006 and the remaining three during the first half of 2007. 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, together with the existing fleet of eight 5,560 TEU vessels under medium-term charterparties which begin to reach their first renewal dates from the middle of 2005 onwards, provide us with the flexibility we require to convert vessels earmarked for fleet expansion into replacement tonnage should market conditions so dictate.

LOGISTICS

In 2003, OOCL Logistics again achieved a high growth of 31.5% in total revenues. It witnessed a significant expansion of its customer base and greatly increased the sophistication of its services. It continues to pursue and support its dual strategic initiatives of rapid business growth and continuous service quality improvement. A number of initiatives under its five-year business plan have registered satisfactory results. The China Distribution programme has seen the development of a nationwide network of regional distribution centres, warehouses and cross-dock operations, giving it a presence and operational capabilities in all key locations throughout the strategically important China market. Upon China's full accession to WTO, the international and PRC domestic networks of OOCL Logistics will combine to offer customers a seamless global end-to-end logistics service. At the same time, its unrelenting efforts in systems development have been a major pillar in supporting ever demanding customer requirements. These and other projects will together put OOCL Logistics ahead of its competition. OOCL Logistics is posed for notable growth in the years to come.

INFORMATION TECHNOLOGY

The Group policy to continue investment in its IT capabilities remains as a means of achieving greater customer satisfaction and cost efficiency. This further automation of our processes continues to free staff from the constraints of day to day process management to concentrate upon exception management and the continuing improvement and broadening of our customer services. It also allows us to reduce significantly the amount that we spend upon service, documentation, administration and other communications with shippers while, at the same time, the budgeted outlay on computer systems continues to fall as a percentage of total revenues. The visibility created by and the flexibility of this "object technology", on which the systems are based, is such that it even allows shippers to change the destination of a container which is already in transit. It is currently the largest "objects system" in the world and holds over 800 million "objects" in its database and it looks at the world as an integrated whole rather than looking separately at individual countries as traditional shipping systems do. Its total capacity will have been doubled to two billion objects by the end of the first quarter 2004. It has already proved its worth in respect of the "24 Hour Rule" which requires carriers to deliver shipment information to the US Customs, with other jurisdictions either having already followed or about to follow suit, 24 hours before the container is loaded. Implementation was simple since all necessary information was already available from the moment of on-line booking. It will again prove invaluable in the future if RFID (radio tag technology) becomes standard to assist shippers in tracking all their individual shipments at all times. This may be some way off however, since IRIS-2 already tracks all containers at all times.

As one of the most advanced and comprehensive open software platforms in the industry, Cargo*Smart* added Vessel Tracking and Invoices and Payments to its online functions. It also enhanced its product range by providing "offline" methods of conducting common shipper-carrier transactions, including shipping instructions, and it enhanced its bill of lading printing capabilities with batch printing and secure printing on blank paper. Cargo*Smart* and its technology partner Hewlett-Packard, also renewed their long-term hosting agreement for another three years, further strengthening the technological foundation and customer technical support delivery of the company. By the end of 2003, Cargo*Smart* had grown to over 11,000 registered users transacting on a system that was being populated with an average of 215,000 new shipments a month.

CONTAINER TERMINALS

The two container terminals in Vancouver, Deltaport and Vanterm continued to enjoy volume growth in 2003 with a combined increase of 7% above 2002 in the throughput of containers. Although remaining profitable, the operating profits of these two terminals were not at the same levels as in the prior year due to increasing costs such as taxes, insurance, labour, meeting the ISPS code (International Ship and Port Facility Security Code) and the challenges resulting from handling a significant increase in rail import/export volumes.

Although the customer mix changed somewhat from 2002, the overall increase was due in part to a number of factors. The two terminals both continued to build on their success at serving as a first port of call for Trans-Pacific carriers, at providing an alternative gateway to the US Midwest and at growing further in the Canadian import/export marketplace. Further volume increases are attributable to certain existing customers having introduced additional services, the addition of new customers and to an extent, the continued diversion of traffic due to the labour disruption of the US West Coast ports in late 2002. The 7% increase in throughput over 2002 is still significantly positive growth building on the initial 26% growth experienced in the prior year as the two Vancouver terminals successfully secured a new customer base.

New challenges experienced in 2003 included the additional costs and operational issues of handling the significant increase in rail volumes. The required co-operation and support of the railways is critical to ensure that these challenges are minimised. To meet the ongoing challenges to the overall capacity of Deltaport and Vanterm, several initiatives were undertaken to increase terminal capacity and to improve terminal efficiency and productivity in a cost-effective manner. These initiatives included a terminal expansion at Vanterm at a cost of approximately US$30 million, including the purchase of two 65-ton super post-Panamax cranes and an increase in terminal and inter-modal yard capacity and the purchase of a seventh gantry crane for the Deltaport facility to improve the turnaround time and free up additional berth windows. All new cranes will be delivered in early 2005. Discussions continue with the Vancouver Port Authority on the subject of a third, additional berth at Deltaport and the expansion of its container yard.

Global Terminal in New Jersey, recovering from a difficult 2002, acquired new business in 2003 increasing its throughput by 132%. With the return of throughput to pre-2002 levels, Global's financial and operational performance has demonstrated a marked improvement. Having now completed its transition to a fully grounded mode of terminal operations using rubber-tyred gantry cranes, Global has significantly increased its terminal capacity. Coupled with other planned facility and service improvements, including the implementation of a new terminal information system, an Optical Character Recognition gate complex and the reduction of redundant labour and process practices, more efficiencies in operations and cost will be realised. Also, the planned deepening and extension of the berth length will position Global to acquire additional business and bring the terminal to its full potential. In addition, Global is actively pursuing with a local short-line railroad the implementation of a near-dock inter-modal service, moving yet further to meet its customer needs.

Global's geographic location within the Port of New York and New Jersey is ideally suited to meet the increasing demands of container carriers by providing unrestricted access from the open sea, and therefore the shortest transit time, as compared with other facilities in the port. These attributes will insure the long-term ability of Global to maintain a customer base that will utilise the full capacity of the terminal.

Howland Hook, on the New York side of the harbour and located on Staten Island, achieved its second consecutive year of profitability. While net revenues were down year over year based on a reduced volume of 25% versus the previous year, there were several key strategic projects which moved forward and the completion of a revised lease arrangement with the Port Authority made 2003 a very positive year for this facility. The lease revision removed several million dollars of recorded debt and will significantly enhance the terminal's future financial position.

The loss of a customer in the fourth quarter of 2002 was partially offset with the terminal regaining another vessel string from the same customer at the start of the third quarter in 2003. On a strategic note, construction on several key projects including on-dock rail, a 500 ft berth extension and channel dredging have all made significant progress. These three projects, with a combined cost of approximately US$600 million, are being funded by the Port Authority of New York and New Jersey together with the federal government providing much of the funding for the dredging, and will all be complete in mid-2005 and thereby increasing the facility's capacity by approximately 38%. Dredging of the approach channel also commenced in July 2003 and once complete this 18 month project will allow the facility to handle the largest vessels which call at the harbour.

Complimenting this non-recourse investment, the terminal upgraded much of its terminal handling equipment and completed a contract for the acquisition of four new post-Panamax cranes which will be on line in the third quarter of 2004. Taken together, these terminal improvements, combined with the new operating equipment, will significantly enhance the long-term value of this operation. During the coming year Howland Hook will also complete a corporate restructuring and going forward, the terminal will be reorganised as New York Container Terminal Inc., scheduled for completion during the first quarter of 2004.

Operations Review

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 which has now been completed. The project consists of 117,000 sq m of retail space, 295,000 sq m of office space, a 500 room 5 star hotel and over 800 service apartments, in total 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 this to contribute in the near term to Group profitability as a result of the accounting treatment. The total cash investment by the Group has been US$93.6 million. No further injection of equity will be required.

Wall Street Plaza, the Group's investment property in New York City's financial district, started the year with a vacancy rate of 11% but a strong leasing programme reduced this to below 1% as 2003 drew to a close, significantly better than the 15% overall vacancy rate in the Downtown Manhattan office market. Furthermore, a majority of those tenants with leases due to expire in 2004 and 2005 and who collectively occupy 12% of the building, elected during 2003 to extend the terms of their respective leases by an average of five years. Wall Street Plaza remains profitable and is strongly positioned to ride out the current market downturn.

In 2003, the Group purchased the freehold interest in a 8,053 sq ft parcel of land which accounts for approximately 36.5% of the site on which Wall Street Plaza is constructed. This purchase has brought the Group's freehold ownership of the underlying land to 95.1% and provides it with a better position and flexibility in forward planning for Wall Street Plaza. As at the end of 2003, the building was valued, on an open market basis, at US$100 million. This compares with a valuation as at the end of 2002 by the same valuer of US$90 million. The increase in valuation includes the newly acquired freehold ownership of the underlying parcel which was purchased for approximately the difference in the two valuation results.

PROPERTY DEVELOPMENT

The Shanghai residential real estate market has continued to grow and the luxury sector registered strong growth for 2003. We continue to be cautiously optimistic given the steep rise in the residential market over the past three years. However, the market continued to be supported by a number of factors including (i) the continued growth

in the underlying economy of Shanghai; (ii) the continued inflow of capital and businesses into Shanghai from both outer provinces and overseas; (iii) the continued discharge of pent-up demand; (iv) speculative buying and investment; (v) new plot ratio restrictions within the city centre; (vi) an active second hand market thereby further stimulating the primary market; and (vii) a further slow down in supply as resettlement guidelines become more stringent. Going forwards, the Government seems to be encouraging further home ownership in the mid and mid to low sectors of the market. It has announced plans to increase the mortgage ratio for these sectors to 85%, plans to lift the RMB100,000 ceiling on provident fund usage by home buyers and has announced a preferential interest rate subsidy policy for lower income buyers. It has also place significant emphasis on building subway and elevated light railway links in and around the city.

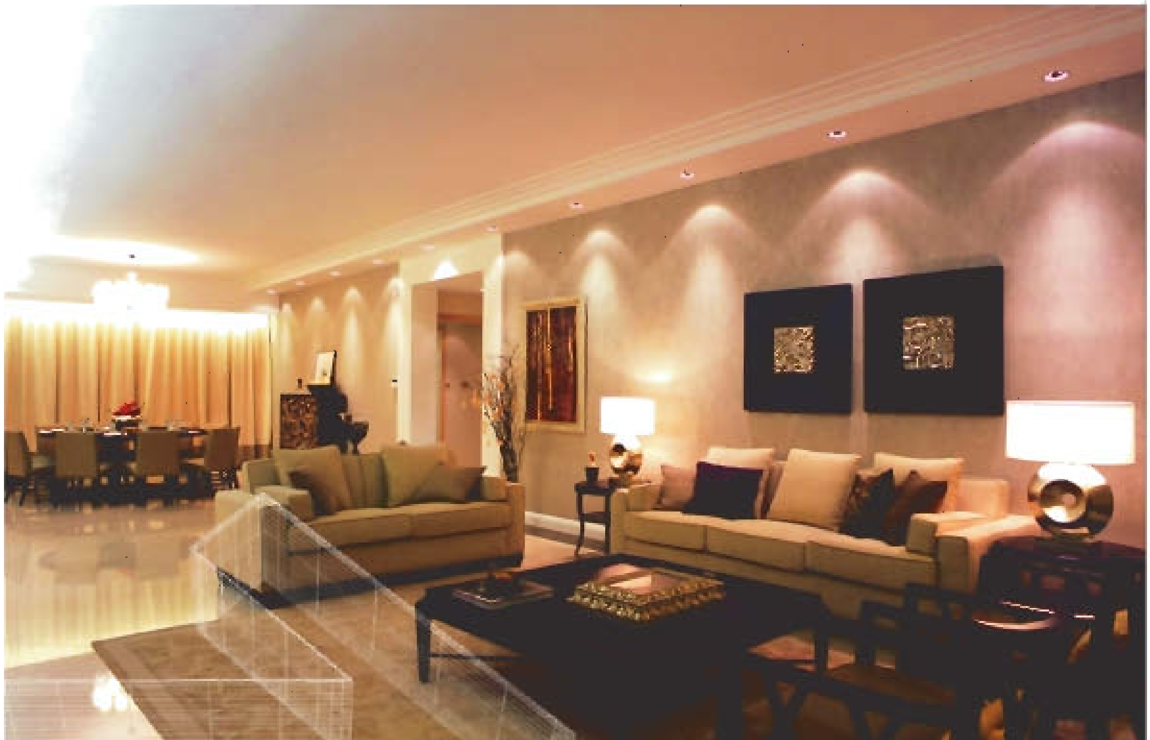
Overall, although the market has risen less dramatically during 2003 than previously there continues to be concern over the building of a real estate bubble. While corrections in selected sectors of the market cannot be ruled out, the affordability of home ownership appears to remain healthy.

During 2003, Orient Overseas Developments Ltd ("OODL") delivered a total of approximately 60,000 sq m of completed residential units in Phases 1B and 2A of Century Metropolis in the Xu Hui district of Shanghai. At present, approximately 58,000 sq m of residential units in Phase 2B are under construction. The sales of residential units in Century Metropolis during 2003 were in line with projections and satisfactory. Sales of the residential units in Phase 2B are scheduled for mid-2004.

The project on the Changle Lu site in the Luwan district of Shanghai will have a total gross floor area of approximately 134,000 sq m and will feature a high-end residential complex in one of Shanghai's most prestigious locations. The Master plan has been approved in principle and piling is scheduled to commence during the summer of 2004. Sales of the residential units are expected to begin in 2005.

The Group's property development team under OODL was able to work through challenges to both construction and sales brought about by SARS. The result of the development projects reflects a deep, mature and well functioning development team adapting well to an ever changing local environment. In addition, OODL has begun targeting areas slightly outside the Shanghai City boundaries. Although still in their early stages, negotiations under way would, if successful, result in a pipeline project of at least 200,000 sq m Gross Floor Area situated 40 minutes to the west of Shanghai. We would expect such a project to begin contributing to the Group from 2006 onwards.

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.



Property Development & Investment