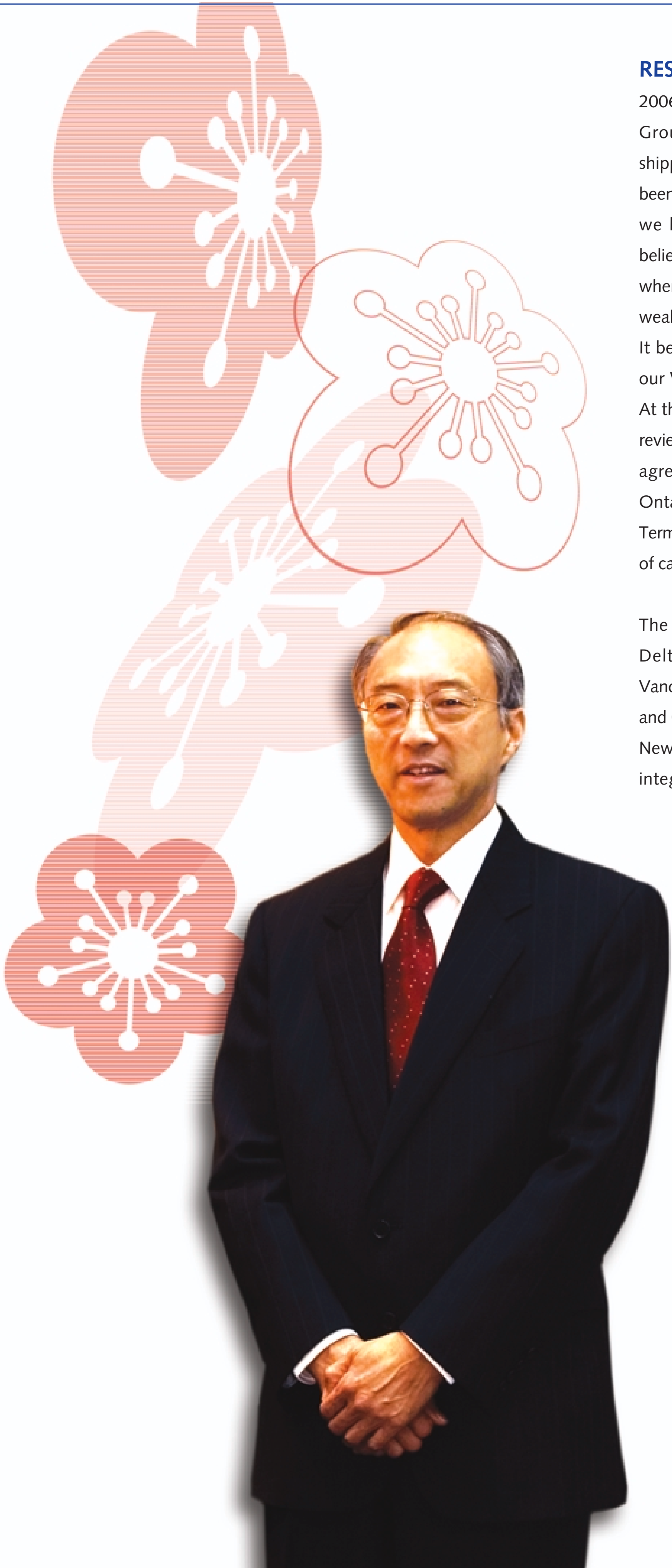
Chairman's Letter



RESULTS FOR 2006

2006 was a momentous year for the OOIL Group. Market conditions for container shipping were more difficult than they had been during the three previous years and yet we have still managed to record what I believe to be an impressive result especially when placed in the environment of generally weaker freight rates and steeply rising costs. It benefits however, from a revaluation of our Wall Street Plaza investment property. At the same time, and following a strategic review of the businesses, we entered into an agreement on 21st November 2006 with Ontario Teachers' Pension Plan to sell our Terminals Division to them for a consideration of ca. US$2,400 million, on a debt free basis.

The four container terminals in question, Deltaport and Vanterm in the Port of Vancouver and New York Container Terminal and Global Container Terminal in the Port of New York and New Jersey, had never been integral to our container liner operations. OOCL is only responsible for a minority of the throughput of each terminal and contract negotiations have always been conducted together with our Grand Alliance partners on an arm's length and purely commercial basis. Given this background and the strong conviction following the strategic review, that the Group's share price had never fairly reflected the true value of these assets, it was decided that we should examine the potential to dispose of them in order to realise this full potential value. Our view was proved to be correct.

Despite the generally more difficult business environment I am please to report that Orient Overseas (International) Limited and its subsidiaries (the "Group") recorded a net profit for the year of 2006 of US$581.1 million compared with the net profit of US$651.3 million reported for 2005, a decrease of 11%. As already reported, an agreement was reached in November 2006 to dispose of the Group's Terminals Division. The continuing operations of the Group, i.e. excluding those of the Terminals Division, recorded a net profit for 2006 of US$528.3 million which compares with the US$615.2 million recorded for 2005 on a like for like basis i.e. also excluding the discontinued business of the Terminals Division. I consider this to be a commendable result given the much weaker market conditions of 2006.

As a result of this performance the Board of Directors recommends the payment of a final dividend of US12 cents (HK$0.94) per share to shareholders for 2006. Together with the interim dividend, this represents a total dividend for the year of US23 cents (HK$1.79) per share. In addition, and as a result of the sale of the Group's Terminals Division, the Board of Directors has also decided to recommend the payment of a special dividend of US80 cents (HK$6.24) per ordinary share. Combined, these represent a total dividend of US92 cents (HK$7.18) per share to ordinary shareholders which, together with the interim dividend, represents a total for the year of US$1.03 (HK$8.03).

The total cash proceeds of the transaction amount to US$2,350 million. After payment of the associated tax liability and fees together with the proposed ordinary and special dividends and combined with the Group's existing cash and near cash holdings, the Group will still hold approximately US$2,800 million in cash and near cash reserves against a total debt of US$2,068 million as at 31st December 2006. The Board is of the opinion that these increased cash resources place the Group in an extremely advantageous position with multiple options open to it in moving forwards.

For our Container Transport and Logistics businesses 2005 ended and 2006 began in an almost slough of despond. As has seemed to happen so many times in the past, commentators and forecasters were predicting a very difficult 2006 predicated on a significant disparity between an abnormally high projected supply increase, through an accelerated rate of deployment of new tonnage into all services, and a fall in demand side volume growth as a result of a slowing US economy and its consequent impact upon the remainder of the global economy. On neither side of the equation in the event, did we see these concerns materialise to the extent predicted. However, the annual and seasonal dip in load factors around Chinese New Year were taken to be something they were not and as a result served only to deepen the despondency. Freight rates had been falling and the fall became steeper as a result, most markedly on the Asia to Europe trades. On these routes, for which the tonnage increase was forecast to be proportionately the largest, carriers feared lower cargo volumes throughout the year and as a result were far too ready to accept lower freight rates in the attempt to secure volume. The Chinese New Year dip in load factors proved itself once again to be purely temporary in nature and as the pattern of the year became apparent as vessels rapidly filled up and near 100% load factors became the norm for the remainder of the year. Nevertheless, as bitter experience has taught us too many times in the past, whilst falling very fast, freight rates take many months, if not years, to be restored. Only now is this restoration starting to happen.

Our other trades also suffered from this general softening of the market with the exception of our Transatlantic business. All other trades recorded lower profits for 2006 compared with 2005. However, a total pre-tax profit by our Container Transport and Logistics business for 2006 of US$386.6 million I believe to be a highly commendable result especially within the generally poorer business climate. It does actually represent the third best performance ever after the two exceptional years of 2004 and 2005. It also amply demonstrates the resilience of our margins in what was a poorer market environment which presented us with higher bunker costs, higher terminal handling charges and higher third party transportation costs. Our effective control over both costs and revenue, through the use of our IT systems to their potential, our concentration on customer service and product delivery leading to greater customer loyalty, and a nearer optimum spread of business across the differently performing main trade lanes, we believe give us an advantage.

Management as a whole firmly believes that IT is the major driver of quality performance, cost efficiency and customer satisfaction, and therefore, investments have continuously been made in information systems development as well as in the systems infrastructure of the Group. Despite the recent earthquake in Taiwan in December 2006, our network was largely unaffected thus demonstrating the value and importance of infrastructure investment in the maintenance of undisrupted and uninterrupted quality service.

Moving forwards, OOIL will further enhance the stability of the systems infrastructure and its capabilities for exception management. We shall leverage our IT capabilities to create more innovative solutions for our businesses.

OOCL Logistics progressed well in 2006, though competition continued to be strong. We are building an end-to-end service organisation that focuses on satisfying the demand for service from individual customers. In the middle of 2006, we launched an initiative to promote Reefer logistics by forming focus teams within different layers of the organisation. The initial results are encouraging.

A new IT platform started to roll out to our International Logistics customers during 2006. The migration is targeted to be complete by the middle of 2007. Our customers have already begun to benefit from the additional system features, such as the e-document function which eliminates the conventional and physical handling of commercial documents.

In 2006, we also acquired a total of over 66,000 sq m of additional warehouse space under our own management and operation. Among these additions, the first self-owned and custom-built warehouse in Tianjin was commissioned in November 2006. We shall continue expansion of our warehousing capabilities during 2007.

We stay on course to build OOCL Logistics into a large-scale business with multiple capabilities in key locations throughout the world.

Our Property Development business contributed only modestly during 2006 to Group profits. As I mentioned in last year's report, due to the timing of previous land acquisitions and our considered views of the market, property development income would slow dramatically during the two years of 2006 and 2007. The Shanghai residential real estate market continued to be soft during 2006 and due to the timing of the majority of the projects, the Company had very little stock for sale during the year. While we remain cautious of the potential effects of the various government measures on the residential real estate market, we nevertheless remain confident in the medium and long-term future of Shanghai and its surrounding areas. On the other hand the Shanghai office market continued to be strong in 2006. The underlying supply and demand balance has been the main driver and we expect this to continue through 2007.

The Group was successful late in 2006 in the tender for a new residential development project in Pudong, Shanghai which will result in a gross floor area of approximately 100,000 sq m. This constitutes another step in our well defined plan to create a stand alone and recurrently profitable property business in Shanghai the value of which we shall have the opportunity to realise within the short to medium term.

We continue to hold our 8% interest in Beijing Oriental Plaza and Wall Street Plaza continues to record a solid result within expectations. As at 31st December 2006, Wall Street Plaza was valued at US$200 million. This represents a further US$25 million appreciation in market value over the US$75 million recorded at the interim stage in 2006. The property enjoyed an occupancy rate of 99% for the better part of the year.

Whilst never entirely satisfied, I believe the overall Group result for the year of 2006 to have been a creditable achievement given the more adverse business climate and it stands comparison with the performance in 2005. It does, of course benefit from the revaluation of Wall Street Plaza, as I have already mentioned, as well as from an exceptional result from our in-house portfolio investments.

The end of 2006 and into 2007 has followed much the same path as a year ago. There continues to be significant concern in relation to a forecast oversupply of new tonnage into a weaker demand side volume growth environment. However, the experience of only last year suggests that a number of commentators might be coming around to the adoption of a much more balanced approach and market sentiment at this time this year is more buoyant than at the same time last year for a number of reasons. Better management of the introduction of new tonnage was demonstrated by the carriers last year and it is expected that this will persist through 2007. On the other side of the equation, volumes have generally remained noticeably and unseasonably strong through the traditional slack season over the year end and there is less likelihood of the load factor blips caused by the Chinese New Year factory closures being misinterpreted to the extent that they were last year. And indeed, the year has started well with load factors generally higher than expected and freight rates generally stronger than expected.

However, and as always, we must wait to see how this stronger sentiment translates into a movement in freight rates as the year unfolds. The annual round of contract renewals on the Trans-Pacific, the largest of the east-west trades, will be crucial as a demonstration of whether the general direction of freight rate movement has been reversed and we are back into a recovery in the cycle. The US economy has recently been showing remarkable resilience and stability with the slowdown in the housing sector not having had any undue impact on other sectors of the economy. The volumes of furniture and other household items being shipped across the Pacific have softened as a result, but they have been more than compensated for by rising volumes of other cargo categories. Consumer confidence and retail sales have both retained their general levels of strength and give cause for cautious optimism for the year of 2007 as a whole. Nevertheless, rising costs remain a concern. Although bunker prices have come down in line with lower crude oil prices, terminal handling charges continue to rise as a result of both higher costs and the growing scarcity of available capacity. Our greatest concerns, however, relate to intermodal transportation costs and especially the rising costs of rail transportation. Intermodal cargo rates must rise significantly to cover these increasing costs. If they do not then many intermodal destinations in the US will become uneconomic and carriers will have no choice but to refuse cargoes for these inland destinations.

In the much harsher business environment of last year, when compared with the previous three years, the Group result achieved for 2006 is perhaps even more praiseworthy than before and it is our people, who now number over 6,000 both on land and at sea, to whom this praise should be directed. They continue to more than repay the Group's commitment to them and to the development of them. They in turn remain committed to this Group Core Value which, in combination with the Group's other commitments to IT development and to quality products and processes has allowed us during 2006 to come through what some have called an industry trough in the business cycle, assuming that the industry has indeed come through, still producing a more than acceptable return for our shareholders.

C C Tung
Chairman
Hong Kong, 9th March 2007