

# CHAIRMAN'S LETTER



## RESULTS FOR 2001

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The year of 2001 was not an easy one and in my statement on 17th August 2001 in the Interim Report, I warned that the business environment had changed significantly from the previously buoyant conditions of 2000 which had enabled us to achieve such a commendable result for that year. Nevertheless, the performance recorded for 2001 by Orient Overseas (International) Limited and its subsidiaries (the "Group") was acceptable in the context of the general economic climate. Despite the rapidly worsening conditions, our international transportation, logistics and terminal operations, which remain the Group's principal business, managed to achieve a satisfactory result under the circumstances and again provided the majority of profits and, after a number of years of investment, our property development projects in China which began to deliver a significant return in 2000, have again contributed significantly to Group profits. The future, however, is much less certain.

The confidence we felt at the beginning of 2001 evaporated rapidly as the world economy entered a period of much lower growth and at times recession. This was at a stage in the cycle at which the rate of delivery of new containerships was approaching an all time high. The compound impact upon the general level of freight rates has been extreme and the current year is likely to be one of the most difficult in the history of container liner shipping. Within this environment of highly adverse business conditions our modern fleet, which we continue to enhance and to operate within the Grand Alliance, our customer base and our current focus on the costs associated with our business will allow us to perform this year to the optimum aided by the benefits of our

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industry advanced IT infrastructure which continue to accrue. This sentiment is augmented by the flexibility afforded by the strength of our financial position relative to the industry average and the continuing comparative strength of the Chinese economy which benefits us as both the growth engine for our transportation business and the location of our property investment.

For the year 2001 the Group achieved a profit after tax and minority interests of US\$59.6 million, a 46.7% decrease from the US\$111.9 million recorded for 2000. The Group recorded an increase in total liftings of 11% to 2,004,992 TEU but the fact that Group turnover remained more or less level is a reflection of the overall fall in freight rates during the year. Operating profit before financing decreased from US\$166.4 million in 2000 to US\$107.4 million. Earnings per ordinary share were US11.5 cents as compared with US21.6 cents in 2000.

The Board of Directors recommends the payment of a final dividend of US1.5 cents (HK11.7 cents) per share to ordinary shareholders. Together with the interim dividend of US1 cent (HK7.8 cents) paid on 28th September 2001, this represents a total dividend for the year of US2.5 cents (HK19.5 cents), a decrease of 37.5% against that for 2000. The Board is of the view that the dividend should be reduced as a reflection of the performance of the business and especially at a time when the industry is suffering under perhaps the most adverse conditions with which it has ever had to contend.

The Group's operations remain organised into two distinct operating entities a structure

which continues to give each the required independence and ability to concentrate on their respective businesses.

Our International Transportation, Logistics and Terminals division enjoyed mixed fortunes during 2001. It is variously estimated that total container volumes grew by between 3.5% and 4% during 2001, the lowest in the history of containerised transport. The Group's achievement of an 11% increase in liftings is in line with our organic growth plans. These volume growth figures must however, be viewed against the estimated 12.3% by which the world's fleet of cellular container ships expanded during 2001. Ominously, the various estimates for 2002 forecast that the fleet is set to continue growing at this near record pace of somewhere in the region of a further 12% as a result of the spate of newbuilding orders placed over the past few years. However, the rate of newbuilding ordering has fallen over the past twelve months with few if any contracts under discussion at the current time. On the basis that no further orders can now be placed for delivery during 2003, the rate of expansion of the fleet in that year will fall from the current unsupportable level.

The past year has demonstrated that ever more so we live in a global economy. The former view that the slow down in the US economy, whilst clearly influencing the highly export dependent economies of Asia, would somehow bypass Europe quickly evaporated as the economies of Western Europe also lost momentum. This notion that the world's larger economies are not dependent one upon the other has probably now been dispelled forever, other than in the case of China which is insulated to an extent due to the relative size

of its domestic economy. However, in the same way that we have experienced a global slowdown we are also entitled to expect a global recovery. World economic activity is likely to have shown growth of under 1% during 2001 as a whole underlying the already proven fall in container volume growth. There is no consensus as to the timing and speed of the, probably US led, recovery in the levels of world growth, but the general view is that it will be some time during the second half of 2002. Whether it will come early enough and strongly enough to have any material effect upon container volumes, and therefore freight levels during the peak shipping season of the third quarter, will largely determine the Group's performance for the year as a whole. But from 2003 onwards, as the forces of both containerisation and globalisation continue to compound the growth in container volumes which result directly from increased economic activity in general, we may see the industry return towards a better equilibrium between growth in container volumes and the increase in vessel capacity deployed.

Our container terminal businesses in North America also enjoyed mixed fortunes in 2001. Overall, the four terminals, two in New York and two in Vancouver, achieved a 7.8% increase in throughput but the net results suffered from a number of factors. Depreciation charges and finance costs have increased as we continued to invest in the upgrade and modernisation of equipment to improve the efficiency necessary to meet the needs of future increases in throughput. At Global Terminal in New Jersey one off charges were incurred as a result of the bankruptcy of one major customer. Also in the Port of New York, our terminal at Howland Hook suffered from considerably higher operating

expenses. As a result we took significant steps to redress the situation including the acquisition of the 20% of the equity which we did not already own and the installation of a new management team. These measures have already begun to have their effect and we are confident of a much improved performance in 2002. During 2001 we also took the opportunity to divest ourselves of the non-core investment which we held in the Venice Container Terminal. This resulted in the sale of our minority holding of 38% to the majority shareholder at a gross consideration of Lira 8 billion.

During 2001 we continued the development of our IT capabilities and products. In October 2001 OOCL launched a Chinese language website option to enable better communication with its Chinese customers allowing them greater transportation, supply chain logistics and terminal operation information. There are also interactive features using simplified Chinese characters. We have also enhanced yet further our award winning object-orientated underlying enterprise system, IRIS-2. It is now a driver within the organisation towards the further improvement of our products and services for the benefit of our customer base. It also, of course, continues to provide us with greater business efficiencies and cost savings which have become of yet greater importance as the general economic conditions have worsened. A major demonstration of the power and integrity of IRIS-2 was the licensing agreement signed with COSCO Container Line which implicitly acknowledges their view that it is the most powerful and yet flexible system available and the best solution to their requirement to upgrade their services and operations. *CargoSmart*, the neutral portal

developed by us for the container transportation industry, is possibly the most advanced and comprehensive on-line shipping solution. During 2001 it was "neutralised" by being reorganised under a separate management and appointing and employing Hewlett Packard to host the system. Today it is employed by some 2,700 different companies daily and has recently completed 200,000 customer shipments.

Cargo System is a world-class leader in technology driven logistics services. Experienced professionals, supported by highly advanced web-based applications, provide a wide range of both standard and customised value-added services. Cargo System's services extend from basic freight consolidation operations to the management and operation of more comprehensive logistics programs. These programs include multi-modal transportation, warehousing and distribution activities.

Innovative and customer focused Information Systems have been the key "enablers" in advancing Cargo System's development. Cargo System currently provides a suite of globally accessible, web-enabled applications that provide customers with extensive visibility throughout their supply chain.

Cargo System has begun implementation of a specific strategy and plan consistent with the Group's overall goal to expand significantly its logistics services capabilities. An important part of this strategy includes the provision of Asia distribution services with a focus on China. These services will provide an extensive network including multi-modal transportation, warehousing & distribution services and supporting information technology. It is the

Group's intention to utilise its long-standing and successful experience in serving these critical and rapidly emerging markets as a base from which to expand further.

Our Property Development and Investment division enjoyed another good year in 2001 as the investments of previous years have come to maturity and continue to produce their returns. The developments in Shanghai have benefited from a generally buoyant sales environment which is also seeing the steady growth of liquidity in the secondary market for privately owned residential units. The main focus for the year has been to establish an independent, professional and full service business with a solid foundation and a vibrant and secure future. We believe that we have been largely successful in this endeavour. This division is able to look to the future with growing confidence and a number of potential development opportunities have been identified and continue to be assessed with one in the Luwan district of Shanghai now acquired.

Our investments in Beijing and New York have experienced mixed fortunes. We believe that both of China's entry to the WTO and the gradual build up to the 2008 Olympic Games will benefit all sectors of the Beijing property market which is already showing signs of greater strength. Beijing Oriental Plaza, in which the Group continues to hold an 8% interest, will also therefore begin to enjoy the stronger market environment as existing leases fall due for renewal. At the operational level, Wall Street Plaza recorded one of its best ever performances during 2001. It enjoyed almost 100% occupancy throughout the year and indeed, the vast majority of the rentable space is leased until 2004 although the credit

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standing of one major tenant currently under Chapter XI protection is a cause for concern. The tragic events of 11th September 2001 have had their impact upon the demand for prime office space in Lower Manhattan and, for this reason, we have deemed it appropriate at this point to write down the value of this investment property.

To predict the outcome for the current year is possibly a more difficult exercise than it has been for many years. The undisputed overcapacity within the industry is the paramount problem with which we have to contend but recently, there have been signs of recovery within the global economy that hopefully has the potential to reinstate, at least in part, the supply and demand balance. There are some conflicting indicators but clearly, the single most important variable in this demand recovery is the strength of the US economy, and specifically its consumer spending, given its traditionally significant influence upon the other economies of the world. While it would seem that the US recession is over and was short lived, a strong recovery is required to provide the demand increase necessary to counterbalance the volume of newbuilding vessels due for introduction into service this year. Only when we see this situation clearly will freight rates and profitability return to more acceptable levels. With this recovery by no means certain, the Group's focus for the remainder of this year will remain the eradication of unnecessary practices, the achievement of greater efficiencies and the containment of central and fixed costs. This exercise will then stand us in very good stead to reap the benefits of an improved market as and when it begins to emerge.

As always, our performance is very much determined by the skills, dedication, discipline, teamwork and sheer hard work of the Group's 4,686 employees throughout the world. 2001 was no exception but I have to single out those members of our New York staff, of both OOCL and Wall Street Plaza, who, in the aftermath of 11th September, performed beyond the levels which we could reasonably expect in order to ensure that services were maintained and that there was the least disruption possible to our customers. I salute them.

**C C Tung**

*Chairman and Chief Executive Officer*  
Hong Kong, 15th March 2002

# Supply Chain

As a total logistics service provider, drawing on the strengths of our powerful information system, we offer customers integrated and tailor-made logistics solutions at every stage in the supply chain.

