

# Statement to shareholders from the Chairman and Chief Executive, C C Tung

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## RESULTS

In the first half of 1999, the Orient Overseas (International) Limited ("Company") Group made a profit before taxation of US\$5.7 million compared with a loss before taxation of US\$11.9 million in the same period last year. After taxation, the Group reported a loss of US\$1.3 million. For the same period in 1998, the after taxation loss was US\$14.6 million.

The profit before taxation of US\$5.7 million represents an improvement in our performance of US\$17.6 million from the first half of 1998 and brings a better outlook for the remainder of the year.

The improvement arises from the Group's core business of international containerised transportation. Orient Overseas Container Line operates on four major international trade routes. The Trans-Pacific trade remains vibrant due to the strength of U.S. economy and the export of goods from Asia to North America. The Intra-Asia trade has been improving largely due to the recovering Asian economies from the economic turmoil of 1997. The Asia-Europe trade has reached encouraging levels and is expected to further improve on the strength of the European recovery. While volumes from Europe to North America have increased, due in part to comparative weakness of the European currency, the North Atlantic trade remains very competitive and we do not anticipate a positive 1999 result for that trade.

The recovery in containerised transportation has been assisted by exceptional consumer demand in the United States of America for manufactured goods, much of which are made in Asia. The industry has also benefited from a lower number of newbuilding deliveries. A marked slowing of U.S. consumer demand and/or excess vessel capacity in the important Trans-Pacific trade by either new deliveries deployment or by vessel redeployment from other trades are the more important trade risks next year. Neither of these scenarios are anticipated for the remainder of the year. With the coming seasonal upswing, the continued strength in the U.S. economy, the improving European economy and signs of the Asian recovery, we remain hopeful for a positive tone in the industry during the second half of the year.

Our investment container terminals, principally in North America, performed to our expectation during the first half of 1999. We are further encouraged that three international carriers have agreed to utilise the Group's TSI Terminal Systems Inc's Deltaport facility near Vancouver, Canada. Deltaport will serve as their first port of call on the West Coast and provide its on-dock rail facilities to transport goods to the hinterland of the United States and Canada.

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International containerised transportation remains the dominant source of revenues for the Group, and we do not expect that situation to change over the near term.

Our non-containerised activities have been developing according to plan. In Shanghai, we commenced pre-sale of our domestic housing project in Nanchang Lu. We are very encouraged by an enthusiastic response to initial sales in the first of four blocks. In Hangzhou, the pre-sale of our "Hangzhou Orient Garden" project is making modest but satisfactory progress. It remains early for the domestic housing projects to make a material contribution to Group results. In Beijing, construction of Beijing Oriental Plaza is proceeding forward according to schedule. We continue to hold an 8% stake in the project, and expect the project to make a future contribution to the Company. Our "Foody's" brand soft drinks business in Shanghai continues to struggle despite efforts at cost management. Excess supply of beverages on the market continues to result in an unsatisfactory price per beverage. A strategic review of this business is in progress.

With a better second half in our containerised transportation business, and continued performance according to budget in our non-containerised activities, we anticipate improved results in the latter half of the year, and expect 1999 full year results to outperform that of 1998.

### **OPERATING PROFIT BEFORE FINANCING**

Operating profit before financing for the six months ended 30th June 1999 was US\$23.6 million compared with US\$14.2 million in the corresponding period in 1998.

Average revenue per TEU increased in the first half of 1999 on all major trade routes except the North Atlantic and Australasia trades. Increases in both freight rate and total liftings contributed to improved year-to-year results in the Trans-Pacific, Asia-Europe, and Intra-Asia trades. While performance on the outbound legs from Asia to Europe and North America can be described as healthy and improving, return voyages from Europe and North America continue to be weak in terms of both cargo volume and price. Notwithstanding the above, load factors on the Europe to Asia leg have improved from the first half of last year.

During first half 1999, we were named a finalist in the Transportation Division for the Computerworld Smithsonian Award. The nomination was for an internally developed object-based information technology system to be operational this year. Information technology will play a growing role in containerised transportation and will in due course help to differentiate the services provided to customers by individual carriers.

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Our container terminals group improved its operating profit over the corresponding period of last year. The performance reflects a higher rate of utilisation at our terminals in Vancouver and continued good performance at our Global Terminal in New Jersey. The terminals on the West Coast of North America are beneficiaries of the strong Trans-Pacific trade. While import volume growth well exceeds export volume growth, it is notable that there was positive growth in export volumes at these terminals.

### **OOCL SERVICE ARRANGEMENTS**

Participation in the Grand Alliance continues to be a cornerstone to the strategy and efficiency of OOCL operations. The Grand Alliance is an evolving, progressive association of independent carriers which is committed to enhancement of its services to customers of the member lines. The first half of 1999 saw refinement and additions to trade routes and services offered by the Alliance. The Hong Kong based Grand Alliance Service Centre is fully operational, and acts as an important source for new ideas and initiatives.

### **DEBT AND LIQUIDITY**

The Group's net debt to equity ratio at 30th June 1999 was 0.6, the same level of leverage reported for the first half of 1998. It remains the Group's objective to maintain the net debt to equity ratio at 1:1 or below. The Group's loans outstanding at 30th June 1999 were US\$740.9 million.

The Group maintained cash and marketable securities totalling US\$360.0 million at 30th June 1999.

### **DIVIDENDS**

The Directors are not recommending an interim dividend in view of the six months performance. The current trend in business operations is positive, and the Directors will consider a dividend for the full year if the current trend is maintained.

## DISCLOSURE OF INTERESTS

As at 30th June 1999 Directors who had served during the period and their associates had the following interests in the ordinary shares of the Company as recorded in the register maintained under Section 29 of the Securities (Disclosure of Interests) Ordinance:

	Personal Interests	Family Interests	Other interests		Total
			Beneficial	Voting Trustee	
C C Tung	–	–	80,835,548 <i>(Note 1)</i>	239,000,276 <i>(Notes 2 &amp; 3)</i>	319,835,824
Roger King	–	–	80,835,548 <i>(Note 1)</i>	–	80,835,548
T R Chang	506,390	–	–	–	506,390

### Notes :

Note 1: C C Tung and Roger King have an interest in the Tung Trust which, through Springfield Corporation (“Springfield”), beneficially owns 55,409,576 ordinary shares and, through Monterrey Limited (“Monterrey”), beneficially owns 25,425,972 ordinary shares.

Note 2: Wharnclyff Limited (“Wharnclyff”), a company owned by a discretionary trust established by the Tung family, beneficially holds 232,735,029 ordinary shares of the Company and the voting rights in respect of such holdings are held by C C Tung through Tung Holdings (Trustee) Inc. (“Tung Trustee”). During the year, Wharnclyff purchased certain percentage interests in THT (defined below). As at 30th June 1999, Wharnclyff held 100% interest in THT, which represents approximately 6,265,247 ordinary shares of the Company.

Note 3: Tung Trustee : –

- (i) C C Tung controls Tung Trustee, the voting trustee of Tung Holdings Trust (“THT”), a trust created pursuant to an amended and restated trust deed dated 19th May 1992 for the benefit of the remaining THT certificate holders.
- (ii) As at 30th June 1999, THT held 6,265,247 ordinary shares of the Company.

Note 4: Wharnclyff, Springfield and Monterrey together are referred to as the controlling shareholders.

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## SUBSTANTIAL SHAREHOLDERS

### 1. Shares

As at 30th June 1999, the register of substantial shareholders maintained under Section 16(1) of the Securities (Disclosure of Interests) Ordinance showed the following interests being 10% or more of the Company's issued ordinary shares:

Name	Beneficially held	%
Wharnclyff Limited	239,000,276	46.22
Springfield Corporation	55,409,576	10.71

### 2. Disclosure

As at 30th June 1999, the Group had the following bank borrowings requiring the controlling shareholders of the Company to retain sufficient voting power in the Company to pass ordinary resolutions during the tenure of the respective loan.

Aggregate outstanding loan amount as at 30th June 1999	Tenure
US\$314,000,000	12 years from April 1997
US\$40,225,970	12 years and 7 months from February 1998

## DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES AND DEBT SECURITIES

As at 30th June 1999, none of the Directors or Chief Executive of the Company (or any of their spouses or children under 18 years of age) had any right to acquire shares in or debt securities of the Company. No such rights were exercised by any Director or Chief Executive (or any of their spouses or children under 18 years of age) during the six-month period ended 30th June 1999.

## PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30th June 1999, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

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## COMPLIANCE WITH CODE OF BEST PRACTICE

The Directors are not aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months period ended 30th June 1999, in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except that independent non-executive directors are not appointed for a specific term. However, they are subject to retirement by rotation and re-election at annual general meeting in accordance with the Bye-laws of the Company. The Company has established an Audit Committee since 1994 and has recently revised its terms of reference for this Committee in line with the "Guide for Formation of an Audit Committee" issued by the Hong Kong Society of Accountants in December 1997.

## YEAR 2000 COMPLIANCE

Further to the statement contained in 1998 published interim report and the last published annual report, the Project Team has completed review of a group-wide inventory of computerised and embedded systems and services of its business units of the Group to achieve Year 2000 compliance. The implementation plans on its major new system is progressing on schedule and modification work on systems already identified as critical to the business by the business units of the Group, are close to 90% completed. With the programme progressing currently on schedule, the Group expects that the systems and equipment critical to the business will be Year 2000 compliant by the third quarter of 1999.

Notwithstanding the Group's effort in implementing its Year 2000 programme, there is no absolute assurance that its Year 2000 programme will be completely successful, and there is also the possibility that the Group may experience disruptions to some of its operations caused by non-compliant systems utilised by third parties. Any of these failures, could have a material adverse effect to its business.

Business continuity and contingency plans have been established by each business unit of the Group, and are being reviewed and updated to deal with disruptions caused by systems or equipment failure or third party non-compliance critical to the continuity of the business. The Group is, however, unable to predict the effect if any, of the efforts in the programme including the business continuity and contingency plan to address the Year 2000 issue.

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An element of remedial expenditure has been avoided because the Group has been implementing replacement of its systems and equipment as part of regular and budgeted enhancements to its business systems. For the six months ended 30th June 1999, the Group has spent US\$0.7 million in implementation plans on its major new system changes. The cost of these new system changes has been capitalised in the accounts whereas other costs directly relating to the Year 2000 programme are expensed through profit and loss as and when incurred. As at 30th June 1999, the aggregate of commitments authorised by the Directors of the Company and contracted for in respect of the other incremental costs directly related to the Year 2000 programme is US\$1.5 million, of which US\$1.4 million has been provided for in the accounts. A further US\$0.7 million in aggregate has been authorised by the Directors but not contracted for in respect of the other incremental costs directly related to Year 2000 programme. The aggregate of the total of the other incremental costs directly related to Year 2000 compliance are estimated to be not less than US\$2.2 million.

## INTERIM RESULTS

The Directors announce the unaudited consolidated results of Orient Overseas (International) Limited as set out below:-

	Note	Six months ended 30th June	
		1999 US\$'000	1998 US\$'000
Turnover	1	969,314	875,199
Operating profit before financing	2	23,577	14,241
Net finance expense	3	(18,959)	(23,219)
Operating profit/(loss) after financing		4,618	(8,978)
Exceptional items	4	–	(3,041)
Net non-operating exchange profit		2,165	836
Share of losses less profits of jointly controlled entities	5	(1,086)	(728)
Profit/(loss) before taxation		5,697	(11,911)
Taxation	6	(7,016)	(2,659)
Loss after taxation		(1,319)	(14,570)
Minority interests		(230)	(244)
Loss attributable to shareholders		(1,549)	(14,814)
Dividends	7	–	(1,450)
Loss after dividends		(1,549)	(16,264)
		US cents	US cents
Loss per ordinary share	8	(0.3)	(3.1)

## NOTES

### 1. TURNOVER

Turnover represents gross freight, charterhire, service and other income from the operation of the international containerised transportation and container terminal businesses and rental income from the investment property.

### 2. OPERATING PROFIT BEFORE FINANCING

	Six months ended 30th June	
	1999	1998
	US\$'000	US\$'000
Operating profit before financing by activity is as follows:		
International containerised transportation	11,206	(5,610)
Container terminals	12,045	8,301
Investment property	3,351	2,648
Others	851	13,706
	27,453	19,045
Corporate services	(3,876)	(4,804)
	23,577	14,241

### 3. NET FINANCE EXPENSE

	Six months ended 30th June	
	1999	1998
	US\$'000	US\$'000
Interest expense	(26,244)	(29,321)
Interest income	5,484	6,393
Portfolio investment income/(loss)	1,801	(291)
	(18,959)	(23,219)

### 4. EXCEPTIONAL ITEMS

	Six months ended 30th June	
	1999	1998
	US\$'000	US\$'000
Transition costs for shifting from Global Alliance to Grand Alliance	–	(1,388)
Reorganisation costs for rationalisation of offices in the United States	–	(1,653)
	–	(3,041)

## 5. JOINTLY CONTROLLED ENTITIES

In previous years, these entities were classified as associated companies. The change in classification has been made in conformity with Statement of Accounting Practice No. 21 issued by the Hong Kong Society of Accountants.

## 6. TAXATION

	Six months ended 30th June	
	1999	1998
	US\$'000	US\$'000
Overseas current taxation		
Subsidiaries	(7,016)	(2,654)
Jointly controlled entities	–	(5)
	<b>(7,016)</b>	<b>(2,659)</b>

Current taxation has been provided at the appropriate rates of taxation prevailing in the countries in which the Group operates on the estimated assessable profits for the period. No provision for Hong Kong profits tax has been made as the Group does not have any assessable profit in Hong Kong for the period (1998: nil).

## 7. DIVIDENDS

	Six months ended 30th June	
	1999	1998
	US\$'000	US\$'000
Preferred		
Interim – Nil		
(1998 : US4.83 cents) per share	–	1,450
Ordinary		
Interim – Nil	–	–
	<b>–</b>	<b>1,450</b>

## 8. LOSS PER ORDINARY SHARE

The calculation of loss per ordinary share is based on a loss of US\$1.5 million (1998: loss of US\$16.3 million), being the loss attributable to ordinary shareholders, and on 517.1 million ordinary shares in issue during the period.

By Order of the Board

**C C Tung**

*Chairman*

Hong Kong, 20th August 1999