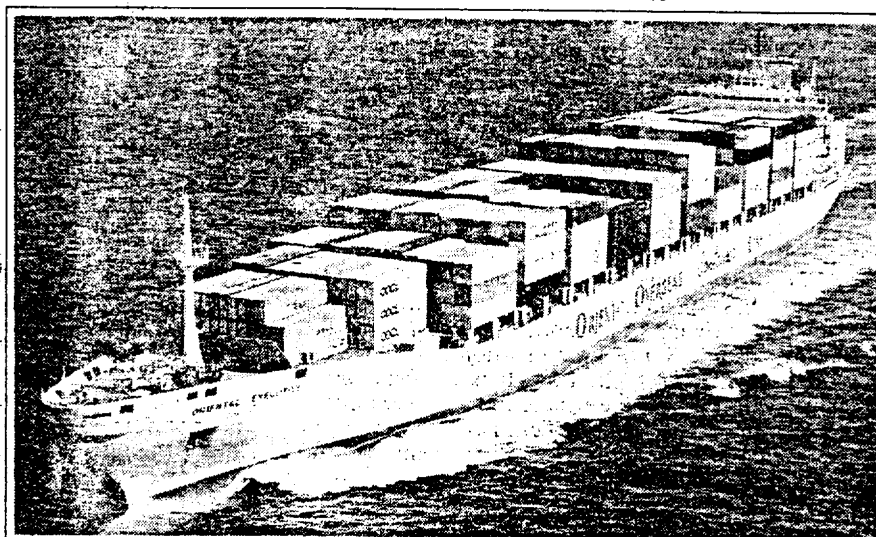
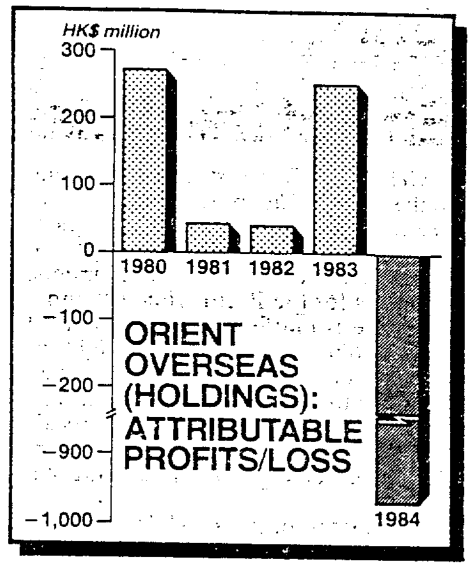


OOH container ship: high-cost operation.




SHIPPING

# A slip of the Tung

## Major Hongkong shipping group in financial straits

**By Robert Cottrell and Nick Seaward**

Deepening shipping-sector gloom coupled with an over-borrowed balance-sheet has forced Orient Overseas (Holdings) (OOH), the publicly quoted Hongkong shipping group of the Tung family, to seek a standby bank-credit line and a suspension of share trading pending the outcome of its negotiations with 40 creditor banks on some form of financial reorganisation.

Bankers are being told that the group is solvent, that it is reporting a positive cashflow, but that it wants to secure its financial position in the wake of heavy asset write-downs last year, general shipping market nervousness in the wake of the collapse of Japan's Sanko group, and so-far unspecified financial strains on the Tung family's private shipping interests, with which OOH is closely linked.

OOH said on 2 September that it had appointed Hambro Pacific, Hongkong arm of the London merchant bank Hambros, as financial advisers, and asked local stock exchanges to suspend trading of its shares while negotiations with lenders were underway. The Hongkong and Shanghai Banking Corp. (HSBC) has made available to OOH a two-tranche secured standby loan of undisclosed size, a move intended to reassure trade creditors and maintain smooth day-to-day running of OOH ships.

The accountancy firm Price Waterhouse has been retained to review OOH's financial position. Creditor banks were told on 2 September to expect a more detailed package of information in about 10 days' time. Shareholders, meanwhile, must expect the suspension to continue at least until negotiations have advanced far enough for a formal document to be prepared and dispatched, a process likely to take at least a month.

Two generations of the Tung family have long controlled one of Hongkong's biggest and oldest shipping empires, rivalling the World-Wide group of Sir Yue-Kong Pao and outranking the Chao family's Wah Kwong Shipping. The Tung group was built up by family patriarch Tung Chao-yung, who died in 1982 aged 71, passing control to his son Tung Chee-hwa, now chairman of OOH. The Tung family is estimated to control 60-70% of the public company.

The Tungs are widely characterised as Hongkong's premier ship operators, and Pao as its premier ship financier. Even in old age, C. Y. Tung remained fascinated by the size and glamour of the supertankers on which his fortune had been built. He decided five years ago to invest in the world's largest supertanker, a decision wildly out of line with long-deteriorating shipping market trends. His enthusiasm extended to buying the former Cunard liner Queen Elizabeth in the early 1970s and establishing it as a floating university in Hongkong harbour until it caught fire and sank.

C. Y. Tung's enthusiasm for tankers, and substantial orders for product carriers, are probably at the root of any private group problems. But unusually for Hongkong, the Tungs also invested heavily in containerships, whose ownership they concentrated in OOH. The public company doubled its fixed assets in 1980 through the £112 million (US$155 million) takeover of Britain's Furness Withy shipping group. OOH's fleet at the end of 1984 comprised 18 full container vessels; four bulk carriers; one general cargo vessel; nine tankers; three gas carriers, and two car carriers. The group also owned three oil drilling rigs and two diving support vessels.

Operating a container line is a relatively high-cost operation, requiring the maintenance of scheduled services. But recent strong growth in world trade brought good operating profits to most container lines in 1984. To the extent of its container interests at least, the Tung group should have been in a stronger position than other Hongkong shipowners more completely exposed to the doom-laden tanker and dry-bulk carrier sectors.

In practice, however, 1984 was financially disastrous for OOH. Although it reported operating profits of HK$365.5 million (US$46.9 million), 44% better than the HK$253.2 million reported for 1983, it also suffered a series of exceptional and extraordinary losses totalling more than HK$1.2 billion, which turned the top-line profit into a HK$970.5 million loss attributable to shareholders. The main damage was done by a HK$397 million loss on the sale of two tanker and bulk carrier-owning associate companies; a HK$200 million provision on ships remaining in its fleet, and a HK$451.3 million exchange loss which the group attributed mainly to the strength of the US dollar, to which the Hongkong dollar is pegged.

OOH bolstered its equity by restructuring and revaluing an associated investment to throw up goodwill of HK$384 million, a move which earned the accounts an audit qualification. Shareholders' funds at 31 December 1984 were reported as HK$1.81 billion, down from the year-earlier HK$2.5 billion. The group reported short-term loans of HK$2 billion, and long-term