

HONG KONG TRADING COMPANIES IN TRANSITION:
A COMPARISON OF THE COMPETITIVE STRATEGIES OF
JARDINE MATHESON HOLDINGS, LIMITED
AND HUTCHISON WHAMPOA LIMITED

by

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ABSTRACT

This paper studies the competitive strategies of Jardine Matheson Holdings and Hutchison Whampoa, two long-established trading companies in Hong Kong.

Faced with growing uncertainty over the future of Hong Kong under communist Chinese rule after 1997, Jardine Matheson and Hutchison Whampoa have pursued different strategies. Jardine Matheson has chosen to strengthen its international operations, changing the firm's country of registry to Bermuda in 1984. Financially weakened by debt, Jardine's best short-term course of action is to sell its holdings of Hongkong Land, the largest property firm in the colony. Hutchison Whampoa has changed its main business line from that of a trading firm to an investment firm. With a strong financial position, it has invested in liquid, key industries such as energy and container facilities development. These investments are relatively insensitive to economic fluctuation in Hong Kong, but Hutchison must diversify geographically to safeguard its businesses should Hong Kong not be a viable market after 1997.

Despite Hutchison's apparent strength, the stock market gives Jardine a higher value in price relative to earnings. Uncertainty over dividend and future investment policies may cloud investors' perception of Hutchison. Investors may view Jardine more speculatively, expecting a financial recovery or that the firm may be a takeover target.

In the future, trading firms may well follow Hutchison's lead in orienting towards investments as a response to market complexity and competition.

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I. Introduction

For more than a century, British colonial trading firms, or "hongs," have dominated business in Hong Kong. Their trading activities brought international recognition to the colony and initiated its growth into a world-class trading state. These trading firms had a wide range of business interests and virtual monopoly over foreign trade.

As Hong Kong's largest and most venerable trading firm, Jardine Matheson directly or indirectly controlled most major segments of the economy and had tremendous influence over the political policies of the colonial government. There is an element of truth in the old jibe that Hong Kong was run by the Jockey Club (which controls horse-racing), Jardine Matheson, the Hongkong and Shanghai Bank, and the governor--in that order.

Though smaller in scale and less influential than Jardine Matheson, Hutchison Whampoa (formerly Hutchison International) has long been one of the premier trading houses in Hong Kong. In many ways, Hutchison was similar to Jardine: strong ties to Great Britain, old-line expatriate management, broad network of business relationships and specialization in the import and export of consumer goods.

Because of Jardine Matheson and Hutchison Whampoa's long history and broad experience, Hong Kong's business community regards them as trend-setters--their actions

symbolic of the state of well-being of the colony. Investors were so sensitive to Jardine's activities that when the firm transferred its registry from Hong Kong to Bermuda in early 1984, they saw it as a vote of no confidence in Hong Kong's future and sent the local stock market index--the Hang Seng--falling 61.76 points to 1057. Hutchison Whampoa had similar effects on Hong Kong when it declared an extraordinary dividend in 1983. The stock market saw it as giving shareholders their assets in easily transportable form.

Investors in Hong Kong do have a particular reason for their insecurity. In 1997, the government of Hong Kong will be transferred from the British to the Chinese, and the investment environment thereafter is uncertain. Mainly because of this, businesses in Hong Kong have suffered from a depressed economy, and the hongts have not been immune to its effects.

In the ten years prior to 1986, Hong Kong saw the gradual decline of the British colonial trading companies. Improved transportation and communication technologies, an influx of newly developed and sophisticated products and increased availability of financing caused the erosion of the hongts' market dominance by local niche players and foreign firms.

In the past, most traded goods were transported to or from Hong Kong by shipping lines controlled by the hongts,

such that would-be competitors faced much higher costs for importing or exporting their products. With the development of the world shipping and cargo facilities, the hongts lost their corner on transportation and could no longer stem the tide of competing goods. The hongts were also slow in competing for sole distributorships of new products, instead marketing products that were rapidly losing market share. The competition was given further impetus with the development of Hong Kong as a world financial center, which resulted in easier credit terms and a strong equity market to support the growth of local entrepreneurs. Then, as Europe waned in industrial strength so did the hongts' economic power--their business relationships in newly industrialized countries such as Japan, South Korea and Taiwan are weak. Moreover, ease of travel and communication allowed many foreign companies to by-pass the trading firms as middle-men and to sell directly to retailers.

The colonial trading firms' political power in Hong Kong followed the economic decline. As the date for the transfer of Hong Kong's government from Britain to China in 1997 nears, the balance of power shifts to those influential in China. Whereas the British had set Hong Kong's laws and regulations on trade and taxes with the benefit of business--especially the hongts'--in mind, the Chinese are unlikely to favor the old-line colonials.

Firms in Hong Kong are racing to establish ties with China in hopes of achieving an influential position post 1997. With a force of expatriate management and a history of opium trade to China, firms like Jardine Matheson will find it hard to communicate and win the trust of their Chinese counterparts.

Faced with the weakening of their economic and political powers, Hong Kong's trading firms have had to redirect their strategies to maintain a strong competitive position. Among trading companies, Jardine Matheson and Hutchison Whampoa represent two ends of a spectrum of response strategies which in the past decade has ended their century-old similarities. Whereas Jardine Matheson remains fundamentally little changed, a Hong Kong Chinese entrepreneur is now the leader of Hutchison Whampoa and the firm is heading far beyond the traditional activities of a colonial trading firm. The following is a study of Jardine Matheson and Hutchison Whampoa's businesses and an analysis of their adjustment to the changing competitive environment and the resulting implications for the future.

1. Background

Since its founding in 1842, Hong Kong has grown from a rocky barren island to a flourishing manufacturing and financial center with a population of 5.4 million. Hong Kong's per capita GDP in 1985 of US\$4,285 was third behind Japan and Singapore in Asia.(1) Appendix 1 shows a map of Hong Kong and its geographic setting.

Hong Kong's economic success has been contingent on several factors: a free market system, a hardworking labor force, and political stability. The Hong Kong government's laissez faire policy imposes minimum interference on the activities of local and foreign businesses, and rates of taxation are very low. Corporations profits tax are a flat 18.5% and the maximum income tax is 17%. A free port, an open capital market and no restrictions on repatriation of profits also make it attractive to invest in the colony. The local labor force is hardworking and accustomed to factory discipline. Technicians and supervisory staff are readily available. Moreover, local trade unions are weak and non-militant.

Hong Kong has not suffered from the major political upheavals that have plagued most South-East Asian countries. Since the founding of the colony, the system of government has hardly changed. Historically, such

(1) South China Morning Post, Thursday February 27, 1986, p.BN1 Year End Report from the Financial Secretary, Sir John Brembridge "Sir John Spares Rod Despite Low Growth."

political stability has nurtured the growth of the economy, and has strongly attracted foreign investors. Although stability is a key factor inducing Hong Kong's growth, the reverse is also true: stability in Hong Kong has hinged on uninterrupted economic expansion and the consequent improvement in living standards.

2. Trade

Few other countries in the world are as dependent on overseas trade as Hong Kong. Total exports of goods and services averaged 90% of GDP over 1975-84 and total imports of goods and services averaged 89% of GDP (in 1984, imports were 101% and exports 106% of GDP).(2) The colony imports 100% of its fuel, has hardly any local mineral resources, and lacks adequate water supply from natural sources.(3) Hong Kong's major trading partners are the United States, China, Japan, United Kingdom, West Germany, and Taiwan.

The British trading firms operating in Hong Kong originally dealt exclusively with trade between Europe and the Far East in commodities such as tea and silk. Their role traditionally has been that of agent between primary producers of goods and retailers. The firms were involved

(2) The Census and Statistics Department, Hong Kong Annual Digest of Statistics, 1985 Edition, Hong Kong: The Government Printer, 1985, p.87

(3) Miners, Norman J., The Government and Politics of Hong Kong, Hong Kong: Oxford University Press, 1984, p.52

in every aspect of a trade. In accordance with the ultimate buyer's needs, the trading firms would source raw materials, inspect production and quality, arrange for credit and shipping and take part in marketing the final product.

These trading houses now deal with a much broader spectrum of business and on a wider global scale. Most have diversified from pure trading into other areas where instead of acting as middle-men, they exert primary control and consequently bear greater financial risks. Although their strengths as traders has been eroded by competitors, the trading firms today remain as the most influential, core companies of Hong Kong.

3. Hong Kong and China

Hong Kong has always been extremely sensitive to the political rumblings of the People's Republic of China (PRC). The British are really temporary rulers of Hong Kong, governing under a hundred year lease signed with the Chinese in 1897.

In 1982, British negotiations with the Chinese government on the future of Hong Kong after 1997 threw the colony into a severe recession. Investors feared that communist government policies would be detrimental to the efficient and highly sophisticated business infrastructure

of Hong Kong. Real estate prices declined by up to 50% from 1981 levels.(4) The Hong Kong dollar depreciated by as much as 80% against the US dollar during a particularly jittery period in September 1983, finally settling at a pegged rate of HK\$ 7.80 = US\$ 1.00, 40% lower than 1981 levels.(5) At the peak of the 1984 confidence crisis, interest rates for one month money in Hong Kong reached 27%. (6) The local stock exchange index, the Hang Seng, tumbled from a monthly average of 1506 points in 1981 to just 930 points in 1983.(7) Local investors became reluctant to increase their stake in Hong Kong by making new investments or expanding present ones. All these factors contributed to a significant slowdown in the colony's real GDP growth rates, which declined from 7% in 1981 to 1.4% in 1982.(8)

In September 1984, the British and Chinese reached an agreement whereby China would resume sovereignty over Hong Kong in 1997 but would guarantee commercial, social, political and religious freedoms until 2047.

(4) The Economist Intelligence Unit, Quarterly Economic Review of Hong Kong, Macao, No.1, 1983, London: The Economist Publications Ltd., p.9

(5) Hong Kong Annual Digest of Statistics 1985 Edition, p.109

(6) Hongkong Land Annual Report 1984, p.7

(7) Ibid, p.109

(8) Hong Kong Annual Digest of Statistics, 1985 Edition, p187

The agreement revived the Hong Kong economy somewhat. The property market experienced a gradual recovery, boosted by low interest and mortgage rates. Since 1984, prices have increased on average by 10-15 percent.(9) The stock market also improved steadily--the Hang Seng Index reached a four year high of 1755 points in November 1985.(10) However, some long-term effects of the 1982 recession lingers. Consumer demand remains depressed. Retained imports contracted by a real 8% in the second quarter of 1985 and has not recovered. Retail sales also declined by 2% in value in the second quarter of 1985 from the same period in 1984. Overall, investors appear reluctant to develop new projects. The real growth rate of retained imports of capital goods (the best indicator of investment demand) fell by 14% during the third quarter of 1985.(11) The colony's China trade has been crimped because of China's recent foreign-exchange squeeze. Controls on credit expansion, import restrictions and rationing of foreign currency have dashed the hopes of Hong Kong businessmen that China would make up for trade lost elsewhere.(12) These factors, coupled with a slowdown in

(9) The Economist Intelligence Unit, Quarterly Economic Review of Hong Kong, Macao, No.4, 1985, p.13

(10) Ibid

(11) Ibid, p.11

(12) The Economist, June 29 1985, p.72

the growth of the American market, resulted in a very disappointing 0.75% growth in GDP for 1985, compared to the staggering 9.3% in 1984 which was largely due to the buoyancy of the Chinese and American markets.(13) GDP growth is estimated to be 4.5% for 1986.(14)

Despite China's guarantee to maintain Hong Kong's capitalistic economy, the business outlook is still uncertain. Given the turbulent 37 year history of the communist Chinese government, changes or even reversals of policy can occur are not out of the ordinary. The validity of the guarantee in 1997 will be determined by the ruling members of the Chinese government at that time. Optimistically, however, recent Chinese government policies are directed toward establishing a market economy in China. Moreover, it is highly unlikely that China would curtail the foreign exchange earnings it derives from Hong Kong--approximately one-third of the total amount that China earns.(15)

The current situation is thus ambiguous for businesses in Hong Kong. The most popular strategy for those with sufficient financial resources is to look northward into China and outward into politically more stable countries for new investment opportunities. Long established firms

(13) South China Morning Post, February 27, 1986, p. BN1

(14) Ibid

(15) Miners, N.J., p.22

like Jardine Matheson and Hutchison Whampoa have also to cope with the uncertainty in Hong Kong's future. As will be seen in later chapters, they have pursued divergent strategies in doing so.

II. Jardine Matheson Holdings, Limited

1. History and Business

Jardine Matheson & Company, Ltd. ("Jardine") was formed in Canton in 1832 as a trading company primarily involved in the tea trade. The firm moved its headquarters to Hong Kong in 1841 and went public with 25% of its issued share capital in 1961. In response to the political uncertainty of Hong Kong after 1997, a new Bermudian Company, Jardine Matheson Holdings Ltd., was established in June 1984 to replace Jardine Matheson & Co. as the ultimate holding company for the Group.

At present, the Jardine Group is diversified in both its interests and geographical penetration. Its businesses span nearly every sector of the economy and the world. Excluding associates, the group currently has in excess of 18,000 employees in 17 countries which fall into six geographical areas: Hong Kong & China, Australasia, Europe, North America, North East Asia and South East Asia. Jardine's business activities are divided into four core sectors and two extraneous categories. Specifically, the core sectors are: Engineering and Construction, Financial Services, Marketing and Distribution and Transport Services. Jardine also owns 34.6% of Hongkong Land, the largest property company in Hong Kong. Another business category, "Investments," covers miscellaneous ownerships

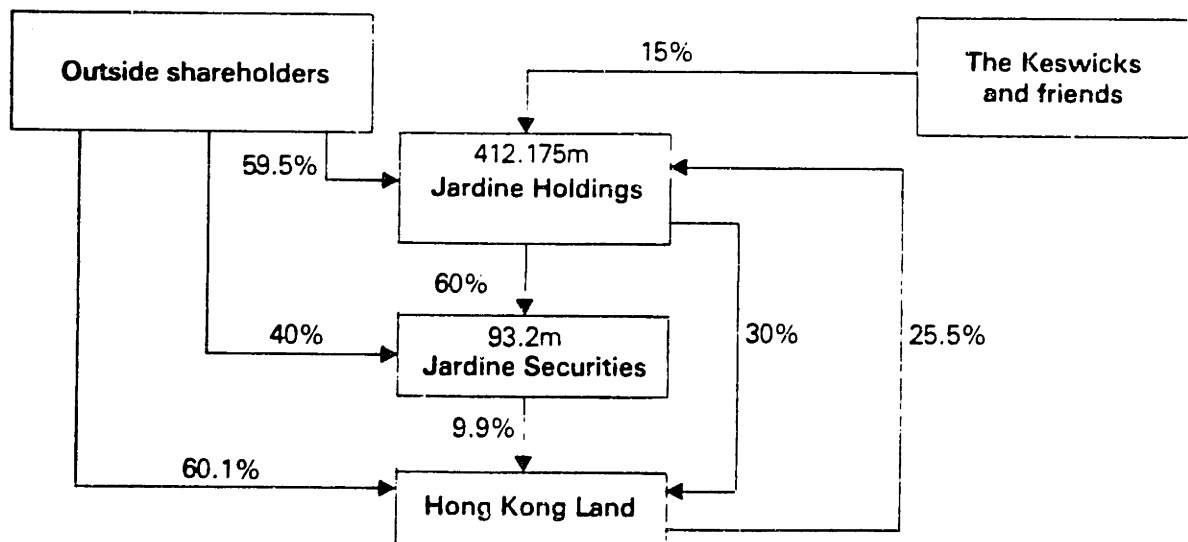
and joint ventures in property, trading and oil and gas businesses in Hong Kong and abroad.

2. Management Style, Organization Structure and Control

a) Ownership Structure

The diagram below shows the structure of controlling interests in the Jardine Matheson/Hongkong Land Group. The Keswick family has held interests in the firm since William Keswick became "Taipan," or head of the company, in the late Nineteenth Century. In 1983 a member of the family, Simon Keswick, became Chairman and Managing Director of Jardine Matheson and Hongkong Land.

Structure of controlling interests in the HK Land/Jardine Group



b) Organization

Prior to Simon Kewick's leadership in 1983, the firm was organized on a functional basis in Hong Kong and a geographic basis overseas. Today, functional management and grouping of related activities take priority over geographic, although there is still territorial coordination for tax and accounting purposes. Key wholly owned functionally managed activities are insurance broking (headquartered in London), wines and spirits and air cargo (headquartered in Hong Kong). Marketing and distribution activities in Hong Kong are the main wholly owned operation. Increasingly, however, Jardine's activities are carried out through separate associated companies such as Lombard (Insurance Holding), Jardine Fleming (Merchant Banking), and Gammon (Construction), with their own management teams supervised through board representation from Jardine Matheson.(1)

c) Management Style and Control

Within each of the four core business areas, and similarly within Hongkong Land, are distinct business units run as profit centers. The board of directors gives managing directors of operating units near autonomy in running their businesses. Similarly, operating decisions

(1) Citibank Hong Kong Corporate Banking Division, Report on Jardine Matheson, Hong Kong, 1985, p.3

within businesses are reasonably decentralized. The board must, however, approve of major investment decisions. Typically, there are two top-down approaches toward finding new investment opportunities. The first is to identify markets where expertise in an existing core business would give the firm a competitive advantage. The second focuses on selecting key geographical areas for expansion, and then identifying viable businesses for investment within those areas. No formal strategic planning process exists in the management system.

The structure and organizational culture of Jardine is formal and hierarchical. Communication and rapport between superiors and subordinates seldom range beyond that needed in day-to-day operations. Middle managers interviewed were rarely knowledgeable of the long-term goals or directions of the firm. Promotions from within are the norm, although it is evident that the firm favors expatriates for management positions and provides them with better pay and benefits than to their Chinese peers. The firm's compensation system, however, is changing from a fixed system escalated by seniority to one that is at least partially performance based. The executive directors of the firm award bonuses at their discretion.

Various factors do make Jardine an attractive company to work at: job security, good work environment,

opportunities for geographical relocations, broad scope of business exposure and strong relationships and contacts. This set of attractions is rarely found in more entrepreneurial firms in Hong Kong which may be similarly paternalistic in management style.

3. Financial Condition

Jardine Matheson's 1985 preliminary results were better than expected. Net income before extraordinary items increased to HK\$157 MM from HK\$80 MM in 1984. Earnings per share increased by 100% to HK\$0.38. Total debt decreased by 36% to HK\$2,704 MM. The debt to equity ratio in 1985 was 0.57:1, compared to 1:1 in 1984.(2)

Despite the improvement in 1985 results, Jardine's financial performance exhibits a downward trend in nearly all operating performance and profit ratios over the past five years (see five year summary statistics Appendix 2).

Jardine and Hongkong Land ("Land") built up cross-holdings of each other in 1980 in an effort to ward off a takeover attempt. At present, Jardine holds 40% of Land, and Land holds 25.6% of Jardine. Hongkong Land is perhaps Jardine's most important investment, representing well over

(2) Jardine Matheson Holdings Limited, Press Release, "Jardines Announces Improved Results for 1985," March 21, 1986.

50% of its gross operating funds and 100% of its net worth.(3) Unfortunately, Jardine acquired Land at a time when the property market was at its peak. The Group financed the purchase with debt when the cost of funds was high. In 1983 the real estate market crashed, leaving Jardine with substantial debt servicing obligations. Meanwhile, Land suffered tremendous losses from its real estate investments, driving down its market value and again adversely affecting Jardine's profit and loss account.

Excessive diversification was another reason for Jardine's poor financial record. It has recently divested its investment in shipping and overseas properties (mainly Hawaii) that were unprofitable. The Group also disposed of interests in several subsidiaries, including: all Hawaiian sugar interests, all holdings of Rennies, a South African property company, and 50% of Gammon Engineering.

Jardine is very vulnerable to foreign exchange and interest rate risk. With the appreciation of the Hong Kong dollar in 1984, the Group's exchange rate exposure gave rise to a loss of HK\$125 MM compared to a surplus of HK\$300 MM in 1983.(4) Three areas are of particular importance

(3) Jardine Matheson's market capitalization is HK\$ 5,481 million. Hongkong Land's market capitalization is HK\$ 16,158.7. Thus, Jardine's 37.4% holding of Land is worth HK\$ 6,043, more than 100% of Jardine's net worth.

(4) Kuzil, Lea A., Investment Bulletin, "Jardine Matheson Holdings Ltd.," Hong Kong: ChinTung Investment Services Ltd., 12/16/85, p.5

with regard to interest rate risk, including: the carrying cost of Jardine's stake in Land; cost of funds and interest expense on the Group's level of debt, and the intrinsic relationship between interest rates and exchange rates.

Financial Analysis

Jardine's financial ratios are shown in Appendix 3. Jardine's weakening short-term liquidity position since 1981 indicates that current liabilities have grown at a faster rate than current assets. Management efforts since 1983 to divest of peripheral activities may be a factor in the decline, as may the increased expenditure in core businesses.

Jardine's debt to equity position has risen steadily such that total debt in 1984 was more than two times equity. Preliminary results for 1985 are more encouraging. Long-term debt decreased 36% to HK\$2,704 MM. Despite this, Jardine still has substantial debt servicing obligations. The Times Interest Earned ratio, which went from 3.25 in 1980 to only 1.16 in 1984 indicates that Jardine bears significant risks of insolvency should another period of earnings decline.

Investments have yielded substantially less return over the past five years. Return on Assets in 1984 declined 50% from peak 1981 levels. Return on Equity results are worse--a mere 1.89% return. This reflects the

Group's high debt and low income levels and points to an unrealistic dividend payout policy in the face of rising debt and shrinking earnings, especially in 1983 and 1984.

Jardine's asset turnover rates are relatively healthy. The amount of cash supporting sales has increased over the years, indicating an improved ability to meet the needs of day-to-day transactions. Net margins have declined over time despite growth in turnover, which shows problems in cost management.

4. Analysis of Core Businesses and Categories

a) Hongkong Land ("Land")

When the real estate boom began in 1978 improving Hongkong Land's cash flow, the firm invested heavily in property development sites and in diversifying its portfolio.

By the time the property market crashed in 1983, Land had incurred a projected peak of HK\$ 22 billion (US\$ 3 billion) in debt.⁽⁵⁾ Land's financial performance reached a low point in 1983 when profit margin and return on investment dipped to 1.9% and 0.5%, compared to industry

(5) Jardine Fleming Group South East Asia Research, "Hongkong Land," Hong Kong: September 10, 1985, p.2

averages of 29.6% and 4.2% respectively.(6) Return on equity dwindled to 1.2% and gearing grew to 56%.

A new management team improved financial results in 1984. Hongkong Land divested itself of its non-core businesses such as Hongkong Electric and Hong Kong Telephone and cut back on development projects. Profits after tax improved by 114% in 1984. Preliminary 1985 results show a further 56% increase in profits to HK\$ 551 MM and a decrease in net borrowing as a percentage of shareholders' funds from 104% to 64%. Dividends, which were cut to HK\$0.01 per share in 1983 and 1984 were raised to HK\$0.15 per share for 1985.

Hongkong Land Organization and Business

The Hongkong Land company is organized into three core business units which operate as autonomous, wholly-owned subsidiaries:

(i) The Hong Kong Land Property Company Ltd.

The Property division oversees Land's principal business of property development, sales and management. With occupancy rates at over 90%, net rental income has made the largest relative contribution to profits in Hongkong Land at 48%. Based on current average asking rentals, Hongkong Land's new and existing commercial

(6) Lackey, Ann, Investment Bulletin, "The Hongkong Land Company Ltd.," Hong Kong: ChinTung Investment Services Ltd., November 15, 1985, p.17

properties are estimated to have a valuation of HK\$ 20.7 billion.(7) Residential investment units, valued at HK\$ 1.1 billion, form only a small part of Land's portfolio. In general, Land's property development projects-for-sale have done poorly, creating a HK\$674 MM loss in 1983 and HK\$23 MM profit in 1984.(8)

The current recovery in the property market is especially strong in the commercial or office sector. A steady growth in new foreign companies registered in Hong Kong (7% average annual increase 1982-1985)(9), and a general upturn in the economy has increased demand for office space. An undersupply is forecasted by late 1986 and 1987,(10) as no new buildings are due for completion for the whole of 1986. By 1988, however, the market is expected to swing back to a state of oversupply when 2.7 million square feet of space becomes available.(11)

(7) James Capel Hong Kong Research, "Hongkong Land, Re-appraisal of the N.A.V.," Hong Kong: James Capel & Co., 1985, pp. 2, 3.

(8) Lackey, Ann, "Hongkong Land Co., Ltd.," Hong Kong: ChinTung Investment Services, 1985, p.6. All \$23 profit came from development projects abroad. Projects in Hong Kong just broke even.

(9) Hong Kong Annual Digest of Statistics, 1985 Edition, p.111

(10) Hill, Alan (Senior Partner, Jones Lang Wootton), "The Outlook for the Hong Kong Property Market," text from speech to Rotary Club of Hong Kong, October 1985.

(11) Ibid

Historically, the firm has made huge profits from realizing the difference between book and market value of land that it has owned since the 1900's. Further growth would require bidding for new development sites. Given its current weak cash flow position, Land is not in the position to do that. In the prime areas on Hong Kong Island, land prices in 1984 averaged HK\$3,831 per square feet (US\$ 491/sq.ft.).(12) Hongkong Land has never actively sought to develop property in Kowloon or the New Territories, and has no current plans for foreign projects.

ii) The Dairy Farm Company Ltd.

Dairy Farm is primarily involved in food retailing and manufacturing. Retailing through its chain of Wellcome supermarkets and drugstores is the most significant part of Dairy Farm's business, accounting for more than 90% of total sales and 79% of divisional profits in 1984.(13) At present, there are 105 stores in the colony, serving approximately 7 million customers a month. Manufacturing and wholesale operations are growing but contribute marginally to the bottom line.

(12) Hong Kong Annual Digest of Statistics, 1985 Edition, p.151

(13) Hongkong Land Annual Report 1984, p.12

Wellcome supermarkets achieved net margins before interest and taxes of 3.6% in 1984.(14) Wellcome, with approximately 42% of the retail market in foodstuffs, alcohol and tobacco,(15) has considerable power over its suppliers. Because the retail food business generates almost 100% cash receipts, the chain can finance its growth by the 90 days of supplier credit normally allowed it. Hutchison Whampoa's Park N' Shop supermarkets are Wellcome's leading competitor.

Dairy Farm is actively seeking manufacturing joint ventures in China. A new joint venture company named International Food Corporation Limited with capital of HK\$ 137 MM (70% Dairy Farm) has been formed in Guangzhou to promote the development of the foodstuffs industry in China.(16)

In Australia, Dairy Farm's Franklin's Stores is the fourth largest supermarket chain with 115 stores in

(14) Jardine Fleming Group South East Asia Research, "Hongkong Land," Hong Kong: Jardine Fleming, 1985, p.11

(15) Hong Kong Annual Digest of Statistics, 1985 Edition, pp. 58, 70. "Foodstuffs, Alcohol and Tobacco" industry turnover in 1984, which includes supermarket sales, was HK\$ 17,245.60 MM. Dairy Farm's Wellcome supermarkets achieved HK\$ 7278.30 MM turnover that year, or 42% of the market.

(16) Hongkong Land, Landmark, No.2 1985, Hong Kong: Hongkong Land Co. Ltd., p.10

1985. Expansion is expected to continue and profits expected to rise by 10% in Australian dollar terms.(17)

(iii) The Mandarin Oriental Hotel Company Ltd.

Preliminary financial results indicate that the hotels segment of the business contributed roughly 10% of Hongkong Land's profits in 1985. Many overseas hotels are in a loss position. In Hong Kong, the hotel market is very strong--occupancy rates averaged 86% from 1980-84.(18) Hong Kong had 3.4 million visitors in 1985, an increase of 9.2% from 1984.(19) Projections for the remainder of the decade are optimistic but hotels will be facing greater competition when 2,000 new rooms open in 1985-86.

Land's hotels in Hong Kong, the Mandarin and the Excelsior, generated HK\$190 MM profits for 1984. They are well positioned competitively, especially the Mandarin, which was rated the second best hotel in the world by Institutional Investor.

The other Asian hotel markets Jakarta, Manila and Macao all suffer from low average room and occupancy rates.

(17) Jardine Fleming Group South East Asia Research, "Hongkong Land," 9/10/85, p.11

(18) Hong Kong Annual Digest of Statistics, 1985 Edition, p.136

(19) Hong Kong Economic Trends, December 1985, HongKong: Census and Statistics Department.

New hotels will be opening in Kuala Lumpur and Singapore, both of which are troubled markets due to oversupply.

Land wants to expand into North America and to increase the number of hotel management contracts it carries. These contracts provide a strong and recurrent income base. Most are established on terms taking 3% of turnover in addition to a percentage of profits over a certain pre-established level.(20)

There is an optimistic future for Hongkong Land. The strong recovery of Hong Kong's property market will boost income from the firm's investment properties, and the food and hotel operations should exhibit earnings growth stability given their current market positions. The major concern over the next few years remains to be Land's debt and cash flow position which will continue to be tight through 1987.

Jardine Matheson Core Businesses (Continued)

b) Marketing and Distribution

This group is organized under the wholly owned management company Jardine Marketing Services, Ltd. (JMS).

(20) Lackey, Ann, "The Hongkong Land Co., Ltd." 11/5/85, p.14

JMS manages the marketing and distribution subsidiaries of Jardine, which are organized into three groups: Consumer Markets, Technical Markets, and Zung Fu Company, Ltd.

JMS receives only broad operating guidelines from the parent Jardine Matheson and must generate its own cash to support growth. Management considers a 25% return to be the hurdle rate for new investments, and expects operating funds to sustain a 20% return. Each year, JMS pays out 100% of profits to its parent Jardine Matheson and receives 40% back to finance operations. In 1985, JMS achieved HK\$2 billion turnover, with profit after taxes of about HK\$100 MM.(21)

(i) The Consumer Markets Group

The Consumer Markets Group contributed approximately 30% to JMS profits in 1985. The Group sells a wide range of consumer products from luxury goods to food and household items. The Group is composed of six decentralized operating companies and a new product development department. Five of the six companies' main activities lie in trading through licensing or agency agreements of brand name products. The sixth, a high

(21) Lee, H.W. (Finance Director, Jardine Marketing Services, Ltd.), interview in Hong Kong, Feb 26, 1986.

potential business, is the 7-Eleven division, which in 1983 established the first franchise network in Hong Kong.

In the four years from 1981 to 1985, the 7-Eleven division opened 140 stores and is growing rapidly. It achieved \$10 MM profits in 1985 and is expected to generate \$15-20 MM in 1986. JMS's goal for 1986 is to open 40 stores. Because the projected saturation point is at 500 stores colony-wide, this business has tremendous potential.

Other than 7-Eleven, the consumer goods subsidiaries are experiencing slower growth and increasing competition. Jardine Consumer Products, which markets food and household products, is suffering from a squeeze on margins, aggravated by a recent supermarket price war. Food retailers are trying to go directly to primary suppliers, by-passing Jardine. Likewise, Fardel & Co., the cosmetics distributor, has to compete with parallel imports which violate its sole distributorship rights. In face of these problems, JMS's strategy is to become less dependent on the agency business and to invest more in new product development. So far JMS has produced a very successful brand of laundry detergent, a new men's shampoo and a new blend of rice.

(ii) Technical Markets Group

The Group markets technical products such as computer systems and industrial supplies.

This is a highly competitive segment, supplying about 30% of JMS profits. The Group competes against legitimate agents representing other brands such as Kodak and Minolta as well as with under-the-table distributors, who take as much as 20-30% of JMS's sales.

The major cost components in this business are advertising and promotion. JMS needs a minimum average of 35% gross margin to cover these costs and yield a satisfactory return.

Given the tough competitive environment faced by the Technical Markets Group, JMS must seek growth through identifying and trading state-of-the-art products and by strengthening its relationships with primary suppliers to ensure sole distributorship rights.

(iii) Zung Fu Company, Ltd.

This division is 75% owned by Jardine, the rest is publicly traded. In 1984, Zung Fu achieved profits after taxes of HK\$150MM. It has been the most profitable of the three groups within JMS, contributing 40% to profits. Zung Fu is involved in the sales, marketing and servicing of transportation and engineering equipment. It is the sole dealer of Mercedes Benz cars in Hong Kong, which represents a 11.6% share of the private car market.(22)

(22) Zung Fu Company, Limited Annual Report, 1984, p.13

An improvement in Hong Kong's economic and political environment has stimulated vehicle sales and the non-vehicle divisions have reported substantial increases in profits as well.(23) Zung Fu will seek to expand operations in China, where demand for motor vehicles and engineering equipment is strong.

Jardine's evident emphasis on diversifying businesses within the Marketing and Distribution Group has been sound. The Group was able to withstand the impact of the recent decline in economic growth and consumer demand. Outside of Hongkong Land, it emerged as the largest contributor to Jardine earnings (29%) in 1984.

c) Financial Services

Jardine's involvement in financial services is extensive. Activities include merchant banking, insurance underwriting and broking, credit finance, money broking and share registration.

The insurance activities under Jardine Insurance Broking are experiencing less favorable results in Europe

(23) Wong, Richardson, "Jardine Holdings," Hong Kong: Sun Hung Kai Research Ltd., 9/27/1985, p.3

but are benefitting from improved premiums in the US market.(24)

83% of the publicly traded Jardine Securities' investments are in its 9.9% holding of Hongkong Land. As with Jardine (which owns 60% of Jardine Securities), Land's debt burden impeded a profitable performance for Jardine Securities. The current favorable interest rate structure, strong stock market and improving economic growth in the US should strengthen the firm's results for the next year.

Jardine Fleming and Co., Jardine's 50%-owned merchant bank, achieved record profits in 1984 and expects better results following the purchase of a seat on the Tokyo stock exchange.

d) Transport Services

Jardine has completely withdrawn from shipowning but is still active in ship management and the ship agency business. The group is also involved in air cargo handling and freight forwarding.

Despite the downturn in the shipping industry, the ship agency business is still profitable. Overhead costs are low: the main components are staff salaries and rent. Furthermore, the business has not been affected by the

(24) James Capel Hong Kong Research, "Jardine Matheson," 10/10/85, p.2.

political insecurity in Hong Kong. The colony's role as a transshipment center and entrepot for import/export goods generates an enormous volume of cargo each year, 90% of which are handled by sea.(25) Annual growth in sea cargo volume averaged 9% since 1980.

Commissions depends on the rate policy, schedule, and service provided. An international conference known as the Shipper's Council sets the rates, which vary by commodity but are generally 20-30% of the landed cost of the cargo.(26)

Jardine's strategy is to increase its current 3% of market share in the ship agency business by offering improved service. China is of strategic importance. The country's growing foreign trade will divert many goods directly to China that previously went through Hong Kong. At present, Jardine is the only foreign shipping agent in China. Their experience with international shippers gives them an edge over Chinese agencies. Stanley Ko, director of Jardine Shipping Agencies said, " We produce the right documents, have the right connections and load the cargo well, so that the client gets a faster turnaround time."

(25) Hong Kong Annual Digest of Statistics, 1985 Ed., p.128

(26) Ko, Stanley (Director and General Manager, Jardine Shipping Agencies (HK) Ltd.), interview February 27, 1986

e) Engineering and Construction

Jardine Matheson holds interests in engineering and construction through numerous subsidiary relationships. Foremost among these concerns are Gammon (HK) Ltd. (50%), the Jardine Engineering Corporation Ltd. (100%), and Schindler Lifts (HK) Ltd. (60%). Jardine has been involved in many major building and civil engineering projects in Hong Kong and South East Asia. Other activities are the supply of mechanical and electrical equipment and services in Hong Kong and the installation and servicing of lifts and escalators.

Despite the recent recovery in the property market, the construction sector in Hong Kong is generally facing declining profit margins and net earnings due to strong foreign competition. The firms in this sector are actively seeking overseas projects which at present account for about 20% of earnings. Given increasing competition, however, Jardine's construction and engineering volume may fall through 1987.

III. Hutchison Whampoa Limited

1. History and Business

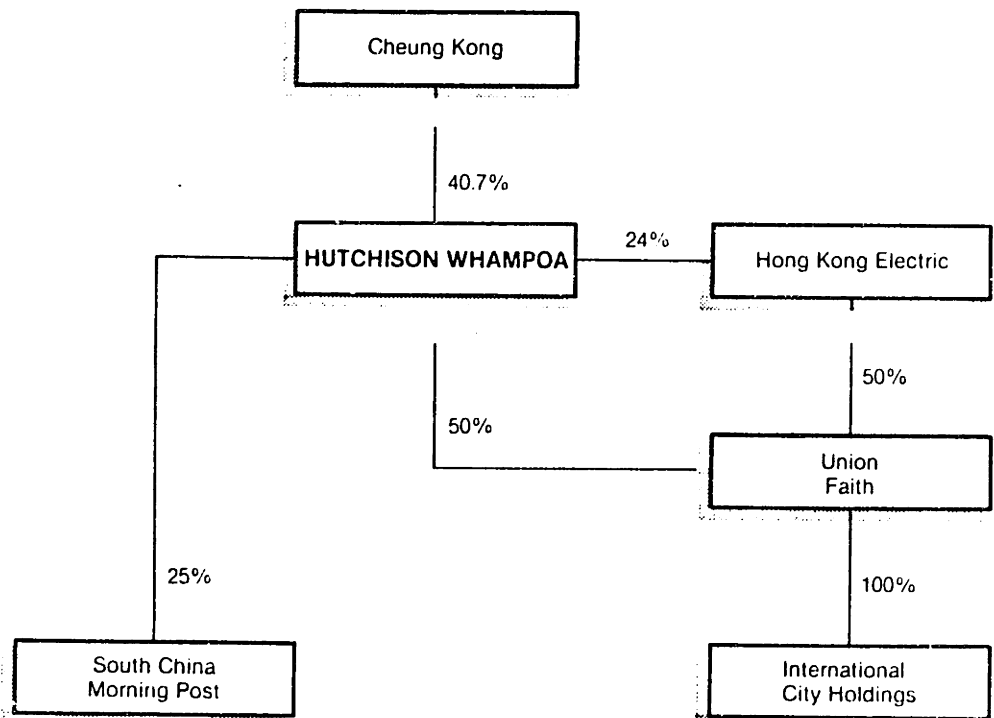
Hutchison Whampoa ("Hutchison") was incorporated in 1977 as a result of the merger between Hutchison International Limited (established 1880) and Hongkong and Whampoa Dock Company Limited (established 1866). Before the merger, the former was a major Hong Kong trading house and the latter was involved in dockyard related activities and property development. In 1979, 22.4% of Hutchison Whampoa was bought by Cheung Kong (Holdings) Limited, one of the most successful local property development companies controlled by Mr. Ka-shing Li (known in Chinese as Mr. Li Ka-shing). As of December 1984, Cheung Kong owned 40.7% of the publicly traded Hutchison Whampoa Limited.

The Hutchison Group is now a broadly-based conglomerate with five major profit centers in property, shipping related services, trading and retail, quarrying and finance and investment. The Group's business is concentrated in Hong Kong, making Hutchison one of the largest companies totally oriented to the success of the territory.

Recent major corporate developments include the acquisition in February 1985 of Hongkong Land's 34.9% interest in Hongkong Electric for HK\$ 2.93 bn (15% under market value) and the joint acquisition with Hongkong

Electric in 1986 of International City Holdings, a property development associate of Cheung Kong. The relationship between Hutchison, Cheung Kong and its quoted associates is shown in the figure below:

The Relationship Between Hutchison, Cheung Kong and its Quoted Associates



(Delisted with effect from 31st December 1985. Market Capitalisation prior to delisting \$3.5bn)

2. Management Style, Organization and Control

When Li Ka-shing acquired control of Hutchison, he effectively broke the British monopoly on big business in the colony. In traditional Chinese style, Li runs the public companies he controls as if they were his own.(1) Li installed his own hand-picked management team at Hutchison's, mostly from Cheung Kong Holdings. The present Managing Director, Simon Murray, used to run Jardine Matheson's trading division and his own engineering firm. An executive committee of Hutchison's board members makes decisions on capital allocations, although managers know that approval for investments rests ultimately with the Chairman, Li Ka-shing.

Unlike Jardine, Hutchison has few expatriate middle managers. Its management style is Hong Kong Chinese with no "iron rice bowl": ie no lifetime job security and merit-based bonuses for those who earn them.(2) Compensation varies in proportion to responsibility and bottom-line performance. As in many Hong Kong firms, bonuses at up to 30% of salary are the main incentive to achieve. Li is known throughout the organization as being very generous with cash rewards. The company does not offer shares or stock option plans, but provides top benefits in housing, medicine and pensions.

(1) Business Week, February 4, 1985, p.44

(2) The Economist, January 14, 1984, p.66

Atypical of Chinese or British run firms, an entrepreneurial culture prevails at Hutchison. Business units are autonomous and run as profit centers. Management encourages employees to be innovative, to take chances and expect them to make mistakes. There are always opportunities to create new businesses and build them up. As the managing director of the China Trade Division, Simon To said, "It's like being in business for yourself." The firm has implemented a management by objectives system and evaluates each manager by how well he has met his own targets. For meeting or exceeding target, the firm applies an established schedule of multipliers on the manager's base bonus as an extra reward.

All business units go through a comprehensive annual strategic planning process with a five year horizon, an undertaking rare for companies in Hong Kong. These are bottom-up efforts ending with presentations from business unit managing directors, board review, feedback and budget-setting for the next year. The firm has produced a corporate planning manual with guidelines on evaluating business environments and strategic goals. Managers must include in their analyses such categories as: restatement of business and main products, long-term threats and opportunities, key success factors, relationship with other business units and formulation of a detailed action plan.

3. Financial Condition

With a current market capitalization of approximately HK\$ 13.5 bn, equivalent to about 7% of the combined capitalization of the Hang Seng index constituents, Hutchison Whampoa ranks as one of the territory's leading honggs.(3) Appendix 4 shows Hutchison's latest five-year financial statements.

Hutchison was not always financially healthy. After heavy losses incurred during 1974-75, the Group experienced severe cash flow difficulties. Following that period, a new management team pursued a policy of cash preservation that for a short time was carried on after Li took over in 1979.

Similar to Hongkong Land, most of the cash stock that management generated came from development of a land bank of unused industrial sites and docks centrally located in Hong Kong and Kowloon. These sites were carried at turn-of-the-century values, thereby immunizing Hutchison to real estate price fluctuation.(4) Unlike Hongkong Land, however, Hutchison's management resisted the temptation to pour money into diversification. The cash cushion Hutchison built enabled it to weather the recession of 1983-84 and allowed it to take advantage of undervalued

(3) Schroder Securities, "Hutchison Whampoa Limited," March 1986, Hong Kong: Schroder Securities Ltd., p.1

(4) Business Week, August 1, 1983, p.88

investment opportunities such as Hongkong Electric that came up as other firms foundered.

In a dramatic departure from the cash preservation policy, Li decided in late 1983 to declare a special dividend of HK\$ 2 bn (US\$256 MM), or HK\$4 a share in addition to the final dividend of 42 cents a share. Some feel that Li as a 34% shareholder wanted the cash to finance his other projects, namely Cheung Kong, which was short of funds as a result of the property slump. Other major recent cash expenditures were the HK\$2.93 billion acquisition of Hongkong Electric and the HK\$1.76 billion acquisition of its 50% holdings of International City Holdings (see page 37).

Financial Analysis

Hutchison's extraordinary dividends had a strong impact on its financial ratios (see Appendix 5). It caused a decline in short-term liquidity and working capital, and the corresponding inflation of short-term liabilities in 1983 produced a distorted capital structure for that year.

Ignoring the effects of that dividend anomaly, Hutchison's financial ratios show a different picture. Most of Hutchison's current assets are very liquid. Cash has remained above 58% of current assets throughout the past five years compared to Jardine's maximum of 42%.

A 400% growth in fixed assets from 1983 reflects the firm's rapid expansion. The funds required for these investments came from long-term financing and use of cash reserves. The asset growth should correspondingly increase the contribution of depreciation to funds flow in the future.

In general, Hutchison has pursued a low-debt policy maintaining a 75% level of equity to total funds invested in the firm. The overall level of risk in Hutchison's capital structure is low, as evidenced by the low long-term debt levels and the very healthy times interest earned multiple of 39.47.

Hutchison's ROI figures are to be envied for their consistently high levels throughout the economic turbulence of the past five years. A small decline in profits in 1984 led to a dip in return but the figures are expected to improve with the current preliminary profit figure of HK\$1185 MM for 1985, an increase of 16% from 1984. Most significant are Hutchison's net profit margins, which at an average of 22% in the past five years is extremely high. Also notable is the low and declining level of interest expense as a percentage of profits that Hutchison has incurred through the years.

4. Hutchison Whampoa: Core Businesses

a) Hutchison Properties

The property division is one of Hutchison's main cash generating businesses, contributing profits of HK\$302 MM to the Group. It is unique among other core businesses in the corporate attention it receives, not only because of its strong performance in the recent property market slump, but also because real estate is Li Ka-shing's forte.

Management has always employed strict cost control policies, computerizing its data base on costs and projected income. The managing director, Mr. J.D. Johnston, believes that a conservative pricing strategy is necessary in the volatile Hong Kong property market: "Never go up too high that you have to come down in price because your buyers will feel they've lost value (and thus discourage speculators or secondary buyers)."

The major current development is Whampoa Garden-- a redevelopment of the old Hunghom Dockyard owned by the Hong Kong and Whampoa Dock Company before the merger with Hutchison International in 1977. On completion in 1990, the project will provide 11,200 apartments for about 40,000 people, and 1.7 million sq. ft. of commercial space.⁽⁵⁾ The project is designed to attract the lower middle to middle income segment of the market with apartment sizes

(5) Hutchison Whampoa Limited Annual Report 1984, p.10

ranging from 550-1,200 sq. ft. Over its 5-year development phase the development will generate a projected gross revenue of at least HK\$ 8 bn for a total attributable profit of about HK\$ 3.7 bn.(6)

Prices of residential real estate have recently begun to recover and first among these is the segment that Whampoa Garden markets to. Low interest rates and a 45% increase in average income since 1981 will also spur the market.(7) Given these bright prospects the above estimates on the Whampoa Garden project may be conservative.

Whampoa Garden, however, is the last land bank that Hutchison owns. Future developments will require bidding for land in the open market, which means that Hutchison would lose the cost advantages it so far has enjoyed. The division is also looking at development businesses overseas: in the United States, London and Singapore.

2. Trading and Retail

This division is the largest contributor to group turnover but at net margins of 2.5%, contributed only 7% of

(6) Schroder Securities, "Hutchison Whampoa Limited," March 1986, p.4

(7) The Economist, 5-11 April, 1986, p.95

Hutchison's 1984 profits. The division is involved in a wide range of activities. The main constituents, all wholly-owned by Hutchison except for the last, are as follows:

a) John D. Hutchison (JDH)

JDH has developed into the largest consumer product marketing organization in Hong Kong, importing hotel supplies, foods, confectioneries, toiletries, pharmaceuticals and other consumer products. JDH is seeking to develop trade in China and has established footholds in areas of offshore oil logistics support, coal mining, aviation, transport equipment and food processing.

JDH will probably suffer lower profits through 1986 because of the slowdown in the US market, where GNP growth was only 2.4% in 1985. JDH's exporting business will be further hurt by recent protectionist sentiment in the US.

b) Hutchison-Boag

The Hutchison-Boag division is a supplier of engineering equipment to the construction industry. Despite the relative weakness of the construction sector in recent years, this subsidiary achieved a 130% rise in after tax profits in 1984. In the context of overall divisional profit, however, Hutchison-Boag is a small contributor.

The division acquired Trifair Electrical Engineering in February 1985, a local assembly plant for switch gear and motor control centers. In December 1985, Hutchison-Boag acquired the Fortress Group of Companies, one of the largest retailers of consumer electrical goods in Hong Kong for HK\$30 MM. Due to high operating costs, Fortress is barely profitable and thus would not be contributing much profit to the division in the near future.

The overall outlook for Hutchison-Boag is good given the recovery of the construction market. The division has also made inroads in selling its products in China, where there are good prospects for construction suppliers.

c) A.S. Watson & Co.

A.S. Watson ("Watsons") was established in 1841 and was a public company until it became a wholly-owned Hutchison subsidiary in 1981.

Watsons is organized into three profit centers: Food Retailing (Park N' Shop), Non-Food Retailing (drugstores) and Food Manufacturing. Each profit center has its own board to identify projects, set corporate plans and goals.

The Park N' Shop supermarkets with 106 outlets contributes the most turnover and profit to Watsons. It has approximately 32% of the market.(8) Management feels that it needs to exert tight control over operations to prevent excessive costs from eroding already low margins.

Park N' Shop's main competitor is Hongkong Land's Wellcome Supermarkets. However, Watsons feels that retail arms of food wholesalers are posing an increasing threat. Selling at near wholesale prices, these retail arms are trying to undercut the supermarket chains which have squeezed wholesaler's margins. Recently, the Japanese have broken into the Hong Kong food market with a strategy of coupling supermarkets with large-scale department stores in new town developments. Although these Japanese stores have only a small percentage of the market, suppliers are giving them the same 14-17% extra discounts as large chains get in an effort to reduce the dominance of Park N' Shop and Wellcome.

d) Hutchison China Trade Holdings

Hutchison China Trade (HCT) was established in 1978 to develop trade with China. Its main function is to make contacts, maintain liaisons with the Chinese and most importantly to seek investment opportunities that could

(8) Fok, Terry, Investment Bulletin, "Hutchison Whampoa Limited," Hong Kong: ChinTung Investment Services Ltd., April 24, 1985, p.4

exploit Hutchison's current expertise such as food processing (Watsons) and electric power generation (Hongkong Electric).

Despite strong connections developed by Li Ka-shing in China, it is difficult for Hutchison to find profitable ventures there. The two major problems are foreign exchange and the Chinese bureaucracy. The Chinese restrict foreign exchange revenues preferring some kind of barter system instead. Thus, mostly export oriented or import substitution businesses can generate their own foreign exchange. In negotiating and subsequently operating businesses in China, Hutchison has found the Chinese ministries' complex relationships extremely difficult to cope with. It is virtually impossible, for example, to arrange a deal dependent on resources controlled by different ministries because of their lack of cooperation and responsibility.

Despite such frustrations, Hutchison is committed to developing its presence in China. The firm is willing to forgo short-term profits in hope for a lucrative share of the vast China market in the future. So far, HCT has already met with some success: Park N' Shop has a supermarket in China and HCT has signed contracts for the marketing of mining systems and technology to the Chinese coal industry.

e) Telecommunications

In April 1984, the Hong Kong Telecommunications Authority granted Hutchison Telephone Company (51% owned) a public mobile radio telephone system license permitting it to provide local and overseas radio telephone service to Hong Kong consumers. While at the embryonic stage, this business offers excellent growth prospects in the long-term. Hutchison has adopted the state-of-the-art in cellular telephone technology with a portable system that weighs 28 oz. compared to the leading competitor's 8 lbs. As an added advantage, Hutchison Telephone recently signed an agreement with Cellnet of the UK which would allow subscribers of either company to have access to cellular telephones both in Hong Kong and the UK.

3. Finance and Investment

This division accounted for 9.8% of Group turnover in 1984 but 32.7% of total Group profits. The principal reason for this imbalance is that the division embraces a number of associated companies whose portion of profits, but not turnover, are incorporated into Group profit and loss accounts.

This division deals with the treasury management of the substantial cash flows which the Group has generated. In 1983 and 1984, this activity produced 85% and

75% of divisional profits respectively.(9) Income from interest on deposits and investments, and foreign exchange gains were the main sources of revenue.

The division also embraces minority holdings in two publicly quoted companies. The South China Morning Post (SCMP, 25%-owned) is involved in newspaper and magazine publishing and has a virtual monopoly over newspaper advertising in the English press in Hong Kong. It is a solid, income-producing investment which in calendar 1984 yielded dividend income of HK\$29 MM for Hutchison. Analysts expect SCMP dividends to grow by 15% in 1986.(10)

The other public company holding is Hongkong Electric (24%-owned). In addition, the division oversees Hutchison's interest in Consolidated Hotels (which owns the Sheraton Hong Kong Hotel) together with miscellaneous interests in computer services and insurance.

4. Shipping Related Services

This division contributed a little over a quarter of Hutchison's profits after tax. The most important of the division's activities is the operation of container

(9) Schrodgers Securities, "Hutchison Whampoa Limited," March, 1986, p.12

(10) Ibid, p.11

terminals in Kwai Chung through the wholly-owned subsidiary Hong Kong International Terminals (HIT).

Kwai Chung is currently the world's third busiest container port, handling approximately 84% of the territory's total cargo.(11) Sophisticated computer technology and lack of custom controls allow turnaround time for ships to be among the world's fastest.

HIT currently owns 2 out of five terminals at Kwai Chung and handles about 45% of the port's throughput. The division is starting construction of a sixth terminal, a HK\$ 2 bn investment. The Hong Kong Government Marine Department projections of an average annual 8-12% growth in throughput for the next 9 years more than justifies the added capacity. Apart from HIT the Shipping Related Services division is comprised of activities (ship chartering and repair, towage) which are loss-making. Thus, all HK\$274 MM profits from the division in 1984 were from HIT's container operations. Management expects the sixth terminal and the existing ones to be highly lucrative cash producers in the future.

5. Quarrying

This division is involved in the supply of ready mixed concrete and asphalt to the construction industry.

(11) Investment Review, "Hutchison Whampoa Limited," Hong Kong: W.I Carr & Sons (Overseas) Limited, August 1985, p.7

Profits declined by 26% due to poor demand in 1982-84. In July 1985, Hutchison acquired complete ownership of an associate, Ready Mixed Concrete (HK). Full ownership of Ready Mixed Concrete should strengthen the division to take advantage of the upturn in the property market.

IV. Strategic Analysis

Hong Kong's investment environment has changed significantly since the days that Jardine Matheson in effect ran the colony as a trading outpost. Competition has threatened every facet of Jardine's business. Likewise, Hutchison has had to cope with near bankruptcy and both have had to deal with the political uncertainty of Hong Kong's future. While Jardine is struggling to retain its leading position as a trading firm, evidence points to a different direction for Hutchison. Much has to do with the leadership. Since Mr. Li Ka-shing became chairman in 1979, Hutchison has been building its strengths less as a trading company, but more as an investment "takeover" firm in disguise.

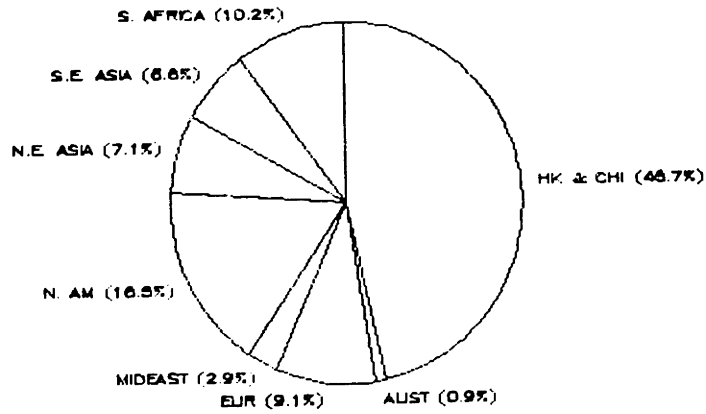
1. Portfolio Analysis

Both Hutchison and Jardine have undergone substantial changes in the composition and relative strengths of their businesses over the past five years.

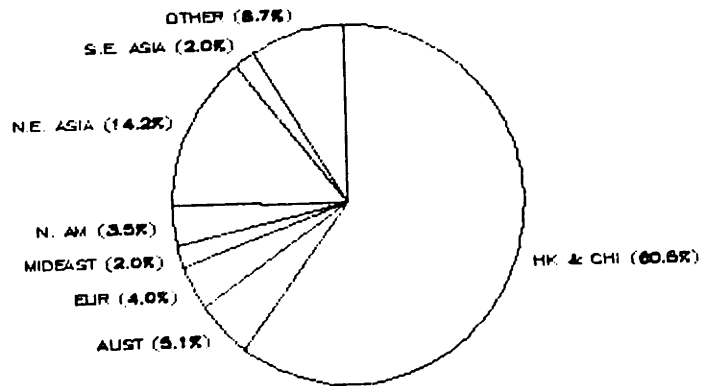
Jardine Matheson historically has had a geographically diverse portfolio. A look at the evolution of geographical business strengths in Exhibit IV.1 shows that the firm since 1980 has focused a significant part of its operations in Hong Kong (China accounts for less than 1% of Jardine's total business) and in fact has divested completely from South Africa.

Exhibit IU.1
 Profit Contribution by Geographical Area
 Jardine Matheson Holdings

1980



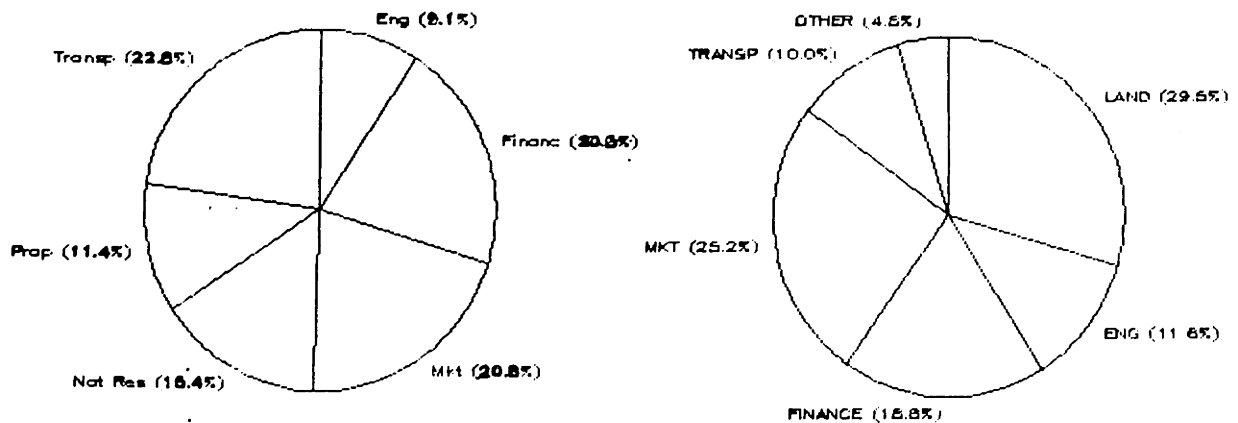
1984



The shrinkage of geographical scope was a result of divestiture of non-core businesses, most of which were overseas investments. The crucial difference in Jardine's strategy since 1980 is a move away from unrelated diversification to a focus on horizontal growth, including continued geographical growth of its core businesses.

Among Jardine's business portfolio, the profit contributions from Hongkong Land and from the Marketing and Distribution businesses have grown the most, while the Natural Resources and Transportation businesses have weakened considerably due to the downturn in the oil and shipping industries (see Exhibit IV.2)

Exhibit IV.2
Jardine Matheson
Profit Contribution by Business
1980 1984



Contrary to Jardine, Hutchison has always concentrated its businesses in Hong Kong. As Exhibit IV.3 shows, Hutchison has changed its business mix since 1980 principally to divest its Construction division, which had been unprofitable for some time. Also, management merged the weakening ship repair and ship broking business with the Container division in 1981. More interesting is a look at the firm's portfolio since 1977, two years before Li Ka-shing took over. The drift away from the traditional trading function of Hutchison is apparent from the decline in profit share of the Trade and Retail division from 19.6% in 1977 to 8.9% in 1984. Li's role as a corporate raider is evident from the growth in profit contribution from the

Exhibit IV.3
Hutchison Whampoa
Profit Contribution by Business

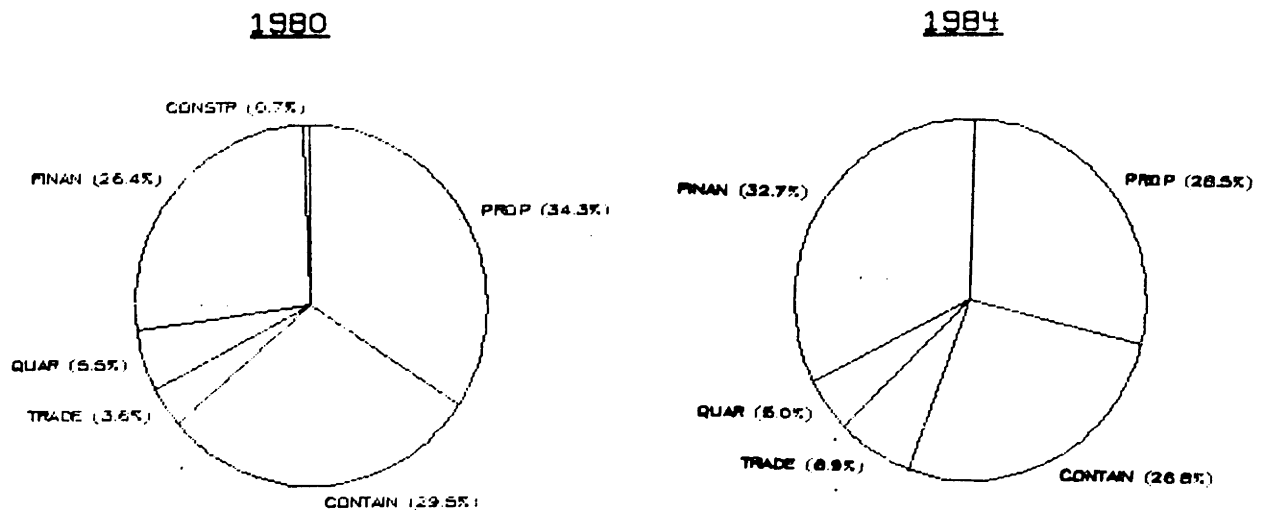
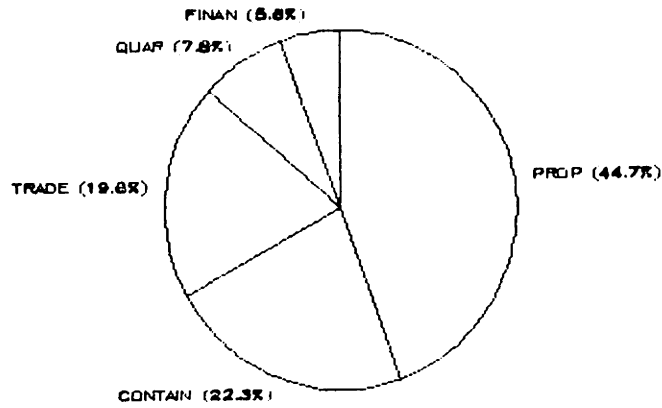


Exhibit IV.3 (Continued)

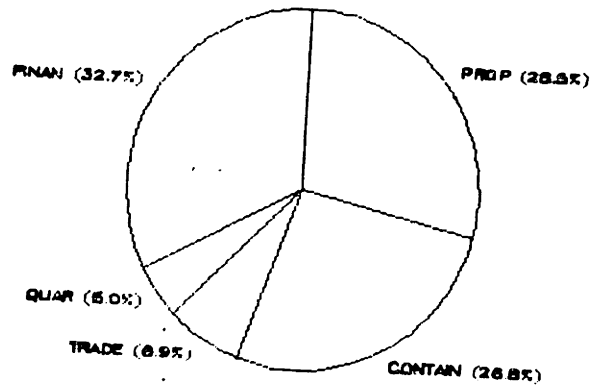
Hutchison Whampoa

Profit Contribution by Business

1977



1984



Finance division, holding company of Hutchison's takeover targets, which recently include Hongkong Electric and International City Holdings. Indeed, Li in 1980 made an unsuccessful attempt to take over Jardine Matheson, which led to Jardine's ill-fated cross-holding with Hongkong Land.

Hutchison is close to being a perfect investment vehicle. Its core businesses (other than Finance) are all cash generators which provide Li with the resources to invest in high potential businesses or undervalued investment targets (see Exhibit IV.4). The Industry Attractiveness-Business Strength matrix (Exhibit IV.5a) shows that Hutchison's core businesses are very well

Exhibit IV.4
Hutchison Whampoa Growth Share Matrix

		Relative Market Share (Cash Generation)	
		High	Low
Market Growth (Cash Use)	High	@Container @HK Electr	@Hotel
	Low	@Prop @Quarry @Trade @Watson	

positioned relative to their industries. The merger with the Hongkong and Whampoa dock company in 1977 established Hutchison's solid position in the Container and Property divisions, both of which Hutchison has cultivated by adapting obsolete resources to current demand in the shipping and housing market. The Container division enjoys a large, growing and captive market and is highly profitable. Because of its prime location and state-of-the-art facilities, there is little wasted capacity. The Property division did well in focusing on small-unit residential housing: that is currently the only residential segment experiencing a recovery from the real estate slump. However, because consumers are still making buying decisions based on their evaluation of Hong Kong's future under China's rule, prices are sensitive to popular political sentiment.

Hutchison's Trade and Retail division is not as attractive as the others. It is facing a stagnating market, intense competition and extremely low margins. However, Hutchison's acquisition of Watson in 1981 strengthened the division considerably, giving it inroads to the food retailing business. Hutchison leveraged Watson's supplier relationships and marketing know-how to win 32% of the supermarket market in four years. Much like Jardine's 7-Eleven stores, Hutchison's Park 'N Shop supermarkets' success is a result of several factors:

Watson's leverage over suppliers, low financial risk due to cash revenues, economies of scale and a marketing strategy aimed at the younger, more westernized segment of the Hong Kong population (46% of which are between the ages of 15 and 39).(1)

The Hongkong Electric investment has proven to be a sound one. As a basic utility, it is insensitive to economic fluctuation. Moreover, it has a captive market as one of only two electric companies in Hong Kong. The threat of new entrants is low because of the high fixed costs required for the business.

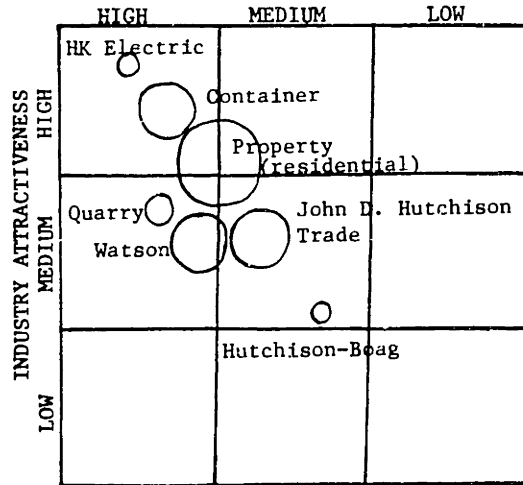
The share-momentum matrix in Exhibit IV.5b gives a dynamic picture of Hutchison's businesses. Growth rates from 1980 to 1984 have been very high but more significantly those businesses have been gaining share in their respective markets. The most brilliant performer is the Quarrying division, which grew at more than 400% relative to the industry's 30% over the past five years.

(1) Hong Kong Annual Digest of Statistics 1985 Edition, p. 15.

Exhibit IV.5a

INDUSTRY ATTRACTIVENESS-BUSINESS STRENGTH MATRIX

Hutchison Whampoa 1984
BUSINESS STRENGTH

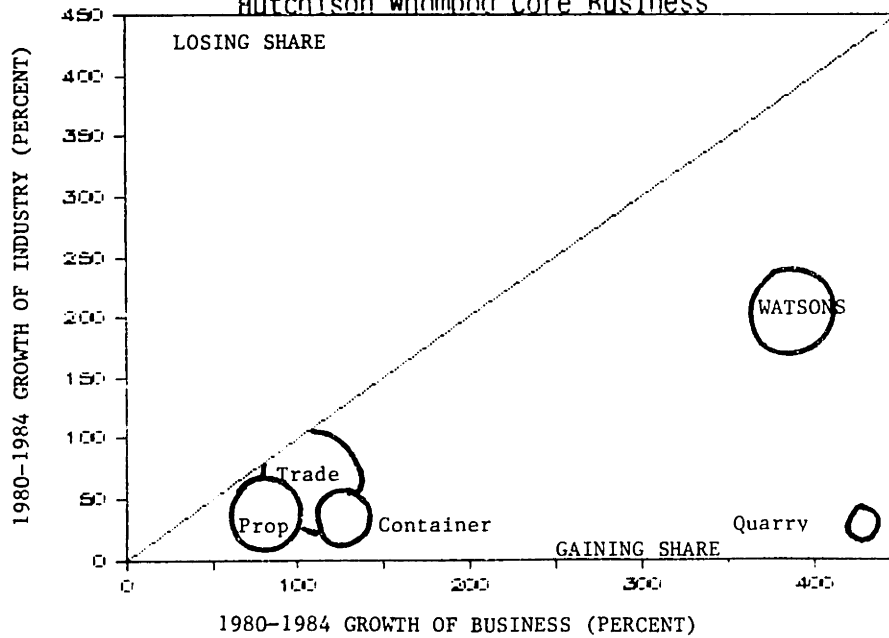


Note: Size of circle indicates relative size of revenues.

Exhibit IV.5b

SHARE-MOMENTUM MATRIX

Hutchison Whampoa Core Business



Note: Size of circle indicates relative size of business in terms of sales.

Industry statistics source: Hong Kong Census & Statistics Dept.

The following is a summary evaluation of external factors affecting Hutchison's businesses:

Hutchison Whampoa, Limited

Business Portfolio Strengths and Weaknesses

Factors\Bus	TRAD	QUAR	ELEC	CONT	PROP	CHINA

MARKET						
Market size	+	-	+	++	-	++
Mkt growth rate	-	-	+	++	-	+
Product differ	++	-	--	++	+	+
Price Sensitive	-	--	+	+	--	-
Cyclicality	-	+	-	+	+	++
Captive Mkt	+	+	++	++	++	-
Indust Profits	--	-	+	++	+	--
COMPETITIVE						
Intensity	--	-	+	+	-	--
Concentration	+	+	++	++	+	-
Entry barriers	-	-	++	++	+	-
Exit barriers	++	-	-	--	-	+
Share volatile	--	N	++	++	+	--
Integration	-	++	+	-	+	+
Substitutes	--	--	++	++	-	--
Capacity utiliz	+	-	+	++	-	--
ECON & GOVT						
Inflation	-	--	-	-	++	--
HK\$ devalue	--	++	--	N	-	+
Wage level	+	+	N	+	+	++
Legislation	++	+	++	+	+	--
TECHNOLOGY						
Volatility	-	-	-	-	N	-
Complexity	N	N	-	-	N	N
SOCIAL						
Demographics	+	+	+	+	+	+
HK after 1997	-	-	+	+	-	++
OVERALL						
ASSESSMENT	-	+	++	++	+	+

Key: -- Highly Unattractive
 - Unattractive
 N Neutral
 + Attractive
 ++ Highly Attractive

TRAD Trade & Retail
 QUAR Quarrying division
 ELEC Hongkong Electric
 CONT Container Terminal
 CHINA China Trade

Few of Hutchison's businesses require continual commitment of funds for growth. Watson is self-financing from supplier credit. Property development projects are mainly financed by pre-construction sales of units. Quarrying sites are leased from the government requiring no up-front capital and operation costs are easily covered by revenues. Hutchison needs funds for building a new container terminal at Kwai Chung but contractors provide a large part of the financing under agreements in which initial payments are not due until the site is operational.

The core businesses are the backbone of Li Ka-shing's implicit strategy to grow Hutchison's investment portfolio. Their health and well-being ensure a bank of financial resources which allow the firm to take up attractive investments as they come along. The biggest problem for divisional management is how to sustain growth of their operations given a financial strategy that directs funds to acquisitions rather than to core businesses.

Heading in another direction since its days of over-diversification, Jardine is trying to build up its longstanding core businesses. However, it too is veering away from the role of trading agent.

Increasing competition in a global market has made the agency business unattractive. Trading consumer products requires a minimum of 35% gross margin in order to

cover costs in marketing, distributing and stock-keeping.(2) Competition has squeezed net profit margins to around 3-8% thus magnifying risks of bad debt, and for technical products, obsolescence. Operating costs in servicing and logistics have increased because a higher population income level has produced more customers but smaller per unit sales.

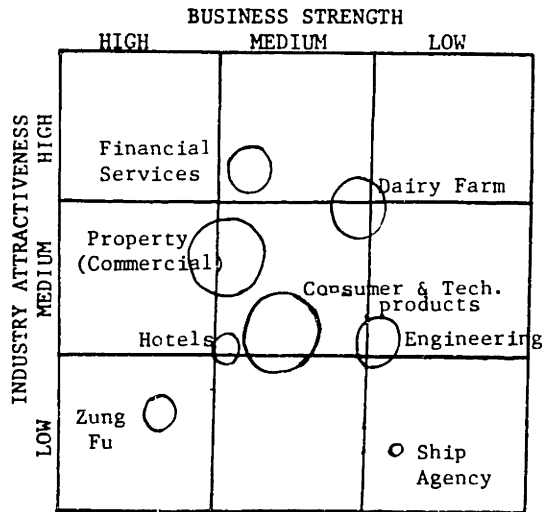
The Industry Attractiveness-Business Strength Matrix (Exhibit IV.6a) clearly shows that Jardine's Consumer and Technical products trade, Engineering and Ship Agency businesses are not only in unattractive industries, but suffer from relatively weak business strengths. Moreover, Exhibit IV.6b shows that these businesses were losing market share from 1980-1984. Zung Fu, while gaining share, is in a shrinking automobile sales industry. However, the Financial Services division is in a growth industry and Jardine has been building its strength in this area by increasing investments.

Recently, Jardine moved into the fast food industry with the acquisition of the Pizza Hut and Taco Bell businesses in Hawaii. Not only does Jardine derive advantages from the brand names of these chains, it allows the firm to widen its scope of supplier relationships in

(2) Jebson, Hans Michael (Managing Director), Jebson & CO., Ltd., Hong Kong at interview February 20, 1986.

Exhibit IU.6a

INDUSTRY ATTRACTIVENESS-BUSINESS STRENGTH MATRIX
Jardine Matheson Holdings 1984

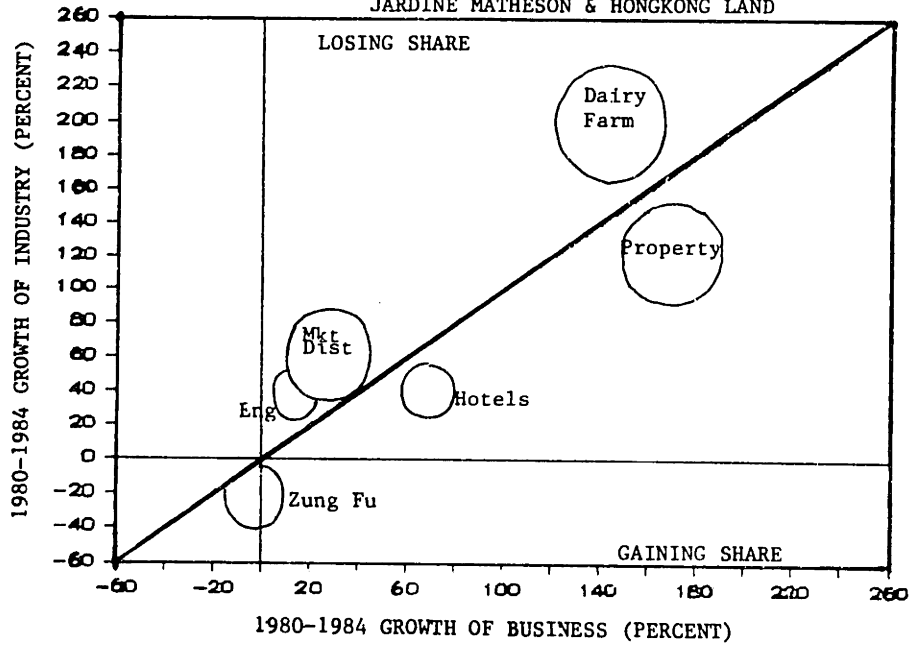


Note: Size of circle indicates relative size of revenues.

Exhibit IU.6b

SHARE-MOMENTUM MATRIX

JARDINE MATHESON & HONGKONG LAND



Note: Size of circles indicate relative size of business in terms of sales.

Industry statistics source: Hong Kong Census & Statistics Dept.

the United States. These acquisitions give rise to opportunities in the Far East. As indicated by the success of Jardine's 7-Eleven venture in Hong Kong, fast food is a growth business in that dense, urban environment full of young people. From its experience in retailing, Jardine possesses many of the key success factors in the franchise food business: supplier relationships, an understanding of real estate and location decisions, local contacts for possible joint ventures and scale advantages in management, marketing and finance. Thus, management's decision to enter the fast food business makes strategic sense for Jardine.

Judging Jardine's core divisions by how they are affected by external factors, only the Financial Services business seems to be attractive, with Hongkong Land being neutral. The former enjoys a growing market, and is relatively immune to economic fluctuation. In fact the investment and merchant banking segments benefit from mild economic instability as it creates opportunities for arbitrage and increases market transactions. Nor is the division affected by the political environment in Hong Kong. Most of Jardine's major investments in insurance is overseas, particularly in the United States. Hongkong Land has the great advantage of possessing most of the prime office space in the colony. Its product is thus highly differentiated, has few substitutes and carries high

margins. Moreover, industry specialists predict an undersupply of commercial real estate given the flood of foreign companies entering Hong Kong. The major shortcoming of Hongkong Land is of course its debt burden, its illiquidity and its sensitivity to political conditions after 1997.

The Marketing and Distribution division suffers from shrinking market share, as does the Engineering and the Transportation divisions. Excess supply and easy substitutes have caused consumers to be very price sensitive, thus eroding margins in these divisions. Their well-being is also subject to local economic conditions--a decline in consumption would severely curtail revenues, especially in the Marketing and Engineering divisions. Technological obsolescence is also a threat. For the Marketing division, there are risks that technological inventory would be obsolete before it could be sold. For the Engineering and Transportation divisions, lagging behind in technology would result in higher costs relative to the industry and a consequent decrease in competitiveness.

Jardine has much to gain from pursuing business in China. The obvious advantages are large market size and growth rate, low wage levels, future influence in Hong Kong and a high level of integration with existing operations in Hong Kong. The most serious drawbacks are restrictions

on withdrawal of foreign exchange income, intense competition and consequently low profits. A summary of external factors affecting Jardine follows:

Jardine Matheson Holdings, Limited
Business Portfolio Strengths and Weaknesses

Factors\Bus	MKT	ENG	FIN	TRAN	LAND	CHINA
MARKET						
Market size	+	-	+	-	-	++
Mkt growth rate	-	-	+	-	-	+
Product differ	++	-	-	N	+	+
Price Sensitive	-	--	-	N	-	-
Cyclicalilty	-	+	++	+	+	+
Captive Mkt	+	+	--	++	+	-
Indust Profits	--	-	+	-	+	--
COMPETITIVE						
Intensity	--	-	-	--	-	--
Concentration	+	+	-	-	+	-
Entry barriers	-	++	++	-	+	-
Exit barriers	++	-	+	++	-	+
Share volatile	--	-	-	-	+	--
Integration	-	++	+	-	+	++
Substitutes	--	+	--	-	+	--
Capacity utiliz	-	-	+	+	-	--
ECON & GOVT						
Inflation	-	--	N	-	+	--
HK\$ devalue	--	-	N	N	--	+
Wage level	+	+	N	+	+	++
Legislation	++	+	+	+	+	--
TECHNOLOGY						
Volatility	-	-	-	-	N	-
Complexity	N	N	-	N	N	N
SOCIAL						
Demographics	+	+	+	N	+	+
HK after 1997	-	-	N	-	--	++
OVERALL ASSESSMENT						
	-	-	+	-	N	+

Key: -- Highly Unattractive
- Unattractive
N Neutral
+ Attractive
++ Highly Attractive

MKT Marketing & Dist
ENG Engineering
FIN Financial Services
TRAN Transportation
LAND Hongkong Land

2. Organizational Analysis

Jardine and Hutchison's different management styles are described in Chapters II and III. Exhibit IV.7 gives a comparative profile of the two. Hutchison's emphasis on entrepreneurship, its open communication and comprehensive planning system are an integral part of its growth and investment strategies. On the one hand, the diversity of Hutchison's portfolio requires that it decentralize its business units to take advantage of management expertise. On the other hand, the firm's constant search for investment opportunities necessitates a highly efficient and effective information channel to corporate executives from below. The firm's management structure provides a mix of the two, and its compensation system rewards those who make the most of opportunities.

Jardine's divisional structure is large and cumbersome; traditional communication barriers based on hierarchy stem the flow of ideas from below. Exhibit IV.8 shows that a hypothetical investment proposal would have to pass through two more management layers in Jardine than in Hutchison. There are in effect few implemented ideas generated from the bottom. Jardine's top-down approach worked well when the firm was mainly in the agency business. Heavily dependent on supplier and buyer relationships, the agency business could smoothly be run by top executives entrenched in the business circuit.

Exhibit IV.7

Comparative Profile of Management Style

Factors	--	-	E	+	++
Management Competence			J	H	
Planning & Control System		J			H
Reward System		J		H	
Delegation of Authority			JH		
Communication System		J		H	
Corporate Image			H	J	
Entrepreneurial Culture		J		H	
Capability for Negotiating with the Environment				H	J
Financial Strength		J			H

Exhibit IV.8Investment Proposal FlowJardine Matheson

Board of Directors
Jardine Matheson & Co.

↑

Board of Directors
Jardine Marketing Services

↑

Chief Executive
Consumer Markets Group

↑

Director and General Mgr
Jardine Consumer Products

↑

Manager
Jardine Consumer Products

Hutchison Whampoa

Board of Directors
Hutchison Whampoa Ltd.

↑

Managing Director
China Trade Division

↑

Manager
China Trade Division

Although relationships are still important, Jardine needs much more to be well-informed of its competitive position if it is to be an aggressive player in the future.

3. Financial Strategy

Hutchison has maintained a much lower debt to equity ratio over time compared to Jardine (see Exhibit IV.9a). The firm has relied on internal funds generation to finance its growth. Two questions must be addressed in assessing Hutchison's future strategy: what is the nature of funds generated, and how management uses the funds to sustain future growth.

Exhibit IV.9b shows that since 1980, an average 50% of Hutchison's total source of funds came from operations. More revealing, however, is Exhibit IV.10a, which plots Hutchison's return on assets from 1980-84. The curve is a locus of points such that asset turnover and profitability produce a 10% return on assets (ROA). As can be seen, Hutchison has consistently had better than 10% ROA. However, the position of points show that ROA levels are primarily a result of high net margins; there is much room for the firm to improve asset management. Because Hutchison's operating leverage is high (fixed assets average 45% of total assets) management must develop high sales levels to cover fixed costs of investments.

Exhibit IV.9a

DEBT/EQUITY Ratios Over Time

JARDINES & HUTCHISON

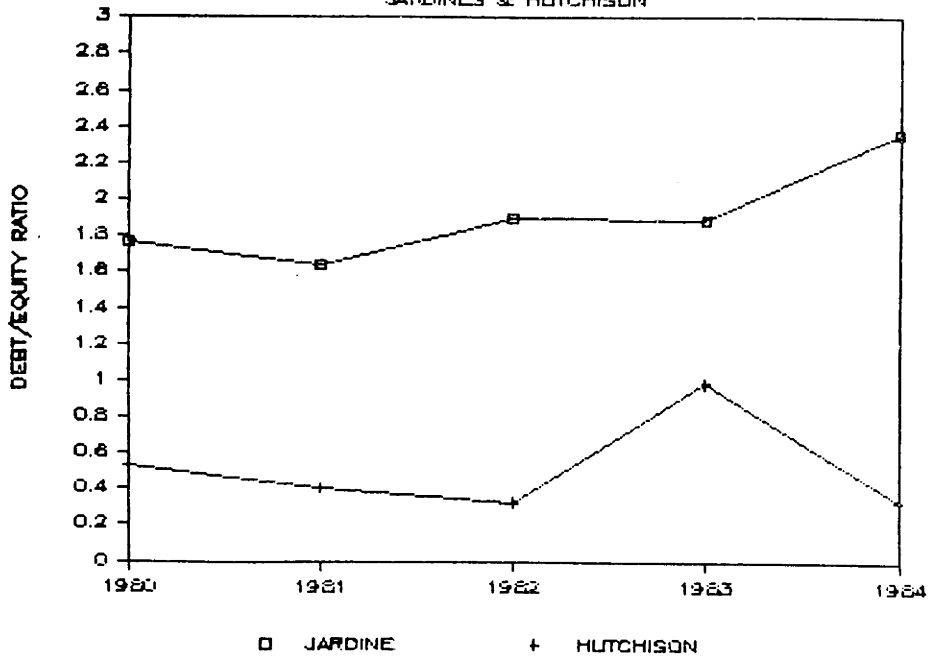


Exhibit IV.9b

FUNDS FROM OPERATIONS

AS % OF TOTAL FUNDS GENERATED

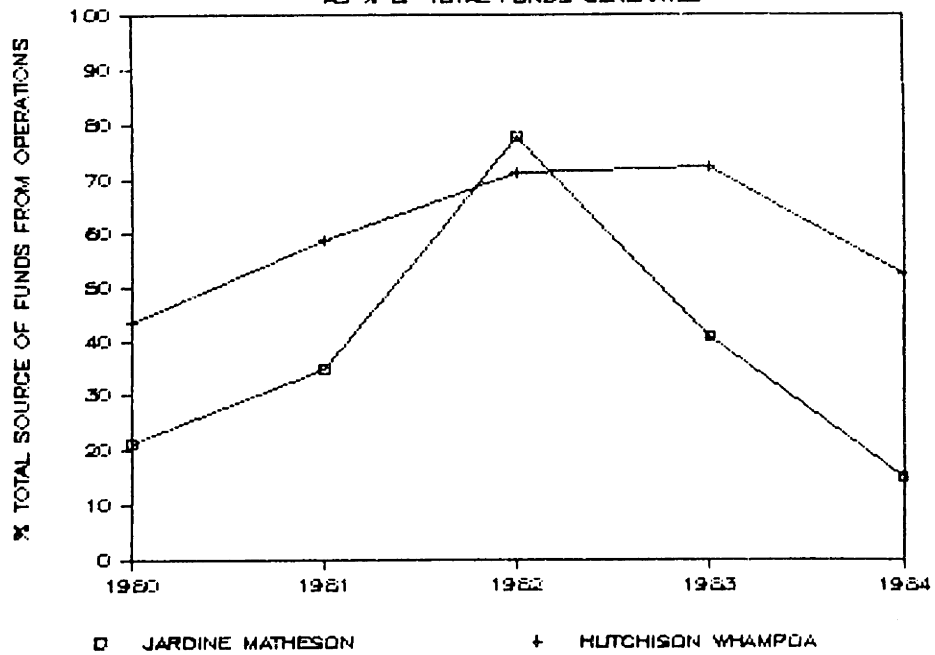


Exhibit IU.10a

Hutchison Whampoa
PROFITABILITY VS ASSET TURNOVER

BASED ON 10% ROA

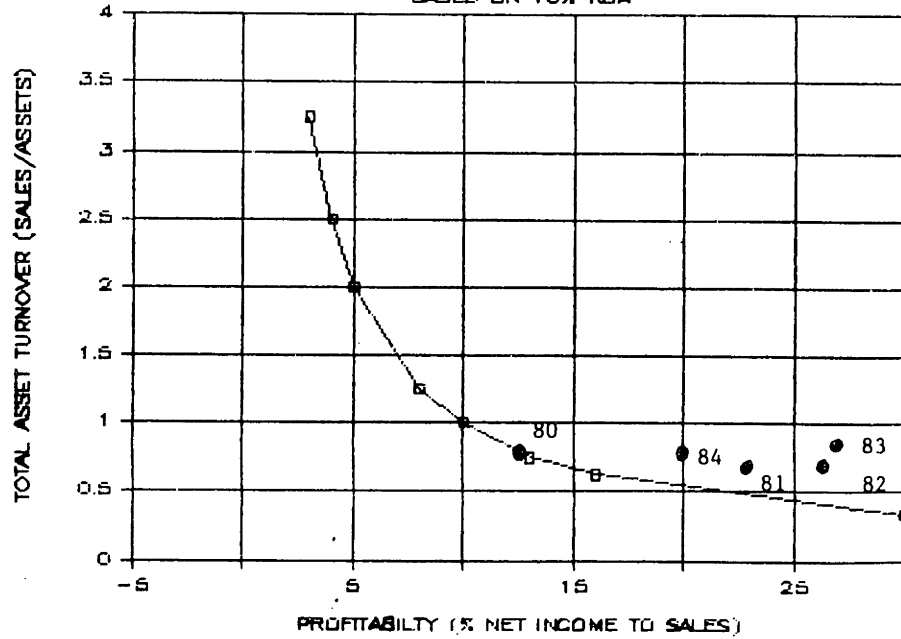
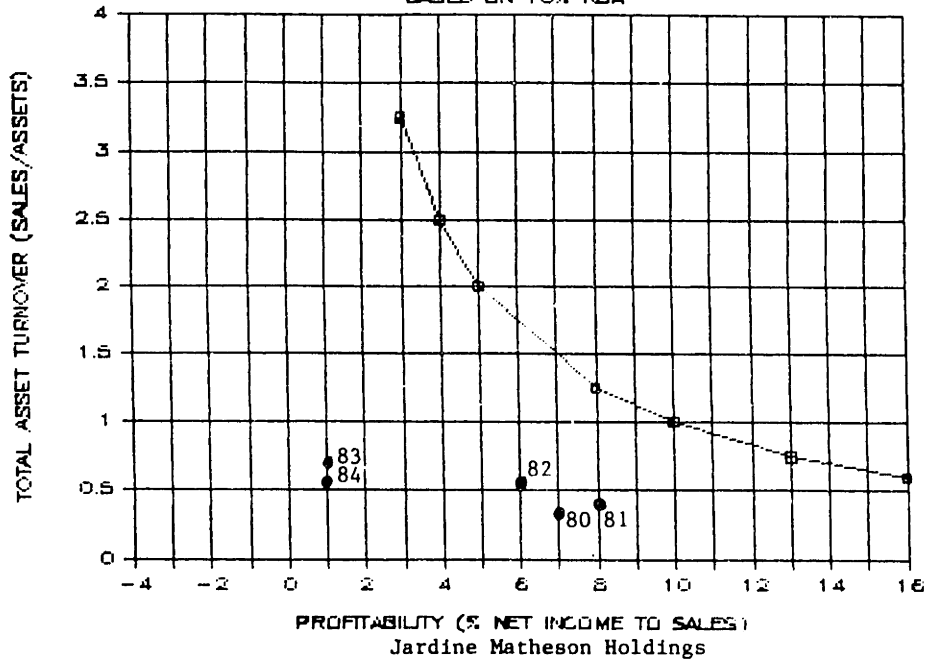


Exhibit IU.10b

PROFITABILITY VS ASSET TURNOVER

BASED ON 10% ROA



Jardine Matheson Holdings

A year-on-year analysis of Hutchison's actual versus maximum sustainable growth rate (Exhibit IV.11a) shows that Hutchison has been fluctuating between years of undergrowth and years of overgrowth (3). The net result smoothed over five years gives an actual growth rate approximately at a sustainable level. How management proposes to allocate funds is another matter. Li's recent generous dividend payout leads one to speculate whether he is using Hutchison as his personal bank to finance his various business interests. If so, the future liquidity of the firm depends on whether the opportunities available to Hutchison are more attractive than those facing Li. In 1983 they apparently were not--hence the extraordinary dividends.

Like Hutchison, Jardine's financial strategy must be seen in light of the quality of its earnings. However, the more useful question following is not how Jardine intends to use the funds but how it can improve its condition, specifically, whether it would benefit from dissolving the Hongkong Land cross holding.

Jardine Matheson's high debt levels are well-known. Debt has averaged 180% of equity since 1980

(3) $g(t) = p(t)[ROA(t) + D(t)/E(t)(ROA(t) - i(t))]$, where
 $g(t)$ = equity growth in year t
 $p(t)$ = fraction of earnings retained in year t
 ROA = return on assets for year t
 $D(t), E(t)$ = debt and equity for year t
 $i(t)$ = after tax interest rate for year t .

(Exhibit IV.9a). Moreover, the firm's ability to service the debt has been limited. Analysis of the firm's funds flow statements show that with the exception of 1982, only 25% of funds were generated from operations (Exhibit IV.9b). The rest came from non-recurrent extraordinary items such as foreign exchange gains. Jardine has consistently yielded a ROA below 10% from 1980-84 (Exhibit IV.10b). While the firm is weak both in asset management and profitability, the former has improved slightly over the years whereas the latter deteriorated considerably. Given its low ROA, Jardine equity growth rate seems to have exceeded that sustainable in the long-run (Exhibit IV.11b). In contrast to Hutchison, Jardine's operating leverage is low (see Exhibit IV.12). Thus, management's primary focus should be to increase net margins on sales to generate funds for debt service and growth.

Jardine's bleak financial outlook originated from debt incurred to finance the purchase of Hongkong Land shares in 1980. The carrying cost of Hongkong Land has throttled the growth of Jardine's primary core businesses. Worse still, it severely restricts the extent that Jardine can benefit from the upsurge in Hong Kong's economy--the opportunity costs are enormous. Jardine must shed the Hongkong Land burden to relieve its vulnerability to

Exhibit IU.11a

ACTUAL VS SUSTAINABLE GROWTH

HUTCHISON WHAMPDA

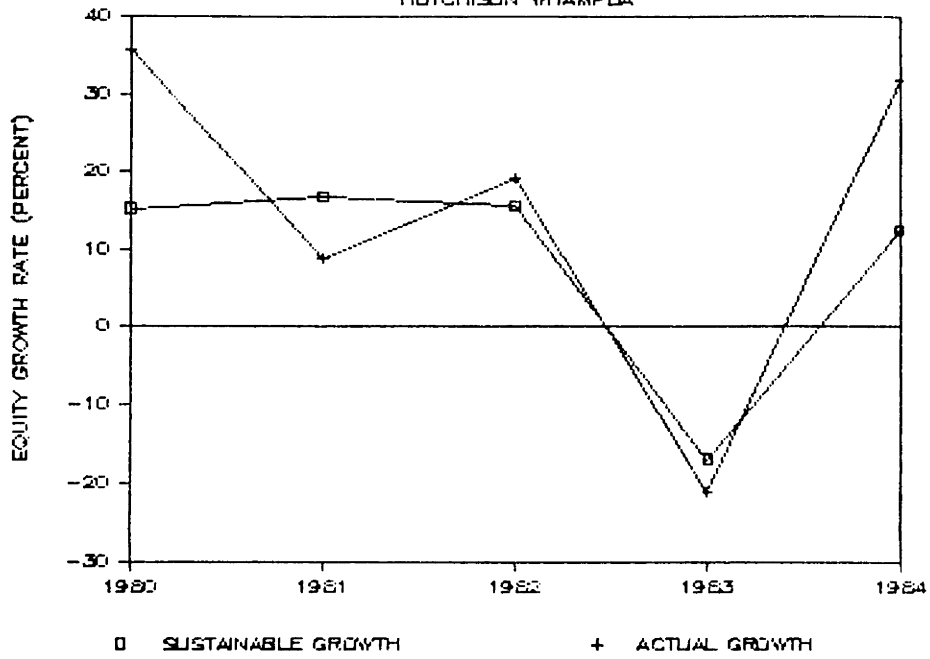
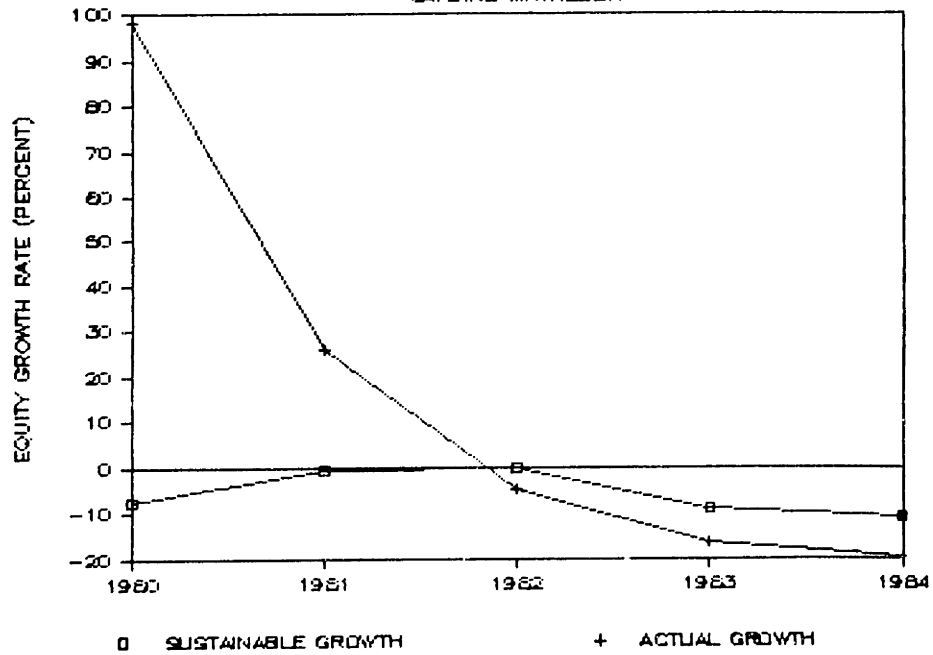


Exhibit IU.11b

ACTUAL VS SUSTAINABLE GROWTH

JARDINE MATHESON



interest rates and to increase the availability of funds for growth.

Jardine is highly sensitive to the marginal cost of funds. Exhibit IV.13 shows that, at current debt levels, the impact on earnings per share of a 1% change in cost of debt is much greater on Jardine than on Hongkong Land, even though the latter has a higher absolute level of debt. That is a result of the second order effects of Hongkong Land's profitability on Jardine. The profitability relationship between the two firms is as follows:

Hongkong Land & Jardine Matheson Profitability Relationship

	<u>HK Land</u>	<u>Jardine</u>
Profits before including counterpart	A	B
Percent ownership in counterpart	25.5%	37.4%
Final profits including counterpart	R	S
Profitability relationship:	$R = A + 25.5\% S$ $S = B + 37.4\% R$	

Thus, Jardine's profits: $S = 1.105 B + 0.413 A$

Exhibit IU.12

FINANCIAL vs. OPERATING LEVERAGE
 JARDINE MATHESON & HUTCHISON WHAMPOA

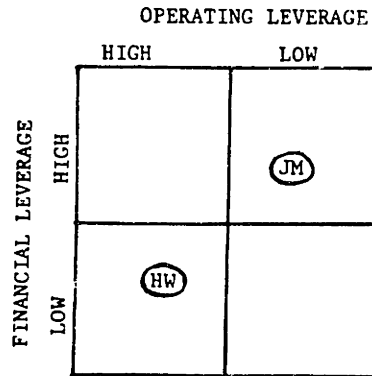
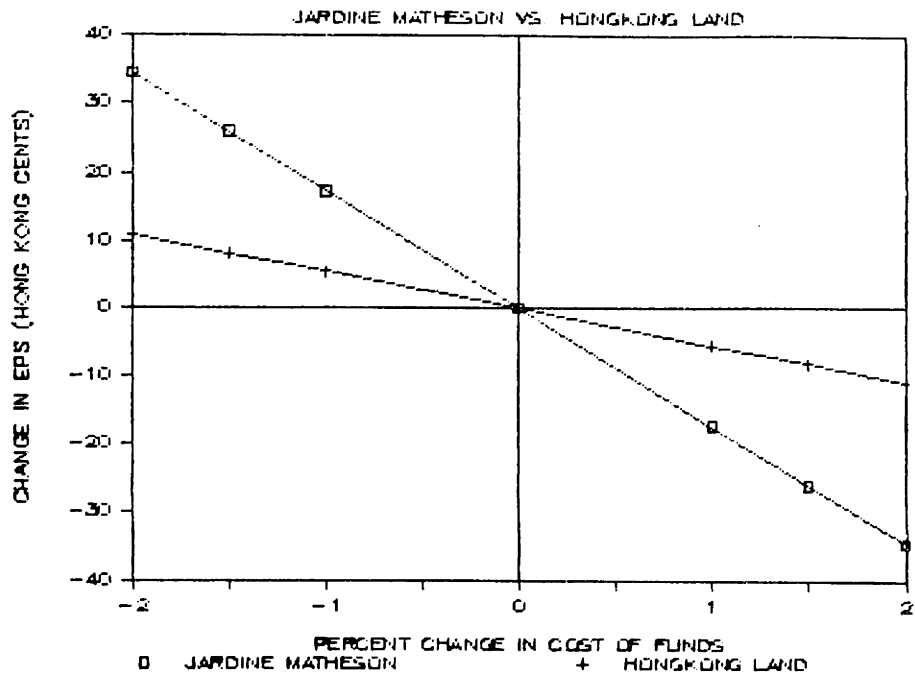


Exhibit IU.13 (4)

SENSITIVITY TO MARGINAL COST OF FUNDS

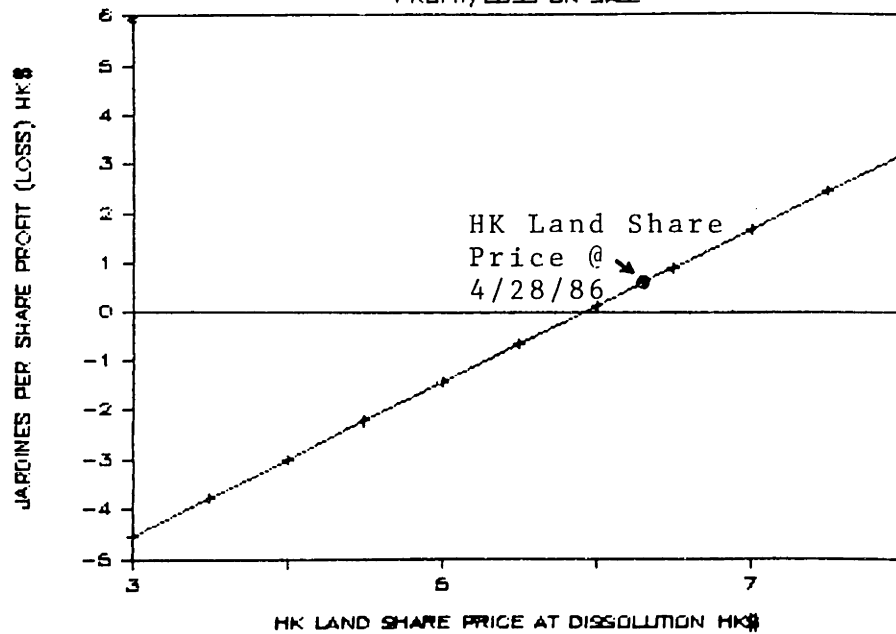


(4) Assumes amount of debt held:
 Jardine: HK\$ 2,704 MM, Hongkong Land: HK\$ 10,000

Assuming that Jardine sells the Hongkong Land shares in the market, then the possible per share profit or loss on sale is shown in Exhibit IV.14. The book cost per share was HK\$ 5.92, and Hongkong Land shares have traded around HK\$ 6.50 for the past year. At the latest available quoted price of HK\$ 6.25 (4/28/86), Jardine would make a HK\$ 212 MM profit, or HK\$ 0.50 per share. More importantly, revenues of HK\$ 4,018 MM would allow Jardine to retire its debt and channel funds for new investments.

Exhibit IV.14

DISSOLUTION OF JARDINE—HKLAND X—HOLDING
PROFIT/LOSS ON SALE



4. Market Performance

Hutchison has consistently done better than the market in terms of share price and Jardine worse during the past five years (Exhibit IV.15). An interesting trend in the data shows that Hutchison's stock has been highly correlated with the Hang Seng Index. Hutchison's 7% share of the Index's combined capitalization largely explains the phenomenon (Jardine has a 2% share). A comparison of earnings per share and dividends per share of Jardine and Hutchison shows the expected decreasing trend for the former and increasing trend for the latter (Exhibit IV.16a and b).

Exhibit IV.15

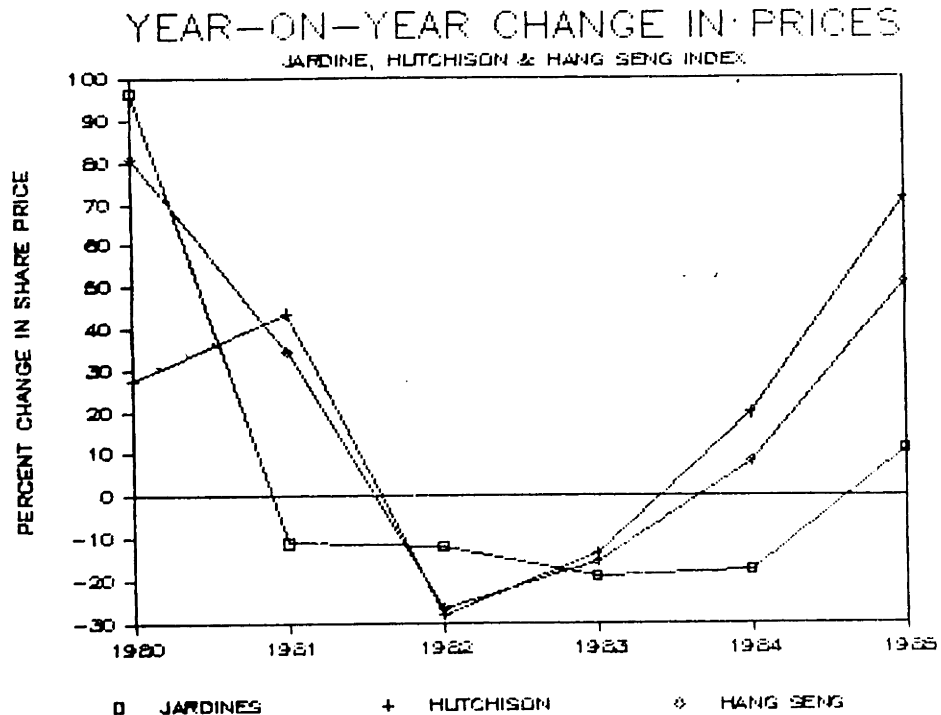
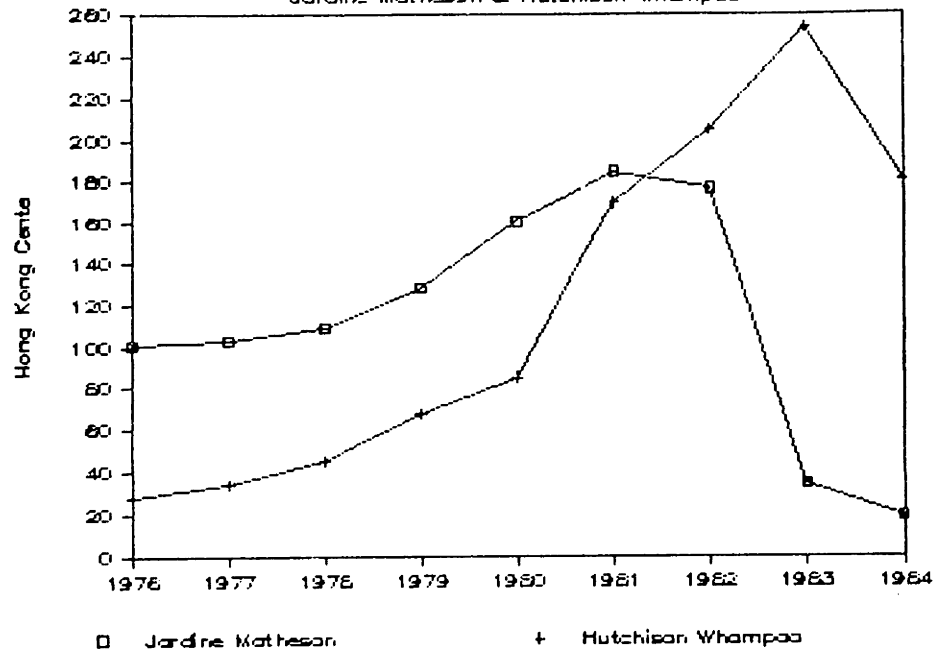


Exhibit IU.16a

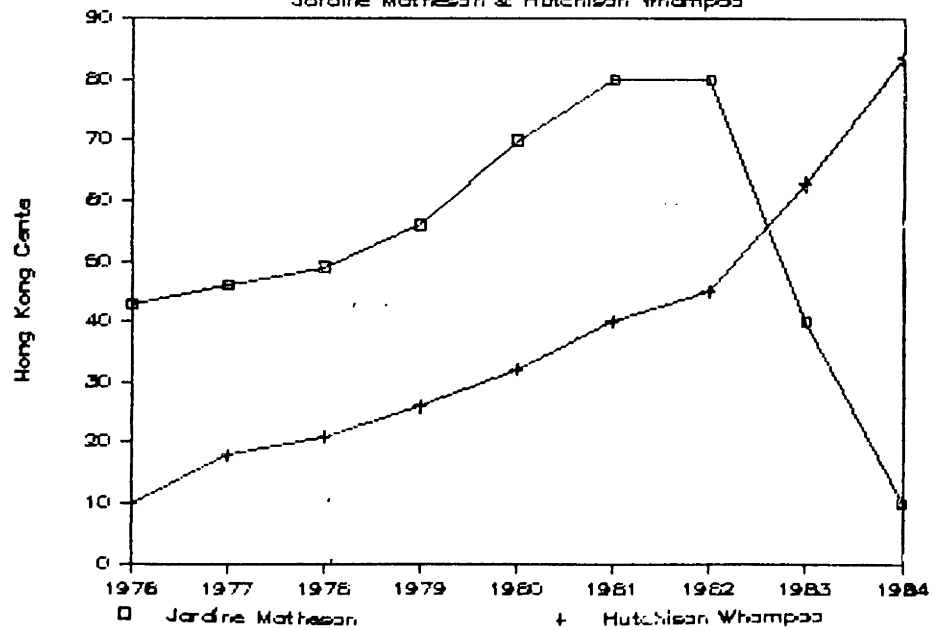
Earnings per Share 1976-84

Jardine Matheson & Hutchison Whampoa

Exhibit IU.16b

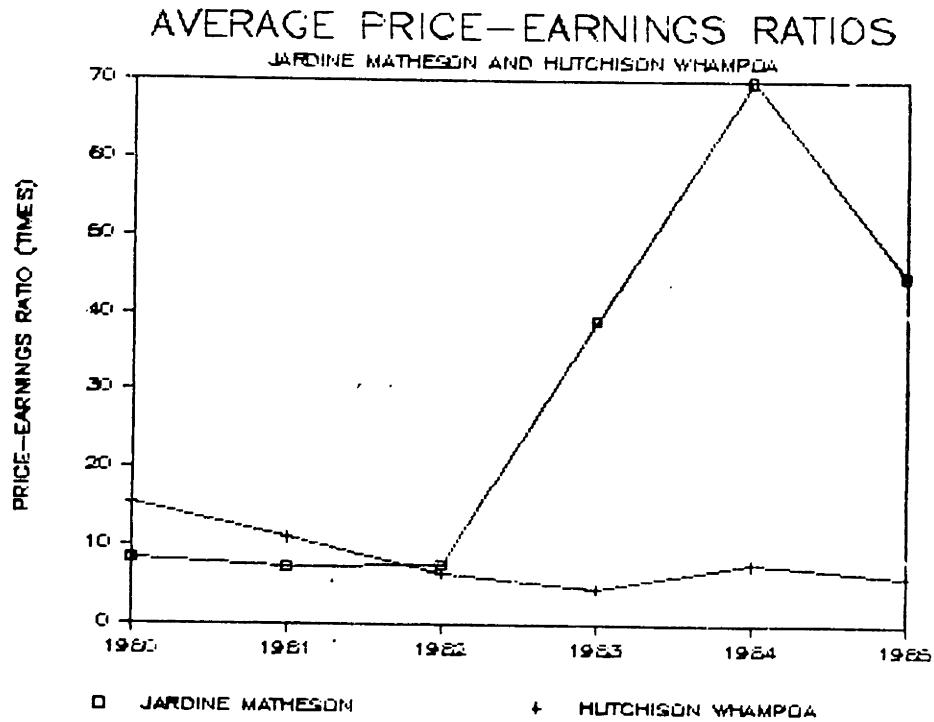
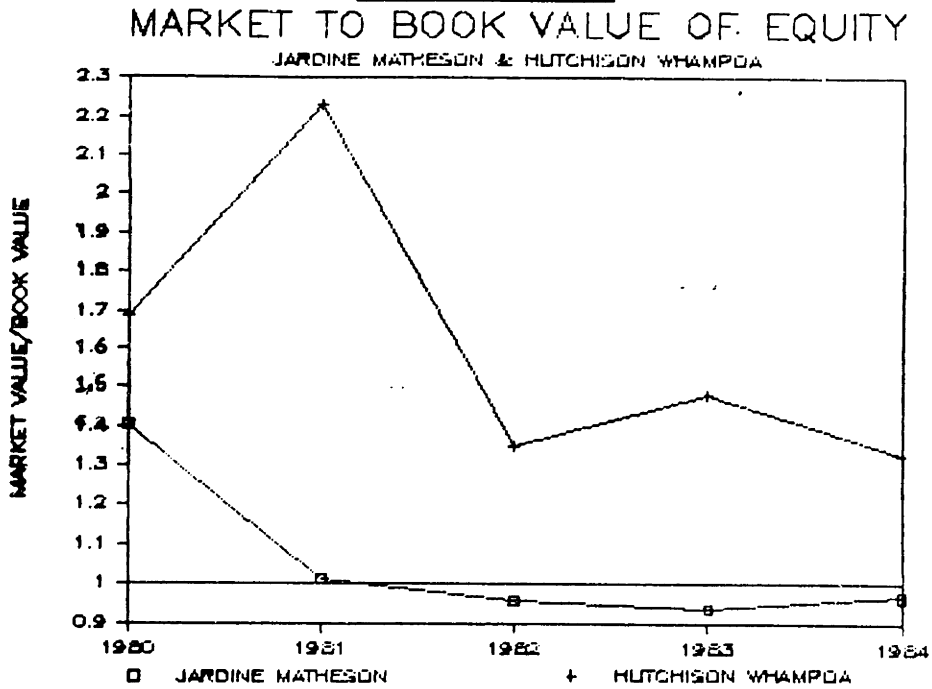
Dividends per Share 1976-84

Jardine Matheson & Hutchison Whampoa



The market apparently is looking at other factors in evaluating Jardine's and Hutchison's worth. Exhibit IV.17 shows the two firm's price-earnings ratios over time. Jardine's has traded at up to 70 times earnings. In 1985, it was an average 45 times earnings. It seems that the worse the company performed, the more forgiving the market was. Hutchison in comparison has traded evenly at only 9 times earnings for the past six years. A further contradiction is presented by the ratio of market to book values of the two firms as seen in Exhibit IV.18. Lack of profitability has eroded Jardine's share price and market value below book value, causing a loss in shareholder value. Hutchison's market value has been consistently greater than book value, though generous dividends have narrowed the difference recently. Hutchison thus is seemingly a much more attractive investment for shareholders. Despite Jardine's low market to book ratio, high debt, low profits and low dividends, its shares are priced much higher relative to earnings than Hutchison's are.

Perhaps the best explanation for the price-earnings ratio phenomenon of the two firms lies in an evaluation of each firm's net asset value (NAV) at market rates. Jardine's net asset value, that is, the breakup

Exhibit IV.17Exhibit IV.18

value of all assets, is between HK\$ 15 and \$20 per share.(5) At a market price of HK\$8 to \$14, the stock is undervalued. Hutchison's NAV is estimated at between HK\$25 and \$28 per share.(6) At prices ranging from HK\$17.50 to HK\$29.50 and currently at HK\$ 30, the stock is trading at about asset value.

Stockholders are probably trading on the growth potential of Jardine, and evaluating it as if it were a high growth start-up with little current income and low dividends. Jardine's potential lies beyond what the market believes is inevitable--the dissolution of the Hongkong Land cross-holding. With a healthier financial outlook and a well-established international presence, Jardine can pursue opportunities for growth far into the future.

Investors may not be as sure of Hutchison's long-term potential. The largest source of income in the next five years will come from the Whampoa Garden development. Once those units are sold, the firm may not be able to generate the same high levels of profit. Stockholders are obviously worried about Li Ka-shing's use of the firm's resources. His decisions are likely to benefit his own investment portfolio, which could be quite different from those that would benefit Hutchison in the long run. More

(5) James Capel Hong Kong Research, "Jardine Matheson," October 10, 1985, Hong Kong: James Capel & Co.

(6) W.I. Carr, Sons & Co. (Overseas) Ltd., Investment Review, "Hutchison Whampoa," August, 1985, p.14

importantly, Hutchison's strengths lie foremost in Hong Kong. The firm has a long way to go to establish itself internationally.

V. Conclusion

The rapid advancement of communications technology and transportation channels and the globalization of world markets have given competitors access to the once sacred turf of Hong Kong trading companies. Niche players have transformed the hong's former lucrative low risk broker businesses into ones characterized by narrow margins and shorter life cycles. Moreover, the hong's are steadily losing market share to ultimate buyers and sellers determined to eliminate the middle-man.

In response to this new competitive environment, Jardine Matheson made investments in the 1970's and early 1980's which, as has been shown, resulted in serious financial problems for the firm. Realizing this, Jardine divested its unprofitable investments in areas such as natural resources and shipping. Yet, Jardine continues to function in the role of a classical trading company. Its recent investments have been merely a reorganization of the same basic portfolio--a reshuffling of the deck. Jardine has allocated resources on the same principles as before: by leveraging past relationships to expand agency and franchise businesses. What Jardine has not done is to look beyond the traditional activities of a trading firm. Jardine's expansion beyond Hong Kong has also strongly been

tied to its existing businesses--a geographic growth aimed at providing fuller coverage for its core businesses rather than at fundamental business diversification.

Jardine cannot afford its current strategy of half-hearted geographical diversification. It must make the decision of whether to concentrate on Hong Kong and China and thus bear the risks of regional focus, or build its strengths in the international market, giving up the territory with which it is most familiar. It has neither the financial resources nor the expertise to accomplish both. By attempting to do so, it increases its vulnerability to niche players that are eroding its share and margins in its various segments.

Jardine has been slow in responding to such competitive threats. The Engineering division is a prime example. It lost a significant part of its market to competitors who offered quality work at lower prices. The Japanese were especially strong, as they could provide generous financing, often by allowing for payments after project completion. While others strived to improve their competitive position, Jardine's Engineering division relied on horizontal integration, particularly on projects from Hongkong Land developments, to sustain turnover. The slump in the property market and Hongkong Land's financial problems put an end to that. Jardine also enjoyed close connections to the colonial government, such that it was

generally favored to carry out public construction projects. With the completion of perhaps the last major government project before 1997--Hong Kong's Mass Transit Railway--and the waning of colonial supremacy, this avenue is also closing against the Engineering division. Management has become complacent, risk-averse and unprepared to take on the challenge of competitors, a problem echoed in virtually all of Jardine's other business units.

Lack of appropriate management response is just one indication that trading may not be the way of the future for Jardine. Loss of scale is another. In trading functions such as distribution and retailing of goods and services, Jardine derived much competitive advantage from scale economies. With loss of market share, such scale advantages are fast fading away. It is highly doubtful whether the firm can continue to be the "Jack Of All Trades" in a myriad of low value-added businesses.

Jardine can no longer rest on its laurels and rely on contacts to ensure the success of its ventures. It needs to direct its investments to those with higher asset turnover, in order to counter a low margin base and maintain profitability. While the traditional trading businesses required little investment capital and yielded high returns on sales and assets, asset turnover remained low. Hongkong Land's portfolio of rental properties is an

example. In seeking higher asset turnover businesses, Jardine must take on greater principal risks and gear the firm to becoming an investment vehicle, not unlike what Mr. Li Ka-shing did with Hutchison. The problem is that Jardine's current structure cannot support such a change in direction.

Developing an organization that makes good investment decisions requires a staff of bottom-line oriented managers rewarded for their entrepreneurial instincts. Jardine's existing culture and personnel are entrenched in an hierarchical top-down system that discourages individuals from straying the course. Managers are not compensated for risk taking, nor for their ability to manage assets efficiently. The variable part of their salaries remains small. An event telling of Jardine's restrictive structure occurred when the originator of Jardine's highly successful 7-Eleven venture, Mr. Roland Denning, was forced to resign because the organization could not find an appropriate promotional opportunity for him. However, there are recent signs that Jardine recognizes the need to improve its investment capabilities. Instead of strictly bringing managers up from the ranks, Jardine is headhunting for experts. Earlier this year, it hired Mr. Brian Powers, a former partner in mergers and acquisitions at the New York investment bank of James D. Wolfensohn & Company, to direct Jardine's investment

strategy abroad.

Hutchison Whampoa, in contrast to Jardine, has been the beneficiary of Hong Kong's weak economy and political uncertainty. Running the firm as an investment vehicle, Li Ka-shing built up a sizeable portfolio of cash-generating investments when weakened firms like Hongkong Land had to sell their assets below market value. On the whole, Li's investment portfolio is liquid and relatively insensitive to economic fluctuation. Container terminal revenues, for example, depend more on the state of the world economy than on Hong Kong's economic condition. Hongkong Electric, a dominant utility, sells to a captive market where demand is relatively inelastic.

Not only has Hutchison been economically blessed, but it has gained considerable political power. The mainland Chinese government looks favorably on Li and has appointed him a member of a select committee drafting the future laws of Hong Kong. With this, Li has pulled a coup over Jardine. The privilege of being on the British colonial government's policy making council had always been reserved for Jardine's chairman alone, thus giving the firm more political power than any other hong. Now that Jardine and other colonial trading firms are seeing their political influence wane, Hutchison's clout in Hong Kong has actually increased.

Hutchison in effect has found more value from Li Ka-shing running the company as his own captive finance vehicle. Its weakness lies in an uncertain commitment to the continued growth of its core businesses, which has been revealed by its recent extraordinarily generous dividend policies. Although Hutchison's managers may be adept at identifying good investments, their worth in the management of operations is unproven. So far, Hutchison's profitability has been a result of high windfall-generated margins, rather than the efficient use of assets. Its current cash bank resulted from its century-long land holdings. Even Li's capabilities in managing an ongoing concern are questionable. His brilliance was in buying Hutchison Whampoa, not in turning it around. By the time Li acquired Hutchison in 1979, the former chief executive, Mr. William Wyllie, had already reversed the crisis that began in 1977. Not only did Li buy Hutchison for below market value, but he got in on the ground floor.

The marketplace appears to have discounted somewhat Hutchison's uncertain future prospects in the form of an average price-earnings (P/E) ratio of 9 times compared to Jardine's 45. However, Jardine's P/E is abnormally high compared to other trading firms. As stated before, this may reflect the market's faith in its future, given its international presence and promise of financial

recovery. On the other hand, Jardine's high P/E ratio may merely reflect speculative investor holdings. Weak core business performance and a market value estimated to be below liquidation value make Jardine a likely candidate for a takeover bid that could drive stock prices up. Furthermore, it is questionable whether the Keswicks would want to continue running Jardine under a red Chinese government post 1997. If not, they may be in the market to sell their holdings, which again would explain the abnormally high P/E.

Hong Kong's impending change of government has put the colony's investment climate in a uniquely uncertain context, resulting in an increasingly volatile business environment for the hongks. The transition that colonial trading firms must face is also a result of the maturation process of their businesses. Growth in underlying demand has caused simple, relatively undifferentiated markets to develop into complex segmented ones. Trading firms must now deal with more products, in more markets, with more sophisticated players and more complex transactions. Trading companies no longer compete merely with each other; they compete with so many small players that their managers are often unable to identify their precise competition.

Under these conditions, the ability of a firm to play the generalist game and use scale in distribution, marketing and finance, will erode. In addition, the value of personal contacts declines as crowded business segments become more commodity-based.

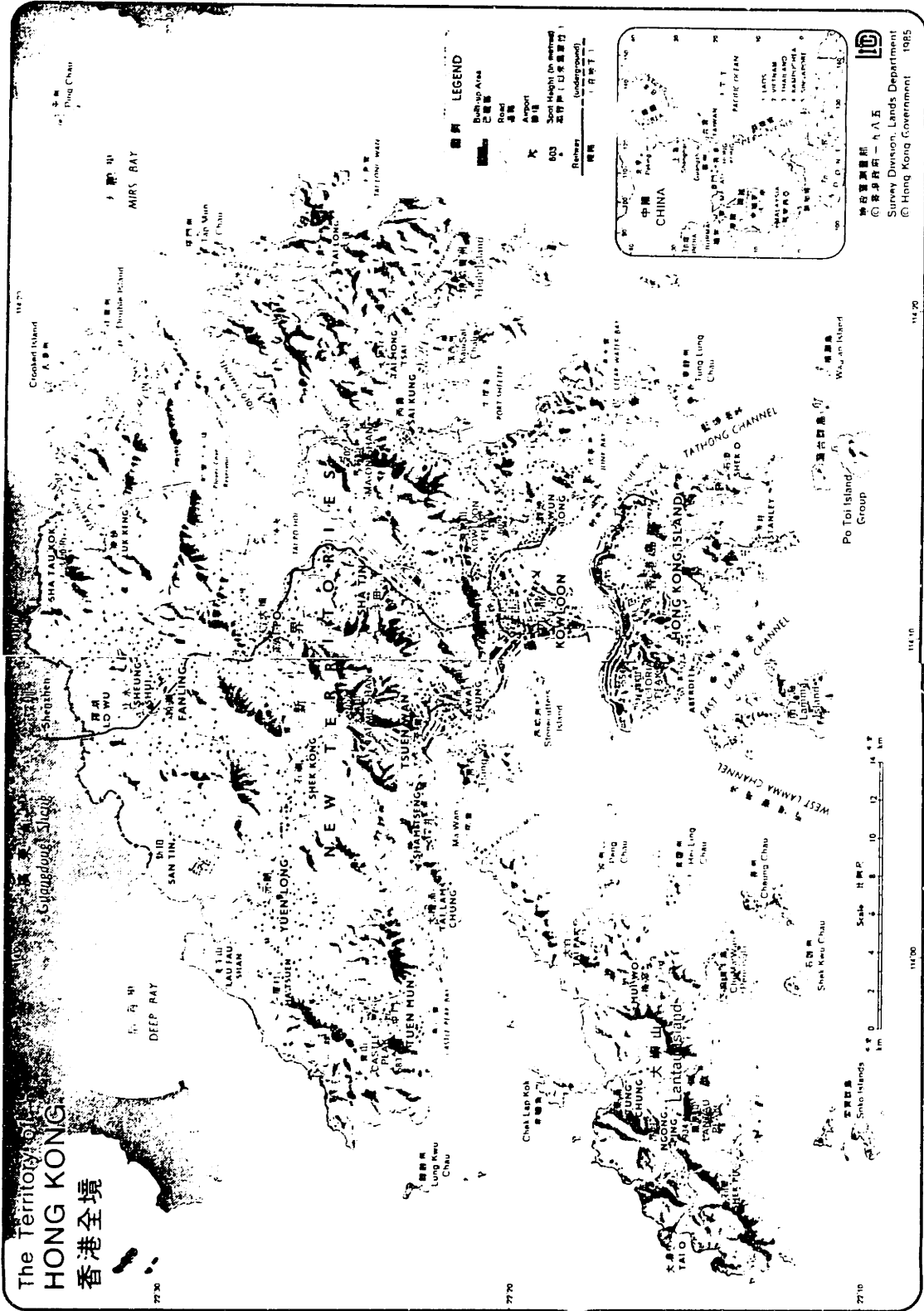
A trading company that has operated under generalist principles cannot continue to do so as a long-term viable strategy. If it is to be successful in the role of agent, it must choose to pursue a very focused strategy or build up scale of such dimensions as to be capable of overwhelming all competitors. Jardine Matheson has not done the former and is incapable of the latter. In order to survive as a broker in the current environment, Jardine must seek ways to provide more value for the commissions it charges. One way is to assume more principal risk. It can learn from Japanese trading companies, which have long pursued that strategy. Part of Japanese trading companies' success results from their assuming principal risks, such as in activities which entail taking uncovered long positions on various products.

Hong Kong trading companies can perhaps use Hutchison Whampoa as the best role model for sustaining a competitive advantage in the colony. Economic and political uncertainty require firms to build up a portfolio

of liquid investments relatively immune to swings in the local economy--businesses not so much acquired for the long-term as for fast turnover and cash generation. The underlying structure of trading firms is well suited for such an investment task. A trading firm has the advantage of better information flow through wide contacts. Its experience in dealing with a broad range of businesses gives it operational knowledge crucial for evaluating acquisition candidates. Furthermore, the factors which ensure success for a pure investment firm should ensure success in dealing with the new, complex marketplace: effective resource allocation, efficient management of assets, maintenance of scale and enrichment of relationships. Thus, the trend for the future may well be a metamorphosis of trading firms into investment firms. For Jardine Matheson, the time is ripe to break out of its cocoon and visit greener pastures. For Hutchison, the challenge is to continue making "good" investment decisions, while efficiently managing its traditional trading business.

Appendix 1

Map of Hong Kong



Appendix 2

Jardine Matheson Financial Statements

JARDINE MATHESON HOLDINGS CO. LTD.
Five Year Financial Summary 1980-1984

Group Balance Sheets (HK\$ Millions)

	1984	1983	1982	1981	1980
Fixed assets	2,290	2,085	2,886	2,202	2,765
Associated companies	5,887	6,171	8,563	9,145	7,861
Other investments	402	464	624	599	481
Long term deposits and receivables	210	222	101	52	245
Stock and work in progress	779	794	1,066	981	996
Debtors and prepayments	2,812	3,240	3,956	3,386	2,874
Bank balances and other liquid funds	2,641	3,030	2,503	2,709	1,606
Current assets	6,232	7,064	7,525	7,076	5,476
Less:					
Creditors, accruals and provisions	4,766	4,694	4,921	3,982	3,286
Bank and other advances	430	906	900	1,040	999
Taxation	88	101	156	230	293
Proposed dividend	-	123	231	237	199
Current Liabilities	5,284	5,824	6,208	5,489	4,777
Net current assets	948	1,240	1,317	1,587	699
Employment of Funds	9,737	10,182	13,491	13,585	12,051
Share capital and contributed surplus	2,470	2,457	2,437	2,064	1,834
Reserves	1,754	2,804	3,851	4,536	3,401
Shareholders' funds	4,224	5,261	6,288	6,600	5,235
Minority interests	803	811	1,474	1,645	1,327
Convertible loan stock		22	26	30	42
Term loans	4,230	3,944	5,088	4,774	3,921
Insurance funds	-	-	468	422	378
Deferred liabilities	480	144	147	114	148
Funds Employed	9,737	10,182	13,491	13,585	11,051
Shareholders' funds per share (HK\$)	10.25	12.85	15.48	16.68	13.54

Appendix 2 (Cont'd)

JARDINE MATHESON HOLDINGS LIMITED
 Group Profit and Loss Accounts (HK\$)

	1984	1983	1982	1981	1980
Turnover	8,881	10,644	11,240	9,266	7,467
Profit before taxation	431	567	1,267	1,300	968
Taxation	(276)	(328)	(286)	(320)	(290)
Profit after taxation	155	239	981	980	676
Minority Interests	(75)	(100)	(273)	(257)	(153)
Profit after taxation and minority interests	80	139	708	723	523
Net exchange translation differences	(125)	300	173	33	124
Extraordinary items	(873)	(88)	(561)	226	548
Dividends	(918)	351	320	982	1,197
	(41)	(164)	(324)	(316)	(258)
Transfer to reserves	(959)	187	(4)	666	939
Earnings per share (HK\$) (adjusted for change in issued share capital)	0.19	0.34	1.77	1.85	1.61
Dividends per share (HK\$) (adjusted for changes in issued share capital)	0.10	0.40	0.80	0.80	0.70

Appendix 2 (Cont'd)

Jardine Matheson Funds Flow 1984

	HK\$ MM	Percent
	-----	-----
SOURCES OF FUNDS		
Profit after tax & min. int	80	9
Extraordinary Items	(873)	(93)
	-----	-----
	(793)	(84)
Add: Items not requiring outlay of funds		0
Depreciation	179	19
Prov against invest & commitm	22	2
Prov against ship owning & oil	554	59
Prov against Hawaii prop	159	17
Loss retained by assoc co.	21	2
	-----	-----
Tot items not req funds outlay	935	99
	-----	-----
Funds generated from operation	142	15
Funds from other sources		
Disposal of fixed assets	176	19
Increase in deferred liab	336	36
Net increase in term loans	264	28
Decr in LT deposits & rec	12	1
Net decrease in investments	10	1
	-----	-----
Tot funds from other sources	798	85
	-----	-----
	940	100%
APPLICATION OF FUNDS		
Increase in fixed assets	(1,036)	69
Decrease in minority interests	(82)	5
Goodwill from consolidation	(105)	7
Dividends paid	(140)	9
Net exchange transl. diff	(125)	8
	-----	-----
Tot application of funds	(1,489)	100%
	-----	-----
Net funds flow	(549)	
	=====	=====
Increase/(Decrease) in working capital		
Stock and work in progress	(15)	3
Debtors & prepayments	(428)	78
Creditors and accruals	(206)	38
Taxation	13	(2)
Movement in net liquid funds	87	(16)
	-----	-----
Tot Decrease in working cap	(549)	100%
	=====	=====

Appendix 3

Jardine Matheson Financial Ratios

JARDINE MATHESON SHORT-TERM LIQUIDITY RATIOS

	1984	1983	1982	1981	1980
Current Ratio	1.18	1.21	1.21	1.29	1.15
Acid Test Ratio	0.50	0.52	0.40	0.49	0.34
Cash to Current Assets (%)	0.42	0.43	0.33	0.38	0.29
Liquid Assets to Current Liabilities (%)	1.03	1.08	1.04	1.11	0.94
Working Capital (\$MM)	948	1240	1317	1587	699
Liquidity Index (assumes conversion of receivables to cash takes 40 days)	29	28	34	32	37

JARDINE MATHESON CAPITAL STRUCTURE RATIOS

	1984	1983	1982	1981	1980
Total Debt to Equity	2.37	1.89	1.90	1.64	1.77
Long Term Debt to Equity	1.12	0.78	0.91	0.80	0.85
Net Fixed Assets to Equity	0.54	0.40	0.46	0.33	0.52
Total Debt to Total Capital	0.70	0.65	0.65	0.62	0.64
Times Interest Earned	1.16	1.38	2.22	2.02	3.25

Notes:

- (1) Total Debt = Current Liabilities + Long Term Debt
(2) Equity = Share capital + Reserves
(3) Total Capital = Equity + Total Debt

JARDINE MATHESON RETURN ON INVESTMENT RATIOS

Return on:	1984	1983	1982	1981	1980
Total Assets (1)	4.18%	4.96%	8.31%	9.03%	5.69%
Equity Capital	1.89%	2.64%	11.26%	10.95%	10.03%
Financial Leverage Index (2)	45.32%	53.30%	135.54%	121.32%	176.21%
Equity growth rate (3)	-22.70%	3.55%	-0.06%	10.09%	17.94%

- (1) Corporate tax rates: 18.5% (1984), 16.5% (1981-83)
(2) The financial leverage index compares the return on capital against the return on total assets.
(3) The equity growth rate measures growth due to retained earnings
EGR = Transfer to Reserves/Shareholders Equity

Appendix 3

Jardine Matheson Financial Ratios (Cont'd)

JARDINE MATHESON ASSET UTILIZATION AND OPERATING PERFORMANCE RATIOS

	1984	1983	1982	1981	1980
	-----	-----	-----	-----	-----
Turnover to:					
Cash and Equivalents	3.36	3.51	4.49	3.42	4.65
Working Capital	9.37	8.58	8.53	5.84	10.68
Fixed Assets	3.88	5.11	3.89	4.21	2.70
Total Assets	0.59	0.67	0.57	0.49	0.44
Short Term Liabilities	1.68	1.83	1.81	1.69	1.56
Net Profit To:					
Turnover	0.01	0.01	0.06	0.08	0.07
Gross Interest Expense to Profits after Taxation and Minority Interests	7.25	4.78	1.11	1.23	0.64

JARDINE MATHESON COMMON SIZE BALANCE SHEET (% of Total)

	1984	1983	1982	1981	1980
	-----	-----	-----	-----	-----
Fixed assets	15.25%	13.03%	14.65%	11.54%	15.43%
Associated companies	39.19%	38.55%	43.47%	47.94%	46.71%
Other investments	2.68%	2.90%	3.17%	3.14%	2.86%
Long term deposits and receivables	1.40%	1.39%	0.51%	0.27%	1.46%
Stock and work in progress	5.19%	4.96%	5.41%	5.14%	5.92%
Debtors and prepayments	18.72%	20.24%	20.08%	17.75%	17.08%
Bank balances and other liquid funds	17.58%	18.93%	12.71%	14.20%	9.54%
Current assets	41.49%	44.13%	38.20%	37.10%	32.54%
Total Assets	\$15,021	\$16,006	\$19,699	\$19,074	\$16,826
Percent	100%	100%	100%	100%	100%
	=====	=====	=====	=====	=====
Liabilities:					
Current Liabilities	48.94%	54.20%	46.29%	44.00%	45.10%
Long Term Loans	39.18%	36.71%	37.94%	38.27%	37.02%
Deferred Liabilities	4.45%	1.34%	1.10%	0.91%	1.40%
Other loans	7.44%	7.75%	11.18%	13.43%	12.92%
Total Liabilities	\$10,797	\$10,745	\$13,411	\$12,474	\$10,597
Percent	100%	100%	100%	100%	100%

Appendix 4

Hutchison Whampoa Financial Statements

HUTCHISON WHAMPOA LIMITED

Five Year Financial Summary 1980-1984

Group Balance Sheets (HK\$ Millions)

	1984	1983	1982	1981	1980
Fixed assets	3,854	3,256	2,799	2,443	2,540
Associated companies	446	442	318	274	216
Other investments	17	33	34	15	20
Property under development	466	384	945	1,116	1,195
Properties held for sale	0	47	11	0	0
Stock and work in progress	392	351	261	279	289
Debtors and prepayments	408	397	413	397	338
Bank balances and other liquid funds	1,657	2,417	1,473	943	982
Current assets	2,457	3,212	2,158	1,619	1,609
Less:					
Creditors, accruals and provisions	855	664	513	417	375
Bank and other advances	109	70	60	105	449
Taxation	82	90	115	136	72
Proposed dividend	291	1,966	133	120	93
Current Liabilities	1,337	2,790	821	778	989
Net current assets	1,120	422	1,337	842	620
Employment of Funds	5,903	4,537	5,433	4,690	4,591
Share capital and contributed surplus	922	846	846	846	846
Reserves	4,156	2,607	3,528	2,827	2,530
Shareholders' funds	5,078	3,453	4,374	3,673	3,376
Minority interests	472	480	450	316	403
Convertible loan stock	167	594	595	596	600
Term loans	187	11	13	103	212
Funds Employed	5,904	4,538	5,432	4,688	4,591
Shareholders' funds per share (HK\$)	10.36	7.79	9.87	8.29	7.62

Appendix 4

Hutchison Whampoa Financial Statements (Cont'd)

HUTCHISON WHAMPOA LIMITED

Group Profit and Loss Accounts (HK\$)

	1984	1983	1982	1981	1980
Turnover	5,215	4,361	3,717	3,444	3,203
Profit before taxation	1,311	1,399	1,191	994	606
Taxation	(197)	(151)	(172)	(148)	(110)
Profit after taxation	1,114	1,248	1,019	846	496
Minority Interests	(90)	(81)	(70)	(56)	(85)
Profit after taxation and minority interests	1,024	1,167	949	790	411
Extraordinary items	269	123	52	157	359
Dividends	1,293 (571)	1,290 (2,101)	1,001 (239)	947 (215)	770 (178)
Transfer to reserves	722	(811)	762	732	592
Earnings per share (HK\$) (adjusted for change in issued share capital)	1.81	2.54	2.05	1.70	0.85
Dividends per share (HK\$) (adjusted for changes in issued share capital)	0.84	0.63	0.45	0.40	0.33

Appendix 4

Hutchison Whampoa Financial Statements (Cont'd)

Hutchison Whampoa Funds Flow	HK\$ MM	Percent
1984	-----	-----
SOURCE OF FUNDS		
Attributable profit	1,292	49
Disposal of fixed assets at BV	87	3
Disp: prop under develop at BV	528	20
	-----	-----
	1,907	72
Add: Items not requiring outlay of funds		
Dep'n and amortisation	111	4
Minority interests	86	3
Property revaluation reserve	(113)	(4)
Others	16	1
	-----	-----
Tot item not req fund outlay	100	4
	-----	-----
Funds generated from operation	2,007	76
Funds from other sources		
Subsc shrs by warrant hld	450	17
Capital in subsid co.	1	0
Increase in long term liab	177	7
	-----	-----
Total funds from other sources	628	24
	-----	-----
Total funds generated	2,635	100%
	=====	=====
Application of funds		
Dec in deposits on prop	137	4
Additions to fixed assets	870	24
Additions to prop under dev	67	2
Inc in balance w/ assoc co.	18	1
Dec in loan stock	427	12
Div to shrhlders of Hutchison	1,967	55
Div to shrhld of sub co	79	2
	-----	-----
Total application of funds	3,565	100%
	-----	-----
Net Source (Use) of Funds	(930)	
Increase (decrease) in working capital		
Increase in stocks	(41)	4
Increase in debtors	(11)	1
Increase in current liab	184	(20)
Dec in net liquid funds	(798)	86
	-----	-----
Net increase in work capital	(930)	100%

Appendix 5

Hutchison Whampoa Financial Ratios

HUTCHISON WHAMPOA SHORT-TERM LIQUIDITY RATIOS

	1984	1983	1982	1981	1980
	-----	-----	-----	-----	-----
Current Ratio	1.84	1.15	2.63	2.08	1.63
Acid Test Ratio	1.24	0.87	1.79	1.21	0.99
Cash to Current Assets (%)	0.67	0.75	0.68	0.58	0.61
Liquid Assets to Current Liabilities (%)	1.54	1.01	2.30	1.72	1.33
Working Capital (\$MM)	1120	422	1337	842	620
Liquidity Index (assumes conversion of receivables to cash takes 40 days, and inventory to receivables takes 50 days)	19	15	17	23	22

HUTCHISON WHAMPOA CAPITAL STRUCTURE RATIOS

	1984	1983	1982	1981	1980
	-----	-----	-----	-----	-----
Total Debt to Equity	0.33	0.98	0.33	0.40	0.53
Long Term Debt to Equity	0.04	.00	.00	0.03	0.06
Net Fixed Assets to Equity	0.76	0.94	0.64	0.67	0.75
Total Debt to Total Capital	0.25	0.50	0.25	0.29	0.35
Times Interest Earned	39.47	18.69	16.06	9.21	5.38

Notes:

- (1) Total Debt = Current Liabilities + Long Term Debt
(2) Equity = Share capital + Reserves
(3) Total Capital = Equity + Total Debt

HUTCHISON WHAMPOA RETURN ON INVESTMENT RATIOS

Return on:	1984	1983	1982	1981	1980
	-----	-----	-----	-----	-----
Total Assets (1)	15.74%	17.75%	17.27%	17.16%	10.79%
Equity Capital	20.17%	33.80%	21.70%	21.51%	12.17%
Financial Leverage Index (2)	128.11%	190.37%	125.65%	125.34%	112.76%
Equity growth rate (3)	14.22%	-23.49%	17.42%	19.93%	17.53%

- (1) Corporate tax rates: 18.5% (1984), 16.5% (1980-83)
(2) The financial leverage index compares the return on capital
against the return on total assets.
(3) The equity growth rate measures the growth rate due to retained
earnings. EGR = Transfer to reserves/Shareholders Equity

Appendix 5

Hutchison Whampoa Financial Ratios (Cont'd)

HUTCHISON WHAMPOA ASSET UTILIZATION AND OPERATING PERFORMANCE RATIOS

	1984	1983	1982	1981	1980
Turnover to:					
Cash and Equivalents	3.15	1.80	2.52	3.65	3.26
Working Capital	4.66	10.34	2.78	4.09	5.17
Fixed Assets	1.35	1.34	1.33	1.41	1.26
Total Assets	0.72	0.60	0.59	0.63	0.57
Short Term Liabilities	3.90	1.56	4.53	4.43	3.24
Net Profit To:					
Turnover	0.20	0.27	0.26	0.23	0.13
Gross Interest Expense to Profits after Taxation and Minority Interests	0.03	0.05	0.08	0.14	0.31

HUTCHISON WHAMPOA COMMON SIZE BALANCE SHEET (% of Total)

	1980	1981	1982	1983	1984
Fixed assets	45.52%	44.69%	44.76%	44.44%	53.23%
Associated companies	3.87%	5.01%	5.08%	6.03%	6.16%
Other investments	0.36%	0.27%	0.54%	0.45%	0.23%
Property under development	21.42%	20.41%	15.11%	5.24%	6.44%
Stock and work in progress	5.18%	5.10%	4.17%	4.79%	5.41%
Debtors and prepayments	6.06%	7.26%	6.60%	5.42%	5.64%
Bank balances and other liquid funds	17.60%	17.25%	23.55%	32.99%	22.89%
Current assets	28.84%	29.61%	34.33%	43.20%	33.94%
Total Assets	\$5,580	\$5,467	\$6,254	\$7,327	\$7,240
Percent	100%	100%	100%	100%	100%
Liabilities:					
Current Liabilities	44.88%	43.38%	43.69%	72.00%	61.81%
Long Term Loans	9.62%	5.75%	0.69%	0.28%	8.65%
Other loans	45.50%	50.88%	55.61%	27.72%	29.54%
Total Liabilities	\$2,204	\$1,793	\$1,879	\$3,875	\$2,163
Percent	100%	100%	100%	100%	100%

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