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HUTCHISON WHAMPOA LIMITED: THE CAPITAL STRUCTURE DECISION

Geoff Crum and Peter Yuan prepared this case under the supervision of Professors Andrew Karolyi and Larry Wynant solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

In the summer of 1996, the finance department of Hutchison Whampoa, the venerable Hong Kong-based trading company, was reviewing the firm's immediate and long-term financing needs. The group had estimated that the company would require a minimum of US$500 million of new capital in the coming year and would face large ongoing capital needs if the firm was to remain on the growth trajectory established in recent years. With the prevailing low interest rates, a long-term bond issue outside Hong Kong had become an attractive option, and Hutchison Whampoa had already approached both Moody's and Standard and Poor's about obtaining a bond rating. In the interim, the finance group was faced with the objective of identifying and analysing all the available financing alternatives.

THE COMPANY

Hutchison Whampoa was established in July 1977 as the result of the merger between Hutchison International Limited and Hong Kong and Whampoa Dock Company Limited (HWD). The roots of both firms were firmly entrenched in the early development of Hong Kong. In 1861, HWD was established to acquire docks and repair yards at Whampoa on the Pearl River in China, and at the then newly constructed dry docks at Aberdeen on Hong Kong Island. In the mid 1900s, HWD diversified into container ports and in 1969 became engaged in property development and holding.

The history of the Hutchison name began in 1877, when a young Briton, John D. Hutchison, joined Hong Kong's small community of expatriate merchants in the employment of Robert Walker and Company. Soon after, he took over the company, thus forming John D. Hutchison and Company Ltd., later to be renamed Hutchison International Limited under the leadership of Sir Douglas Clague in the 1950s. In the 1960s, Hutchison underwent a period of acquisition and diversification, gaining effective control of A.S. Watson and Co., a regional retail chain, and other regional engineering, shipping and ports-related companies.

Following the merger of Hutchison International and HWD in 1977, Hutchison Whampoa became a publicly listed company in 1978. Cheung Kong (Holdings), which by the mid-1990s represented approximately 10 per cent of the market capitalization of all Hong Kong publicly-listed companies, bought a large block of Hutchison Whampoa shares from Hongkong and Shanghai Bank (HSBC) in 1979 to become the controlling shareholder. This marked the first time a British-style trading house in Hong Kong came under the control of a Chinese firm. Mr. Li Ka-Shing, a substantial shareholder of Cheung Kong (Holdings) became the chairman of Hutchison Whampoa in 1981. By 1996, Hutchison Whampoa Limited had a market capitalization of US$26 billion[1], making it the second largest company based in Hong Kong. As of December 31, 1995, the company's total consolidated shareholders' funds were HK$58,839 million and the profit attributable to shareholders for the year 1995 was HK$9,567 million. Exhibits 1 to 3 present detailed financial statements.

By 1996, Hutchison's diversified global interests included: property development and holding; ports and related services; retail and manufacturing; telecommunication; and energy, infrastructure and other investments.

Property Development and Holding

Hutchison Whampoa Property developed residential and commercial properties for sale and lease. Its portfolio included some of Hong Kong's largest private housing projects such as Aberdeen Centre, completed in 1982 and housing 3,000 families; Provident Centre; Whampoa Gardens, which encompassed 10,400 homes; South Horizons; and Laguna City. Projects underway included the Cheung Kong Centre, a 1.26 million square foot office tower being built on the site of the former Hong Kong Hilton Hotel, as well as interests in several major residential complexes in Hong Kong. Projects in process on the mainland and in which the group had an interest included the phased development of the US$2 billion Beijing Oriental Plaza which, when completed, would include an office tower complex, luxury

[1] *The Hong Kong dollar was pegged to the U.S. dollar at an exchange rate of US$1 = HK$7.80*

residential apartment blocks, a retail mall and a five star hotel. It was due for completion in 2002. Other developments were also underway in Shanghai, Chongquing and Guangzhou. Besides its core holdings, the group owned the Harbour Plaza Hotel in Hung Hom and had an interest in the Sheraton Hong Kong Hotel.

Ports and Related Services

Hutchison owned Hong Kong International Terminals (HIT), which was the world's largest privately owned and operated container terminal in terms of throughput. In addition, the Hutchison Group owned and operated the port of Felixstowe in the United Kingdom. It was also developing joint venture terminal operations in China, Bahamas and Myanmar. The company's Hong Kong operations were located at the Kwai Chung container port, which was the busiest container port in the world. HIT had long been recognized as the leader in the container terminal industry, both in Hong Kong and overseas. The Port of Felixstowe was the largest container port in the United Kingdom and the fourth largest in Europe. The company's port operations in the U.K. were subsequently expanded with the acquisition of 90 per cent interest in the Thamesport container port and Harwich International Port. In the People's Republic of China (PRC), HIT operated ports in Shanghai, Yantian, Jiuzhou, Gaolan, Nanhai, Jiangmen, Shantou and Xiamen. In partnership with Grand Bahama Development Company, Hutchison was developing a deep-water container port in Freeport, Grand Bahama. The company also provided a regular port for major cruise lines in the Caribbean. Hutchison was developing Myanmar's first international container port. In 1996, Hutchison was awarded rights to operate two ports in Panama.

Retail

A.S. Watson, Hutchison's retail subsidiary, operated three of Asia's retail chains: Park'N Shop supermarkets; Watson's Personal Care Stores; and Fortress, which sold electronics and household electrical appliances. The manufacturing division produced and distributed bottled water, a wide range of beverages and ice cream throughout Hong Kong, the mainland and other Asian countries. A.S. Watson & Co. Ltd. was one of the best known trading names in Asia. The company had over 500 retail outlets, marketing products in mainland China, Hong Kong, Macau, Taiwan, Singapore, Malaysia, Thailand, Indonesia and South Korea. A net total of 80 new retail outlets were opened in 1995. The manufacturing and distribution operations made the group one of the leading food and beverage retailers in Hong Kong.

Park'N Shop operated 225 stores in North and South China and Hong Kong and had about a 33 per cent share of the Hong Kong market. The stores operated in prime retail locations.

Watson's Personal Care Stores' 380 outlets offered a range of 25,000 products from more than 20 countries including cosmetics, toiletries, fashion items, medicines, confectionery, cards and toys. Watson's was adding 70 new stores a year.

Fortress was a leading retailer of electronic and electrical appliances with a 25 per cent market share. Fortress offered consumer electronics, computers, software and household appliances. Fortress had 50 stores in Hong Kong and was looking to expand into China and Taiwan.

The manufacturing operations included water, beverages and ice cream. Watson's bottled water had 80 per cent of the Hong Kong market and had begun a joint venture in Beijing. The company was also the largest distributor of bottled mineral waters. The beverages division operated five plants and marketed the following brands: Sunkist, Pepsi, 7Up, Mr. Juicy and Watson's cordials. In addition to manufacturing ice cream, this division was the biggest importer of quality ice cream with a 45 per cent market share overall and a 70 per cent share of imported products. Imported brands included Dreyer's from the U.S. and Lotte from Japan.

Telecommunication

Since its formation in 1985, the company's telecommunication division had become a significant participant in mobile telecommunication services in Hong Kong and the U.K. The company's telecommunication operations had grown swiftly with over 3.7 million subscribers in Hong Kong, Macau, Australia, Thailand, Malaysia, India, Indonesia, Sri Lanka, U.K., France and Germany. The company's wide spectrum of services included; personal communications network, cellular telephone network and service provision, paging, trunked mobile radio, fixed-line services, satellite systems and services, and radio broadcasting.

Hutchison was one of the largest mobile telephone operators in Hong Kong with over 550,000 subscribers. U.K. activities included a cellular service provider, a national paging network and Orange, a high-quality digital wirefree network using the latest technology. Hutchison had a 49 per cent stake in Orange plc in the U.K., which operated the Orange network. (This stake has since been reduced to approximately 45 per cent.)

Energy and Infrastructure

Hutchison had major shareholdings in Husky Oil, one of Canada's largest, privately owned integrated oil and gas companies; Cheung Kong Infrastructure (CKI), which held interests in infrastructure and related businesses; Hong Kong

Electric, the sole supplier of electricity to Hong Kong Island; and interests in nine power plant projects in mainland China.

CKI's transportation business included interests in toll roads and bridges in China. The infrastructure material business consisted of Green Island Cement and Anderson Asia. Green Island was a leading cement and concrete manufacturer in Hong Kong with a 45 per cent market share. Anderson Asia held Anderson Asphalt and Ready-Mix Concrete (RMC), a producer of high performance concrete. Hutchison had an 85.6 per cent shareholding in CKI.

Calgary-based Husky Oil, in which Hutchison had a 49 per cent interest, was engaged in the exploration, and development of crude oil and natural gas; the production, purchase, transportation, upgrading, refining and marketing of crude oil, natural gas, natural gas liquids, sulphur and petroleum coke; and the marketing of refined petroleum products including asphalt. The company was a joint owner with the Province of Saskatchewan in the Lloydminster Upgrader, which processed heavy oil into synthetic crude oil. (Husky has since acquired the province's interest in the upgrader.)

CAPITAL STRUCTURE PRACTICES IN HONG KONG

Financial management of large firms in Hong Kong differed in significant respects from North American-based companies. Hong Kong firms in general relied more heavily on internally generated funds. Despite phenomenal growth rates, more firms were able to parlay their revenues and subsidiary incomes into the funds required for expansion. The use of debt financing was often minimized and many firms were reluctant to use new equity financing in order to avoid diluting the control position of major shareholders.

Nevertheless, Hong Kong firms were showing increasing interest in exploiting the opportunities of financing operations through the highly-liquid European and American markets. As such, some of the major firms had also been rated by Moody's and Standard and Poor's. The finance group at Hutchison wondered how their potential credit rating would compare with these other companies. Exhibits 4 to 6 detail financial results of four major Hong Kong companies. Swire Pacific Limited diversified operations under six operating divisions: property, aviation, industries, trading, marine services and insurance. Swire was primarily focused on Hong Kong, China and Taiwan. Wharf (Holdings) Limited was involved in property, hotels, terminals and warehousing, and cable television. Jardine Matheson was a multinational enterprise with a portfolio of businesses primarily focused on Asia and grouped into eight core companies. Its activities included financial services, supermarkets, consumer marketing, engineering and construction, motor vehicle trading, property and hotels.

Exhibit 7 provides selected Standard and Poor's Hong Kong credit ratings and Exhibit 8 details S&P's rating methodology.

FINANCING NEEDS

The major projects that Hutchison had underway would require substantial funding in the future. In the past, the firm's operations had been financed from cash on hand, internal cash generation and, to the extent required, by short- and medium-term bank financing. However, the longer term nature of some of the projects did not suit shorter term credit arrangements. Additionally, to limit their exposures, banks were often constrained by internal control policies and/or statutory regulations as to the maximum amount they could lend to any one borrower and its related group companies. It was thought by some investment analysts that Hutchison would require in excess of five billion U.S. dollars over the next five years, simply to maintain its present growth rate. Exhibit 9 provides a summary of outstanding debt and Exhibit 10 provides a summary of capital commitments. Under these circumstances, Hutchison would need to seek alternative methods of financing for some of their future projects.

SYNDICATED BANK FINANCING

While the opportunity did exist to once again structure a syndicate of local and global banks to provide future capital needs on a floating interest rate basis, the maximum term that the banks would lend on this basis was normally five years and occasionally for seven years. However, Hutchison's objective was to acquire funds for 10 years and beyond at a favorable fixed rate of interest. Also, banks were limited as to the amount they could lend to any one group.

Syndicated loans in Hong Kong were priced on a spread over the Hong Kong inter-bank offer rate (HIBOR). The finance group anticipated a spread of 60 to 70 basis points, although the pricing would be extremely sensitive to changes in the financial environment. See Exhibit 11 for HIBOR rates.

EQUITY

Another alternative was to issue equity. Approximately 49.9 per cent of Hutchison was owned by Cheung Kong Holdings. The majority of the remaining block was actively traded on the Hong Kong Stock Exchange. While equity provided a relatively easy way for the firm to raise additional capital, the finance group was concerned about dilution and control issues resulting from the issuance of additional shares.

Nevertheless, raising funds on the stock exchange would provide the company with a knowledgeable investor base, there would be little needed in the way of promotion or publicity, and the shareholder base — and returns — would be kept largely within the borders of the region. The share price of Hutchison averaged $48.8 during the first half of 1996. Exhibit 12 details Hutchison's historical share price and Exhibit 13 shows price to earnings (P/E) ratios for the Hang Seng Index.

BONDS

Hutchison had not issued bonds in the past. Traditionally, Hong Kong firms had rarely raised debt beyond 10 years and no Hong Kong issuer had ever issued a 20-year bond or beyond. At the time, the longest maturity for Hutchison debt was 10 years. Many Hong Kong firms placed a strong importance on financial flexibility, and it was believed that a long-term debt issue would hamper the versatility and adaptability of the firm. If Hutchison wished to issue bonds, there were a few different routes they could take.

An obstacle to arranging long-term, fixed rate debt was the relatively low profile Hutchison had outside Asia and particularly in the U.S. While the company was well known to the major international banks, Hutchison Whampoa was still not a household name outside of Asia as far as the institutional investors were concerned.

For Hutchison to do a major bond issue in the U.S. market, they would need to prepare both promotional materials and reconcile their financial reporting to (depending upon their target group), European or American generally accepted accounting principles (GAAP). From this stage, they would make known an intention to borrow a specific sum (or general borrowing requirements over the next year or so) and could either explicitly or implicitly request proposals for structuring and pricing the necessary borrowings. Knowing the borrower and conditions in international financial markets, a prospective lead bank would carefully draw up a proposal to arrange the facility, thereby seeking a mandate to arrange and market the facility. The proposal would specify indicative pricing, terms, fees and related pertinent aspects of the facility.

Straight Debt

The most obvious option was a straight bond issued in Hong Kong, denominated in Hong Kong dollars. As with equity, this kind of issue would tap a knowledgeable investor base and limit the need to restructure financial statements or provide extraneous data. However, bond issues from PRC borrowers, denominated in Hong Kong dollars and traded on the Hong Kong bond market, had begun to swamp the market. With its massive financing needs, the PRC had begun to offer high yield paper — about 100 basis points higher than comparable Hong Kong-based debt. As a result, the market for Hong Kong-based debt was becoming strained with increasing upward pressure on pricing.

Eurobonds

The international bond market, (commonly called the Eurobond[2] market) included issues with several typical features: (1) they were underwritten by an international syndicate; (2) at issuance they were offered simultaneously to investors in a number of countries; (3) they were issued outside the jurisdiction of any single country; and (4) they were held in unregistered form.

The Eurobond market had grown significantly, fuelled by multinational firms with a desire to approach a global pool of investors. The finance group at Hutchison realized that this might be an appropriate alternative to meeting their long-term financing needs. The market was large, sophisticated and increasingly looking for new areas of growth. Hong Kong was one such area. Exhibit 14 details the size and scope of the global bond markets.

Yankee Bonds

Another option was an offering of a Yankee bond. Yankee bonds were issued by a foreign firm, denominated in U.S. currency and traded on the U.S. foreign bond market. In the past, Asian firms had been slow to issue Yankee bonds, but their interest in this financing option had increased in recent years. With its large funding requirements, the finance group of Hutchison had been considering the issuance of Yankee bonds.

Firms issuing Yankee bonds had two options. The first was a public offering of securities, which required a registration statement with the Securities and Exchange Commission (SEC) and the associated need to disclose financial and other information mandated by the Securities Act of 1933. This included filing annual and periodic reports, reconciled to U.S. GAAP, with the SEC.

Second, in 1990, the SEC adopted rule 144A that provided exemption from the registration requirements for resale of restricted securities to certain institutional investors. The premise for the exemption was that institutional investors were sophisticated enough not to require protection of the SEC in making investment decisions. This rule was adopted to increase the liquidity of the restricted securities market and encourage non-U.S. companies to raise debt and equity in the U.S.

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[2] *Appendix 1 provides information on the Eurobond Market.*

Since the change in SEC regulations, Yankee bonds had been an increasingly attractive capital-raising option for foreign firms. The growth of Yankee bonds can be seen in Exhibit 14. Exhibit 15 details U.S. corporate, government, and international government bond yield averages. Exhibit 16 provides the yield table of U.S. Treasury bonds.

THE DECISION

The finance group of Hutchison Whampoa had been eagerly anticipating the result of their first credit rating. If the bond rating were favorable, Hutchison could begin to seriously study the option of issuing Yankee bonds.

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Exhibit 1

CONSOLIDATED PROFIT AND LOSS FOR THE YEARS ENDED DECEMBER 31 (HK$ MILLIONS)

	1995	1994	1993	1992	1991
Turnover	**35,026**	**30,168**	**24,748**	**21,030**	**19,212**
Operating Profit	6,523	5,141	4,887	4,097	4,057
Share of Profits less losses of associated companies	3,902	5,099	3,282	2,668	2,023
Exceptional Items	756	-	(479)	-	-
Profit before taxation	11,181	10,240	7,690	6,765	6,080
Taxation	1,133	1,586	1,354	1,109	847
Profit after taxation	10,048	8,654	6,336	5,656	5,233
Minority interests	481	633	32	1,065	1,142
Provisions for Husky Oil	-	-	-	1,422	763
Profit before Extraordinary Items	**9,567**	**8,021**	**6,304**	**3,169**	**3,328**
Extraordinary Items	-	-	-	(117)	1,012
Profit Attributable to the shareholders	**9,567**	**8,021**	**6,304**	**3,052**	**4,340**
Dividends	4,267	3,362	2,461	1,846	2,073
Profit for the Year Retained	**5,300**	**4,659**	**3,843**	**1,206**	**2,267**
EPS	**2.65**	**2.22**	**1.79**	**0.96**	**1.42**
Stock price (High)	47.1	36.5	38.5	17.7	14.8
Stock price (Low)	34.1	31.3	17.4	14.7	13.9
P/E Ratio	15.3	15.3	15.6	16.9	10.1
Dividends per share	1.18	0.93	0.68	0.55	0.68

Source: Hutchison Whampoa Limited Annual Report, Datastream

Exhibit 2

CONSOLIDATED BALANCE SHEETS AS AT DECEMBER 31 (HK$ MILLIONS)

	1995	1994	1993	1992	1991
Fixed Assets	**54,508**	52,192	42,292	32,467	27,381
Deferred expenditures	**2,536**	1,153	395	1,240	894
Associated companies	**22,778**	21,705	14,434	12,569	11,377
Managed funds and other investments	**15,965**	13,223	14,423	6,813	5,720
Properties under development for sale	**-**	-	-	-	-
Net current assets (Liabilities)	**(5,329)**	361	(6,807)	(3,930)	491
Employment of Capital	**90,458**	**88,634**	**64,737**	**49,159**	**45,863**
Share capital	**904**	905	904	839	762
Reserves	**57,935**	56,252	48,157	35,004	26,893
Shareholders' funds	**58,839**	57,157	49,061	35,843	27,655
Minority interests	**5,333**	5,144	1,795	2,018	6,023
Loan stock	**-**	-	-	-	-
Long-term liabilities	**26,174**	26,189	13,696	11,126	12,074
Deferred items	**112**	144	185	172	111
Capital employed	**90,458**	**88,634**	**64,737**	**49,159**	**45,863**

Source: Hutchison Whampoa Limited Annual Report

Exhibit 3

CONSOLIDATED CASH FLOW STATEMENTS
FOR THE YEARS ENDED DECEMBER 31
(HK$ MILLIONS)

	1995	1994	1993	1992
Net cash inflow from operating activities	**8,552**	6,618	7,079	4,886
Returns on investments				
Dividends received from associated companies	**3,217**	3,407	1,619	1,321
Interest and other dividends received	**1,972**	1,303	1,210	1,095
	5,189	4,710	2,829	2,416
Servicing of finance				
Interest paid	**(2,808)**	(1,307)	(1,210)	(1,077)
Dividends paid to minority shareholders	**(523)**	(1,059)	(573)	(825)
Dividends paid to shareholders	**(3,614)**	(2,714)	(1,996)	(2,001)
	(6,945)	(5,080)	(3,779)	(3,903)
Taxation				
Hong Kong profits tax paid	**(432)**	(772)	(597)	(538)
Overseas profits tax paid	**(112)**	(76)	(60)	(64)
	(544)	(848)	(657)	(602)
Investing activities				
Proceeds on disposal of fixed assets	**1,331**	488	377	61
Proceeds on disposal of subsidiary companies	**—**	472	461	173
Proceeds on disposal of and repayments from associated companies	**253**	—	2,044	0
Proceeds on disposal of other investments	**1,513**	4,294	383	305
Purchase of fixed assets	**(6,311)**	(7,162)	(3,709)	(3,754)
Interest capitalized as fixed assets	**12**	360	132	181
Additions to deferred expenditures	**(1,864)**	(910)	(216)	(721)
Purchase of subsidiary companies	**(1,749)**	(1,391)	(4,456)	(5,885)
Purchase of and advances to associated companies	**494**	(6,041)	(1,857)	(977)
Additions to managed funds and other investments	**(3,341)**	(3,027)	(7,804)	(1,399)
	(10,650)	(12,917)	(14,645)	(12,016)
Net cash outflow before financing activities	**(4,398)**	(7,517)	(9,173)	(9,219)
Net cash inflow from financing activities	**8,348**	14,039	7,920	5,701
Increase (decrease) in cash and cash equivalents	**3,950**	6,522	(1,253)	(3,518)

Source: Hutchison Whampoa Limited Annual Report

Exhibit 4

COMPARABLE FIRMS IN HONG KONG
CONSOLIDATED PROFIT AND LOSS FOR THE YEARS ENDED DECEMBER 31

	Hutchison Whampoa		Swire Pacific Ltd.		Wharf Holdings Ltd.		Jardine Matheson Holdings Ltd.	
	1995 HK$M	1994 HK$M	**1995 HK$M**	1994 HK$M	**1995 HK$M**	1994 HK$M	**1995 HK$M**	1994 HK$M
Turnover	**35,026**	30,168	**53,656**	47,627	**6,770**	8,144	**82,243**	73,914
Operating profit	**6,523**	5,141	**9,355**	8,167	**1,995**	2,588	**2,439**	3,390
Net finance charges	**—**	—	**(777)**	(768)	**—**	—	**—**	—
Net operating profit	**6,523**	5,141	**8,578**	7,399	**1,995**	2,588	**2,439**	3,390
Share of profits Less losses of associated companies	**3,902**	5,099	**1,093**	955	**748**	712	**3,415**	4,296
Exceptional Items	**756**	—	**—**	—	**1,510**	378	**793**	—
Profit before taxation	**11,181**	10,240	**9,671**	8,354	**4,253**	3,678	**6,538**	7,510
Taxation	**(1,133)**	(1,586)	**(1,505)**	(1,362)	**(519)**	(463)	**(1,172)**	(1,514)
Profit after taxation	**10,048**	8,654	**8,166**	6,992	**3,733**	3,215	**5,366**	5,996
Minority interests	**(481)**	(633)	**(1,712)**	(1,431)	**(129)**	(114)	**(2,118)**	(2,496)
Profit attributable to shareholders	**9,567**	8,021	**6,454**	5,561	**3,605**	3,101	**3,248**	3,500
Dividends	**(4,267)**	(3,362)	**(2,521)**	(2,207)	**(2,278)**	(2,060)	**(1,130)**	(1,129)
Retained profit for the year	**5,300**	4,659	**3,933**	3,354	**1,327**	1,040	**2,117**	2,371
Earnings per share (HK¢)	**265**	222	**—**	—	**166**	143	**557**	601
'A' shares			**407**	350				
'B' shares			**81**	70				

Source: Hutchison Whampoa Limited Annual Report

Exhibit 5

COMPARABLE FIRMS IN HONG KONG
CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31

	Hutchison Whampoa		Swire Pacific Ltd.		Wharf Holdings Ltd.		Jardine Matheson Holdings Ltd.	
	1995	1994	**1995**	1994	**1995**	1994	**1995**	1994
	HK$M	HK$M	**HK$M**	HK$M	**HK$M**	HK$M	**HK$M**	HK$M
Fixed Assets	**54,508**	52,192	99,883	94,575	85,215	93,378	21,314	19,900
Deferred expenditures	**2,536**	1,153	—	—	—	—	—	—
Deferred receivables	—	—	1,258	1,188	97	483	—	—
Associated companies	**22,778**	21,705	4,408	3,037	4,181	7,048	30,516	32,398
Managed funds and other investments	**15,965**	13,223	446	462	2,328	1,698	3,958	1,911
Other deferred items	—	—	(2,730)	(510)	2,129	1,731	—	—
Net current assets (Liabilities)	**(5,329)**	361	9,276	11,932	4,311	5,231	1,904	2,490
Term Loans	—	—	—	—	—	—	—	—
Employment of Capital	**90,458**	**88,634**	**112,541**	**110,684**	**98,260**	**109,569**	**57,692**	**56,700**
Share capital	**904**	905	951	953	2,169	2,168	1,414	1,408
Share premium and contributed surplus	—	—	—	—	—	—	2,740	2,741
Reserves	**57,935**	56,252	70,369	70,060	71,729	80,761	24,047	23,833
Own shares held							(2,740)	(2,713)
Shareholders' funds	**58,839**	57,157	71,320	71,013	73,898	82,929	25,462	25,269
Minority interests	**5,333**	5,144	11,538	10,363	2,556	3,082	25,078	23,862
Long-term liabilities	**26,174**	26,189	15,273	15,390	3,054	3,054	(7,153)	(7,569)
Deferred items	**112**	144	—	—	18,571	20,363	—	—
Deferred taxation	—	—	—	—	182	140	—	—
Obligations under finance leases	—	—	14,410	13,918	—	—	—	—
Capital employed	**90,458**	**88,634**	**112,541**	**110,684**	**98,260**	**109,569**	**57,692**	**56,700**

Source: Hutchison Whampoa Limited Annual Report

Exhibit 6

SELECTED FINANCIAL RATIOS OF COMPARABLE FIRMS IN HONG KONG

	Hutchison Whampoa		Swire Pacific Ltd.		Wharf Holdings Ltd.		Jardine Matheson	
	1995	1994	**1995**	1994	**1995**	1994	**1995**	1994
EBITDA interest coverage (x)	4.9	7.4	5.5	5.4	3.8	5.1	6.0	10.2
EBIT interest coverage (x)	3.7	4.5	3.8	3.6	2.5	3.9	3.0	5.7
Funds from operations/total debt (%)	14.8	50.8	31.7	27.0	63.0	(32.7)	35.7	28.7
Free operating cash flow/total debt (%)	7.3	11.4	30.3	4.6	79.6	43.8	67.9	64.9
Pretax return on capital (%)	12.4	11.6	8.6	7.6	4.3	3.4	11.3	13.3
Operating income/sales (%)	17.8	14.9	13.5	11.2	n.a	n.a	3.0	4.6
Long-term debt/capital (%)	28.9	29.5	26.4	26.5	21.7	21.2	12.4	12.9
Total debt/capitalization (%)	44.8	36.8	32.0	31.8	22.6	23.5	24.8	23.6
Return on Equity (%)	16.5	15.1	9.1	8.4	4.6	3.8	12.8	15.1

Source: Compustat, Bloomberg

Exhibit 7

STANDARD AND POOR'S LONG-TERM DEBT RATINGS — HONG KONG

Hong Kong Government foreign currency debt	A
Hong Kong Government local currency bonds	A+
Swire Pacific Limited	A
Wharf Holdings Limited	A
Jardine Matheson Holdings Limited	Not Rated

Source: Standard and Poor, 1999

Exhibit 8

STANDARD AND POOR'S LONG-TERM DEBT RATINGS — METHODOLOGY
KEY INDUSTRIAL FINANCIAL RATIOS

U.S. Industrial long-term debt Three year (1994 to 1996) medians	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**
EBIT interest coverage (x)	16.1	11.1	6.3	4.1	2.3	1.2
EBITDA interest coverage (x)	20.3	14.9	8.5	6.0	3.6	2.3
Funds from operations/total debt (%)	116.4	72.3	47.5	34.7	18.4	10.9
Free operating cash flow/total debt (%)	76.8	30.5	18.8	8.4	2.4	1.2
Pretax return on capital (%)	31.5	23.6	19.5	15.1	11.9	9.1
Operating income/sales (%)	24.0	19.2	16.1	15.4	15.1	12.6
Long-term debt/capital (%)	13.4	21.9	32.7	43.4	53.9	65.9
Total debt/capitalization (%)	23.6	29.7	38.7	46.8	55.8	68.9

Source: Standard and Poor, 1999

Exhibit 9

OUTSTANDING LONG-TERM LOANS AS OF DECEMBER 31 (HK$ MILLION)

	1995	1994	1993	1992	1991
Bank loans repayable within 5 years	12,847	19,072	n.a	n.a	n.a
Bank loans not wholly repayable within 5 years	5,110	375	n.a	n.a	n.a
	17,957	19,447	13,563.1	10,792.3	11,754.4
Other loans repayable within 5 years	90	23	71.3	55.9	54.5
Other loans not wholly repayable within 5 years [1]	8,106	6,706	600.8	262.5	265.7
	8,196	6,729	672.1	318.4	320.2
Total	**26,153**	**26,176**	**14,235.2**	**11,110.7**	**12,074.6**

[1]Other loans not wholly repayable within five years mainly represent: a) HK$5,959.8 million of floating rate notes bearing interest at LIBOR plus 0.85% issued in 1994, due in 2004; b) HK$2,125.8 million of seven per cent exchangeable (convertible) bonds.

Source: Hutchison Whampoa Limited Annual Report

Exhibit 10

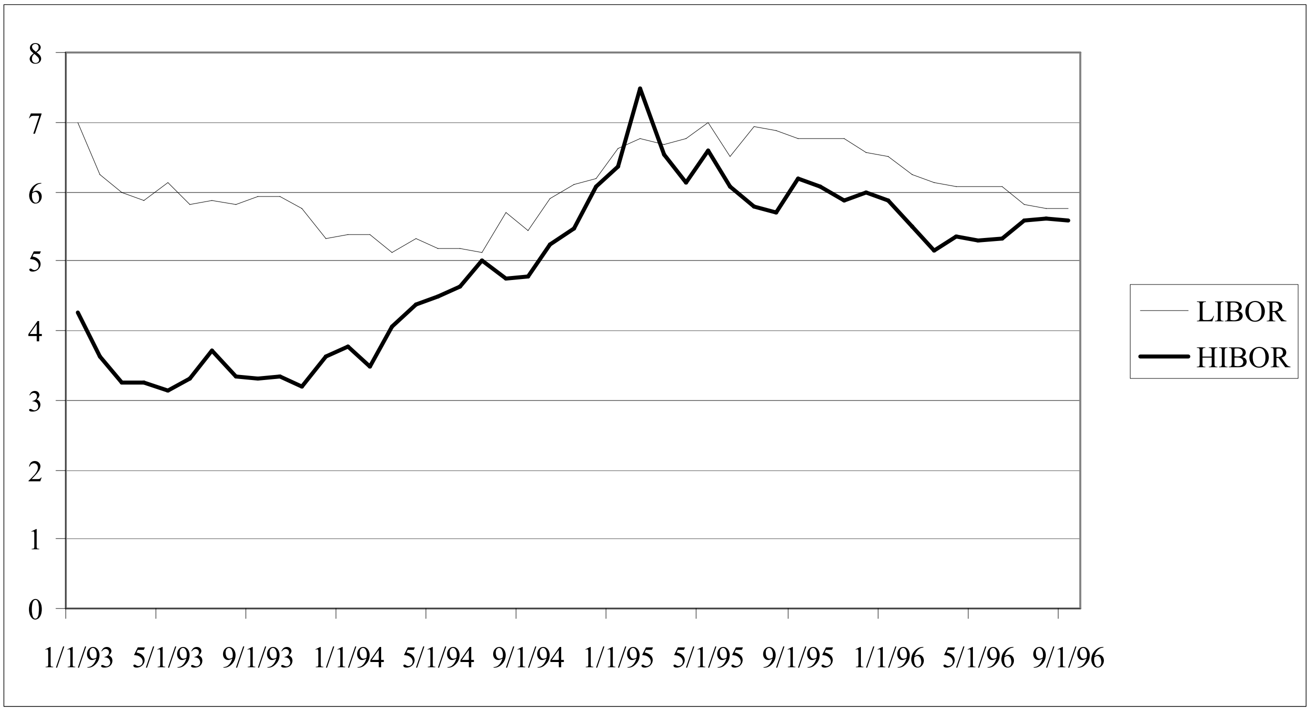
CAPITAL COMMITMENTS NOT PROVIDED FOR IN THE ACCOUNTS AT DECEMBER 31 (HK$ MILLIONS)

	1995	1994
1. Contracted for:		
Container terminal, Hong Kong	301.9	122.6
Container terminal, China	283.1	1199.4
Telecommunications	907.5	863.0
Other fixed assets	297.4	551.5
Investments in China power station joint venture projects	672.3	40.0
Investments in China properties joint venture projects	521.4	368.4
Other investments	207.8	184.5
Property developments in Hong Kong	3,277.5	–
Sub-total	6,468.9	3,329.4
2. Authorized but not contracted for:		
Container terminal, Hong Kong	1,740.2	1,184.3
Container terminal, China	1,117.8	389.8
Telecommunications	5,207.5	3,242.5
Other fixed assets	1,481.2	1,759.0
Investments in Hong Kong properties joint venture projects	1,626.6	237.0
Investments in China properties joint venture projects	3,075.1	940.8
Other investments	809.8	517.3
Property developments in Hong Kong	8,678.0	–
Sub-total	23,736.2	8,270.7
TOTAL	30,205.1	11,600.1

Source: Hutchison Whampoa Limited Annual Report

Exhibit 11

HIBOR AND LIBOR THREE-MONTH RATES
JANUARY 1993 TO SEPTEMBER 1996

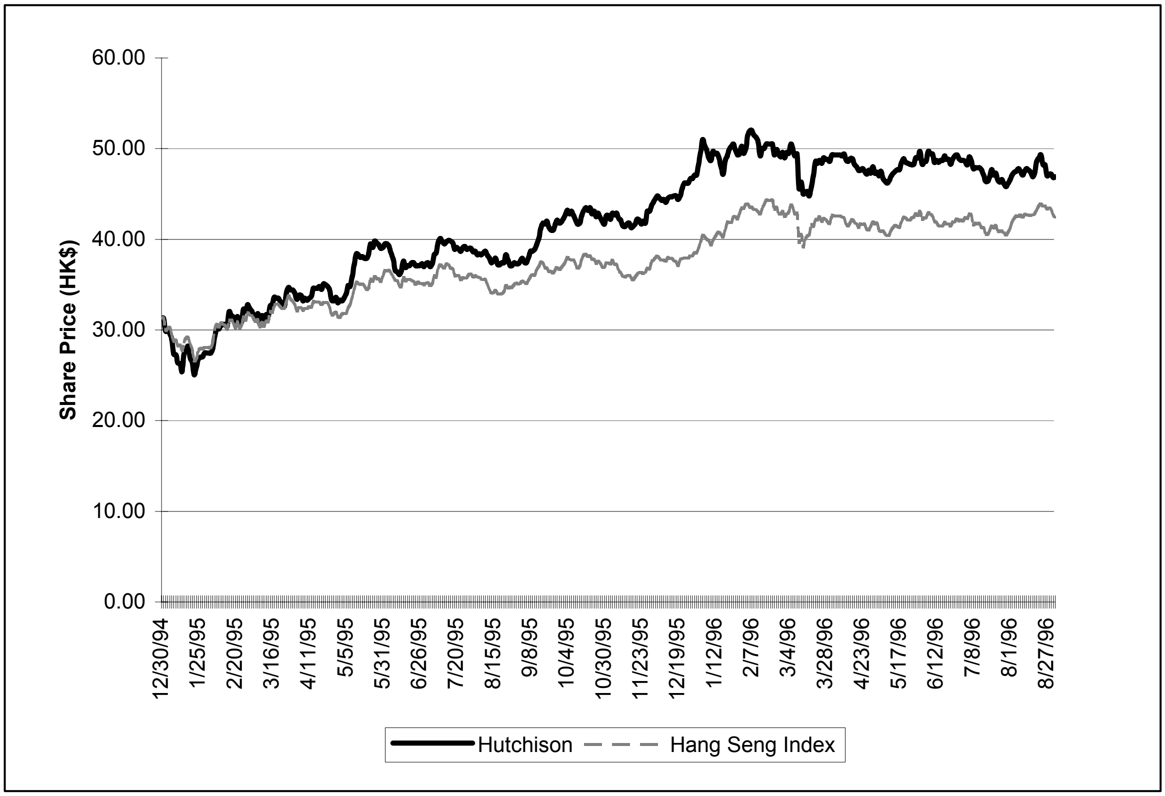


Note: 3-month HIBOR in June 1996 was 5.32%.

Source: Datastream.

Exhibit 12

HISTORICAL SHARE PRICE
JANUARY 1995 TO SEPTEMBER 1996



Source: Datastream International, 1998.

Exhibit 13

HANG SENG INDEX P/E RATIOS

1991	13.0
1992	13.1
1993	21.6
1994	10.7
1995	14.2

Source: Bloomberg

Exhibit 14

GROWTH OF THE SIX LARGEST BOND MARKETS 1989 TO 1995
(NOMINAL VALUE OUTSTANDING, BILLIONS OF U.S. DOLLARS OR EQUIVALENT)

	Year-End	Total Publicly Issued	Central Government	Central Govt. Agency & Govt. Guaranty	State & Local Govt.	Corp. (Incl. Cvts.)	Other Domestic Publicly Issued	Int'l Bonds: Foreign Bonds	Int'l Bonds: Euro-bonds	Private Place. Unclass.
United States	**1995**	**8,837.3**	**2,546.5**	**2,406.1**	**1,029.6**	**1,741.9**	**283.3**	**155.6**	**674.3**	**—**
	1994	8,221.8	2,422.1	2,199.5	1,075.0	1,518.6	246.2	138.0	622.5	—
	1993	7,649.1	2,274.8	1,905.9	1,115.1	1,463.3	207.8	125.8	556.4	—
	1992	7,054.8	2,096.5	1,734.0	1,054.0	1,352.5	162.2	103.7	551.9	—
	1991	6,460.7	1,881.3	1,577.9	1,031.7	1,241.5	101.7	86.1	540.5	—
	1990	5,815.0	1,668.4	1,445.9	957.3	1,083.9	60.8	75.6	523.1	—
	1989	5,322.5	1,532.9	1,267.1	914.5	997.3	48.3	66.3	496.1	—
Japan	**1995**	**3,807.4**	**2,002.7**	**210.2**	**98.8**	**404.6**	**745.0**	**89.9**	**256.2**	**746.6**
	1994	3,681.7	1,909.2	205.3	90.4	383.1	785.6	81.1	226.9	690.4
	1993	3,044.0	1,554.6	176.3	74.1	314.9	700.7	66.3	157.2	536.4
	1992	2,610.5	1,330.8	160.0	61.4	253.0	628.5	52.1	124.7	422.3
	1991	2,510.7	1,291.0	159.0	59.1	237.2	590.0	49.6	124.8	383.9
	1990	2,192.2	1,151.9	147.2	53.1	201.7	497.6	42.4	98.4	333.0
	1989	1,948.6	1,071.0	138.9	48.4	175.2	408.0	34.8	72.3	295.8
Germany	**1995**	**2,278.1**	**727.1**	**67.0**	**85.6**	**1.9**	**1,120.7**	**280.0**		**551.2**
	1994	1,941.1	656.0	65.8	72.8	2.0	924.4	220.2		427.0
	1993	1,590.8	500.9	61.8	60.3	1.8	762.4	203.6		367.7
	1992	1,401.7	410.2	57.7	47.4	1.9	714.1	170.4		343.2
	1991	1,274.1	344.6	49.6	31.5	2.1	686.7	159.6		382.3
	1990	1,126.9	302.6	43.3	27.0	1.7	602.9	149.3		364.0
	1989	849.8	222.9	33.9	21.9	1.6	450.3	119.3		309.9

Source: "How Big is the World Bond Market — 1996 Update," Economic and Market Analysis *(Salomon Brothers Inc.)*

Exhibit 14 (continued)

	Year-End	Total Publicly Issued	Central Government	Central Govt. Agency & Govt. Guaranty	State & Local Govt.	Corp. (Incl. Cvts.)	Other Domestic Publicly Issued	Int'l Bonds: Foreign Bonds	Int'l Bonds: Euro-bonds	Private Place. Unclass.
Italy	**1995**	**1,084.4**	**858.9**	**18.6**	**—**	**4.3**	**143.1**	**1.8**	**57.8**	**—**
	1994	969.5	764.4	21.1	—	3.7	131.9	1.4	46.9	—
	1993	780.7	620.3	15.1	—	2.2	112.9	1.2	29.0	—
	1992	731.8	565.6	27.3	—	2.3	112.7	1.9	22.0	—
	1991	840.2	641.2	37.9	—	3.7	133.6	2.7	21.1	—
	1990	715.7	551.0	23.1	—	4.5	121.6	2.6	12.9	—
	1989	580.5	441.5	22.8	—	5.0	102.7	2.2	6.3	—
France	**1995**	**1,024.0**	**489.9**	**234.9**	**3.3**	**154.2**	**—**	**6.0**	**135.7**	**—**
	1994	889.6	399.7	216.0	3.8	144.6	—	6.2	119.4	—
	1993	748.6	331.5	215.5	3.9	103.4	—	4.9	89.3	—
	1992	674.1	266.9	240.1	4.5	97.3	—	5.7	59.5	—
	1991	641.9	247.4	241.0	4.8	102.5	—	6.0	40.2	—
	1990	570.8	235.7	216.5	2.9	88.3	—	5.5	21.9	—
	1989	453.7	184.5	175.7	2.9	72.8	—	4.3	13.5	—
United Kingdom	**1995**	**540.9**	**361.4**	**—**	**0.1**	**29.9**	**—**	**6.1**	**143.4**	**—**
	1994	502.5	331.5	—	0.0	28.6	—	6.3	136.0	—
	1993	436.6	282.2	—	0.0	25.1	—	5.9	123.4	—
	1992	351.8	218.2	—	0.0	22.6	—	6.1	105.0	—
	1991	385.9	228.8	—	0.0	25.8	—	7.7	123.4	—
	1990	366.0	222.0	—	0.0	28.0	—	7.9	108.1	—
	1989	306.7	199.7	—	0.0	25.2	—	6.8	75.1	—

Source: "How Big is the World Bond Market — 1996 Update," Economic and Market Analysis *(Salomon Brothers Inc.)*

Exhibit 15

U.S. CORPORATE, GOVERNMENT AND INTERNATIONAL GOVERNMENT BOND YIELD AVERAGES 1989 to 1995

	U.S. Govt.	AAA	AA	A	BAA	Japan	Germany	Italy	France	U.K.
1989	8.5%	9.3%	9.5%	9.7%	10.2%	5.1%	7.1%	10.7%	8.8%	9.6%
1990	8.6%	9.3%	9.6%	9.8%	10.4%	7.4%	8.9%	11.5%	10.0%	11.1%
1991	7.9%	8.8%	9.1%	9.3%	9.8%	6.5%	8.6%	13.2%	9.1%	9.9%
1992	7.0%	8.1%	8.5%	8.6%	9.0%	4.9%	8.0%	13.3%	8.6%	9.1%
1993	5.8%	7.2%	7.4%	7.6%	7.9%	3.7%	6.3%	11.3%	6.9%	7.9%
1994	7.1%	8.0%	8.1%	8.3%	8.6%	3.7%	6.7%	10.6%	7.4%	8.1%
1995	6.6%	7.6%	7.7%	7.8%	8.2%	2.5%	6.5%	12.2%	7.6%	8.3%

Source: Moody's Bond Record, 1998; International Financial Services, 1996

Exhibit 16

YIELD TABLE OF U.S. TREASURY BONDS JUNE 1, 1996

Treasury Bill	**(%)**
3 month	5.17
6 month	5.36
1 year	5.75
Treasury Bond	
2 year	6.177
3 year	6.365
5 year	6.651
7 year	6.782
10 year	6.804
30 year	6.994

Source: Datastream

Appendix 1

EUROBONDS[1]

The distinction between foreign bonds and Eurobonds is becoming blurred with the increasing globalization of world capital markets. The foreign bond and Eurobond markets together make up the international bond market.

Foreign bonds are international bond issues underwritten by a syndicate of banks from one country, distributed in that country and denominated in the currency of that country. They are in bearer form. Interest is normally paid free of withholding tax to investors not resident in the country of issue. In the secondary market, foreign bonds will only be traded in the capital markets of the issuing country. Foreign bonds issued in the U.S. are commonly referred to as Yankee bonds. They are referred to as Samurai bonds if issued in Japan and denominated in Japanese yen.

Eurobonds are international bond issues underwritten by an international syndicate of banks and sold principally in countries other than the country of the currency in which the bonds are denominated. Eurobonds are always in bearer form. Interest is paid free of withholding tax and other taxes at source. In the secondary market, Eurobonds can be traded in all major capital markets around the world.

The following are two examples of foreign bonds and Eurobonds:

- Foreign bond: Hutchison Whampoa Limited issues bonds in the U.S. in U.S. dollars, for placement in the U.S., and underwritten by U.S. securities houses. Because they are issued in the U.S., they will be called Yankee bonds.

- Eurobond: Hutchison Whampoa Limited issues bonds denominated in British pounds, for placement around the world and underwritten by international securities houses.

By the end of the Second World War, the dollar became the international reserve asset and the U.S. became the largest investor around the world. Coupled with trade deficits, the U.S. suffered a significant balance of payments deficit. The Interest Equalization Tax (IET) and other policies were put in place to discourage U.S. investors from lending internationally. In turn, international borrowers turned to the European markets where a large pool of Eurodollars had accumulated. This gave rise to the Eurobond market. Subsequently, IET was abolished in 1974 and the U.S. withholding tax was abolished in 1984. Europe followed with similar deregulations. Such moves encouraged the expansion of both the Yankee bond market and Eurobond market.

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[1]*This note draws significantly from Guide to Eurobonds, The Economist Publications, London, 1990; F.G.Fisher III, Eurobonds, Euromoney Publications PLC, London, 1988; Peter Gallant, The Eurobond Market, New York Institute of Finance, New York, 1988; Martin Essex et all, The Reuters Guide to World Bond Markets, John Wiley & Sons, Sussex, 1996.*

Appendix 1 (continued)

A Eurobond is often referred to as a medium term debt instrument. Maturities vary significantly from two or three years to 15 years or more. In general, maturities of new issues are affected by current interest rate levels.

The key attractions of the international bond market are freedom from regulations and less rigorous disclosure requirements than those required by the SEC. Speed and simplicity of issuing are the two major advantages Eurobonds have over foreign bonds. Most borrowers are also attracted by the breadth and depth of the Eurobond market. Yields on Eurobonds and foreign bonds are identical for same currency, same quality and same maturity issues. Sometimes, an issuer may raise Eurobonds in the U.S. (denominated in currency other than the dollar) and by using currency and interest rate swaps, achieve U.S. dollar financing at a lower total cost. From the investors' point of view, currency and investment diversification are the major incentives for holding international bonds.