

國立政治大學商學院國際經營管理英語
碩士學位學程

International MBA Program
College of Commerce
National Chengchi University

碩士論文

Master's Thesis

運用現金流管理的企業擴張策略-以港商和記黃埔為例

**Incorporating cash flow management in the corporate expansion
strategy -A Case study On a Hutchison-Whampoa Limited**

Student: Charles Liang

Advisor: Professor James Liu

中華民國一百年一月

January 2011

運用現金流管理的企業擴張策略- 以港商和記黃埔為例

Incorporating cash flow management in the corporate expansion
strategy -A Case study On a Hutchison-Whampoa Limited

研究生：梁偉祺

Student: Charles Liang

指導教授：劉助

Advisor: James Liu



國立政治大學

商學院國際經營管理英語碩士學位學程
碩士論文

A Thesis

Submitted to International MBA Program

National Chengchi University

in partial fulfillment of the Requirements

for the degree of

Master

in

Business Administration

中華民國一百年一月

January 2011

Abstract

To most companies, making profits is the ultimate goal for its management. It's inevitable for any corporations to pursue next expansion when the current business is matured or looking for another opportunity, which may bring in more profits or revenue growth. However, in the case of BenQ merging Siemens, it showed us how hard for a smaller enterprise trying to purchase a big business, which might burn thousands of its capitals, without sufficient cash flow support.

Likewise, the prestigious Hutchison Whampoa Limited (HWL) Group owned by the most fortune person in Asia, **Li Ka-shing**, started from a small company running for Ports and related Service, but now has become the conglomerate with multiple core business, comprising Ports, Retails, Hotels, Infrastructure, Energy and Telecommunication within only 33 years since 1977. This achievement came from a company, which being considered as very conservative on its financial strategy by having low debt ratio and leverage and keep high cash reserved. Especially, the HWL kept loss money in the past eight years since it decided to jump into the 3G telecommunication, which required a lot of initial capital expenditure before profits in the year 2002. On the surface, the market downgraded its performance and none were optimistic to its dared investment. However, the HWL not only just survive, meanwhile its global business on Retails and telecommunication has drastic growth and expansion in these years. In other words, this heavy burden didn't embroil HWL like what Siemens cell phone business to BenQ. On the contrary, after this test, the HWL became the global 3G leader and build up a barrier that other competitor hard to cross.

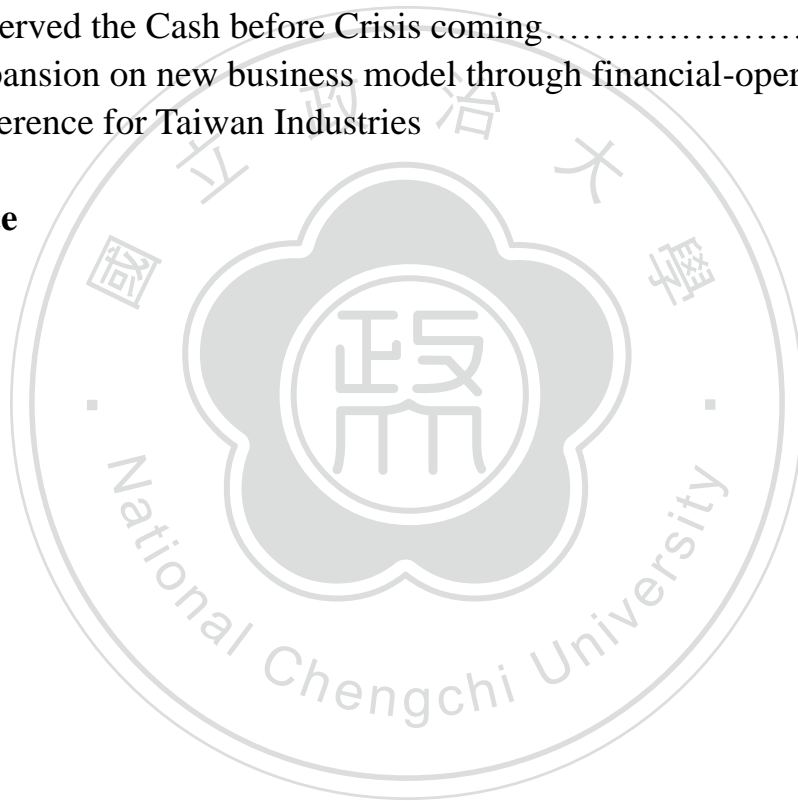
In this paper, I am going to analysis and elaborate the cash flow management strategy of the HWL by dissecting its financial statements through the profit model method. To realize its unique philosophy by using the strategy of multiple business diversification, globalization, flexibility of financial action to boost the liquidity of cash flow and generate more free cash flow (FCF) afterwards. Now, this past conservative corporate has turned out to be the furious merger expertise and being considered as the icon of the business expansion by setting up a new model, which can be referenced. Recently, the famous Taiwan finance corporate –Fubon group has taken the similar strategy as HWL and gains a bright result. Hence, it proves that its business model on incorporating cash flow on expansion is worthy to have more attentions and could be a good path for more Taiwan industries to follow.

TABLE OF CONTENTS

Chapter 1 Introduction -The Cash Flow Management.....	1
1.1 The meaning and importance of Free Cash flow (FCF) to Corporate Expansion	2
1.2 The approaches of generating the positive and free cash flow.....	3
1.3 Incorporating cash flow management in the corporate expansion strategy	4
1.3.1 Diversify its operation by having business with different Pay-Off(Payback)periods	4
1.3.2 Spreading the business in different geography.....	5
1.3.3 Setting up the Holding Company	5
Chapter2 The Analysis Target- <i>Hutchison-Whampoa Limited</i>.....	6
2.1 The introduction of the <i>Hutchison-Whampoa Limited</i>	6
2.2 The Performance in the Past Decade.....	9
2.2.1 The Stock Price Performance.....	9
2.2.2 Major financial index.....	12
Chapter 3 The Expansion Strategies of the HWL.....	19
3.1 Investig on Multiple business with different pay-Off Period.....	19
3.1.1 The core business distribution.....	19
3.1.2 The fluctuation.....	21
3.1.3 The Cash Flow Generating and the business Complementary...23	
3.1.4 Reference: The rising star -Retailed business.....	24
3.1.5 Successful Business diversification	26

3.2	Globalization.....	29
3.2.1	The global diversification.....	29
3.2.2	The reference of its effectiveness.....	32
3.3	Capital management and financial operation.....	36
3.3.1	Holding Company.....	36
3.3.2	The capital mobilization and financial operation.....	36
Chapter 4	Conclusions	41
4.1	Reserved the Cash before Crisis coming.....	41
4.2	Expansion on new business model through financial-operation ...	43
4.3	Reference for Taiwan Industries	

Reference



Chapter 1 Introduction -The Cash Flow Management

1.1 The meaning and importance of Free Cash flow (FCF) to Corporate Expansion

It is naturally for ordinary investors to relate the performance of company with its ability of profits making, hence, like the revenues, earning per shares (EPS) have become the most popular indexes, which will attract more attentions. Indeed, making more profits is the ultimate goal of any companies, but it does not mean a company with high profit margin, especially for which only has single operational business, could successfully turn its profits into real cash for the company income but without any cash flow risk at all time. Therefore, how to generate the continuing positive free cash flow has become another important issue for corporate management, especially the free cash flow, which refers to the controllable cash after deducting all the required cost and expense. For company, it means that having sufficient money, which can be exercised for issuing the dividends, purchasing stocks back or continuing investing. Therefore, comparing with others, the free cash flow (FCF) is the more accurate indicator of the corporate financial performance, which is more clearly reflecting the practical management situation regarding its sustainability and potential growth of the future.

Formula:

$$\text{Free Cash Flow} = \text{Operating Cash Flow} - \text{Capital Expenditure}$$

(CAPEX)

Notwithstanding, most of the investors in the market put attention on the net profits(NP) of the company, however, in fact, the FCF can be more honestly reflect the quality of the operation and the financial condition of the company. The company with sufficient free cash flow can also indicate its strong capability of expanding its current business and creating more incomes. However, it still cannot directly conclude that the company with negative or low FCF refers to poor performance or having any operational troubles before figuring out the cause of its financial management and business operation. For example, including the expansion of the production scale and the expenditure on products R&D may lead to the decreasing and drop of the FCF. Especially for those companies happen to be at the expansion stage, which requires abundant cash, its FCF may remain negative in a certain period. However, it doesn't mean that this company is in trouble, and not worth to invest; on the contrary, it may represent the potential to bring in more revenues in the future, once there are practical feedback return from its investments. Hence, the FCF indicator is much more meaningful to a matured company, which is ongoing its expansion strategy. During the expansion, the company will have new emerging needs of capital scale and structure, meanwhile the original self owned cash will be insufficient at mean time. Usually it accompanies with the rapid increasing debits, more often turn to support the long-term investment by short period loan(due in a short time), once the chain of its cash flow is broken, the company will suffer the disastrous and crisis of the management. Hence, once watching a company's FCF is decreasing, we may easily relate to the increasing burden of its cash flow, in other words, this company has gradually lost

the ability of making profits. That makes the FCF so important to the company especially in the expansion stage; it not only represents the bullets for its expansion, but also shows if a company could survive through the difficult time, and if it is possible to create more value in the future.

1.2 The approaches of generating the positive and free cash flow

First, from the point of view from management, in order to reach the positive free cash flow (FCF), and reduce the cash flow risk, the company must continually increase ratio of the operational cash within the overall cash flow in, and strength the management of the cost and expenditure through the strict control of its budget. More importantly, company must specifically control the cash expenditure and reduce the redundant cost expenditure to generate more cash flow. Secondly, the company must build up the new operation model, which occupies lower capital or can exercise capitals more efficiently. Before, the traditional model is infusing the money into the operational activities, but can't regain the feedback after the long production cycle and products sales. However, a new type of operational has replaced this kind of business by a new distribution model, which can rapidly drive the cash flow and create higher return that will demonstrate afterwards. Apart from the practical consideration of the internal operational management, another critical issue is building up the market reputation with customers in exchanging the support of the materials, capital funds, and leading time and so on so forth that may extend the cycle of cash expending, which directly smooth its cash flow

structure.

1.3 Incorporating cash flow management in the corporate expansion strategy

Nevertheless, there are different angles by viewing the cash flow management, but here we lay our attention on how to incorporate cash flow management into the corporate expansion strategy especially for an international conglomerate with diversified business. After close watch of those prestigious corporations, we can summarize several bullet points for reference as below.

1.3.1 Diversify its operation by having business with different Pay-Off (Payback) periods

Each business has its individual Pay-off (Payback) period and sensitivity to the outside economy, that could be huge different between each other's. Usually the business with shorter Pay-off (Payback) period is much more sensitive to the economy. For this kind of business, the business model is usually catching the timing to gain profits as much as possible during the good economic time, and its cash flow is relatively continuous, such as retails and hotels. On the other hand, the current economy environment will not easily influence the business with stable income and longer return period, but it requires large initial capital expenditure such as infrastructure and electronics.

If most of the company's core businesses are all combined with short Pay-off (Payback) period, its income and profits will be more fluctuated, on the contrary if most of them are with long Pay-off (Payback) period, the return of the capital investment will be slow, and require large capital expenditure that will easily cause the cash flow risk. This ideology model

is the origin of setting up the portfolio by combining several businesses with the different Pay-off (Payback) period to ensure the stable of its operation, and sufficient cash flow supply in each period.

Besides, to merger or acquire the business having stable income can also lower the fluctuation and smooth the overall profits. Apart from that, the role of stable return items has another side of strategy, which is supporting the other business within the conglomerate, and reducing the possibility of financial risk by encountering the plague.

1.3.2 Spreading the business in different geography

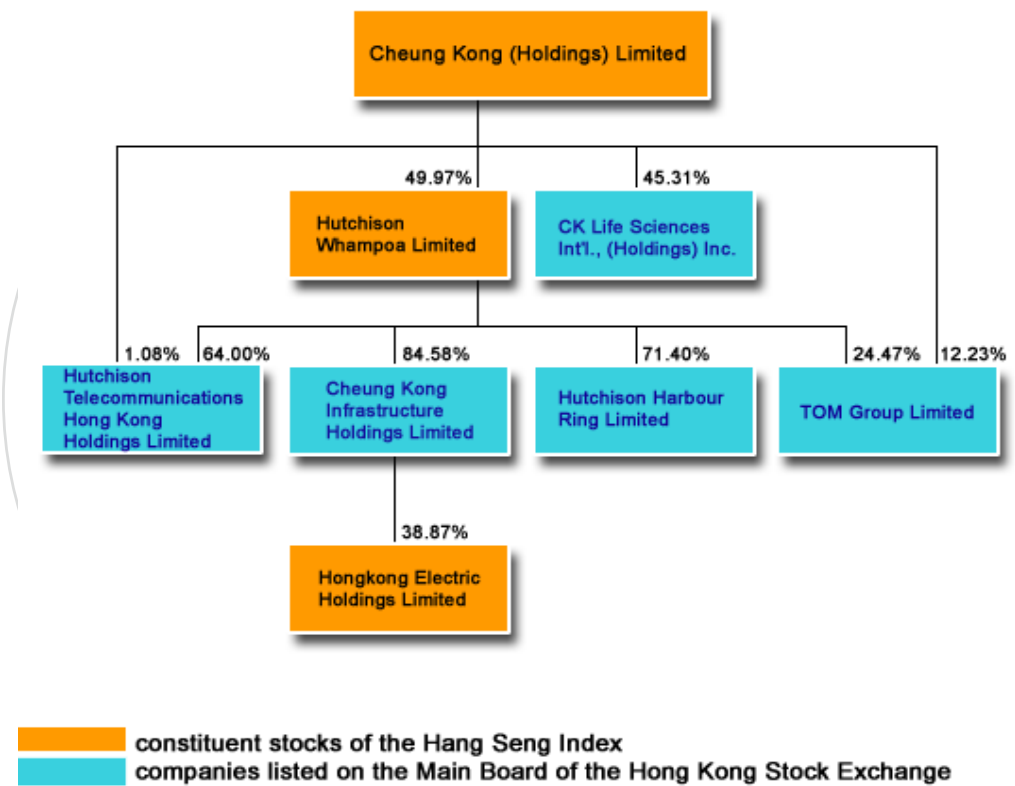
To minimize of the risks of company with only single business, many big corporation take the action of investing the same business in different geographic areas of the world. According to the experience, no matter how grand economic environment has changed, even the same business but in different areas has the different level of impacts at the same time. Therefore, in each period, the area with good performance and rapid profits growth could support those having relatively poor and slow performance, or even with negative growth.

1.3.3 Setting up the Holding Company

More and more conglomerate decide to set up the holding company to unify the cash flow control of the corporation. In that way, the holding company may centrally control and manage the capitals and monies of all its affiliates, subsidiaries. Furthermore, it can not only assure the mutual support, but also prevent the encumbrance between businesses during the certain time. The company can freely choose to cut or sell any parts of the group or making it as a single project without affecting other businesses.

Chapter2 The Analysis Target- *Hutchison-Whampoa Limited*

2.1 The introduction of the *Hutchison-Whampoa Limited* (Hereinafter referred to *HWL*)



The above only features listed companies of Cheung Kong Group in Hong Kong. Companies listed outside of Hong Kong are not depicted here.

Chart 1 The Corporation Structure of Cheung Kong (Holdings) Limited

The Core business of the HWL

Hutchison Whampoa Limited or HWL (traditional Chinese: 和記黃埔有限公司, SEHK: 0013,OTCBB: HUWHY) of Hong Kong is a Fortune 500

company and one of the largest companies listed on the Hong Kong Stock Exchange. It belongs to the Cheung Kong Group, which holds 49.9% stakes and its chairperson Li Ka-shing who is the most powerful figure in Hong Kong, also the richest person of East Asia.

HWL is an international corporation with a diverse array of holdings, which includes the world's biggest port and telecommunication operations in 14 countries and run under the 3 brand. Its business also includes retail, property development and infrastructure. HWL currently operates in 54 countries and employs around 230,000 staff worldwide. The company has five core businesses:

- **Ports and Related Services**

Hutchison Port Holdings (HPH) is the world's leading port investor, developer and operator that operates across Europe, the Americas, Asia, the Middle East and Africa. It operates in five of the seven busiest container ports in the world, handling 13% of the world's container traffic. Hutchison Whampoa operates container terminals in Panama, as it does in Mexico and other parts of the Americas.

- **Property and Hotels**

From landmark office buildings in Hong Kong, Beijing, Shanghai, to luxury residential properties in the United Kingdom, Hutchison Whampoa Properties Limited develops and invests in leading real estate. Together with Cheung Kong Holdings, HWL has set up a joint-venture company, Harbour Plaza Hotel Management

(International) Limited to operate and manage hotels under the portfolio of the Hutchison Property division.

- **Retail**

A.S. Watson & Co., Limited (ASW), HWL's retail arm, operates its flagship retail chains in Asia such as Watson's, PARKnSHOP supermarket, TASTE food galleria, GOURMET boutique style fine food hall, GREAT Food Hall, Fortress electrical appliances store, Watson's Wine Cellar and Nuance-Watson duty free operator. In Europe, ASW's retail network comprises health and beauty chains: DC, Drogas, Kruidvat, Rossmann, Savers, Superdrug, Trekpleister, Spektr and Watson's, as well as luxury perfumeries and cosmetics retail brands: Marionnaud, ICI PARIS XL and The Perfume Shop. A.S. Watson is the world's largest health and beauty retailer.

- **Energy, Infrastructure, Investments and Others**

Cheung Kong Infrastructure (CKI), HWL's infrastructure arm, is a diversified infrastructure company with businesses in transportation, energy, infrastructure materials, water plants and related operations. HWL has an interest in Hongkong Electric Holdings (HEH), the sole electricity supplier to Hong Kong Island and Lamma Island. Hutchison is also a major shareholder of Husky Energy, one of Canada's largest energy and energy related companies.

- **Telecommunications**

HWL is a pioneer of mobile multimedia communications with the launch of third-generation (3G) mobile phone networks under the "3" brand. It also owns 60.4% of Hutchison Telecommunications International Limited (HTIL), which provides mobile phone networks and data services in Asia, the Middle East and Africa. Another percent of HTIL is owned directly by Cheung Kong Holdings, the holding behind Cheung Kong group to which HWL belongs. Additionally, HWL is an official backer of the .mobi top level domain created specifically for the mobile internet and has launched the mobile portal Three.mobi under its "3" brand

2.2 The Performance in the Past Decade

2.2.1 The Stock Price Performance

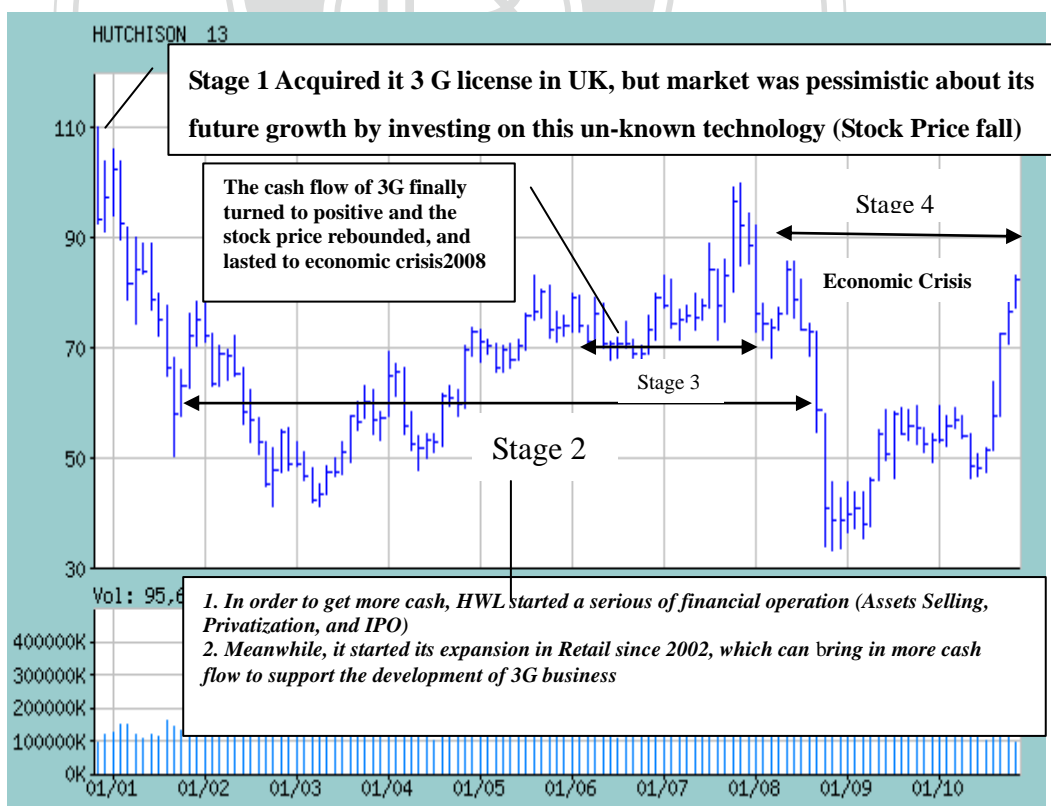


Chart 2 The Stock Price tendency of Hutchison (Hong Kong)

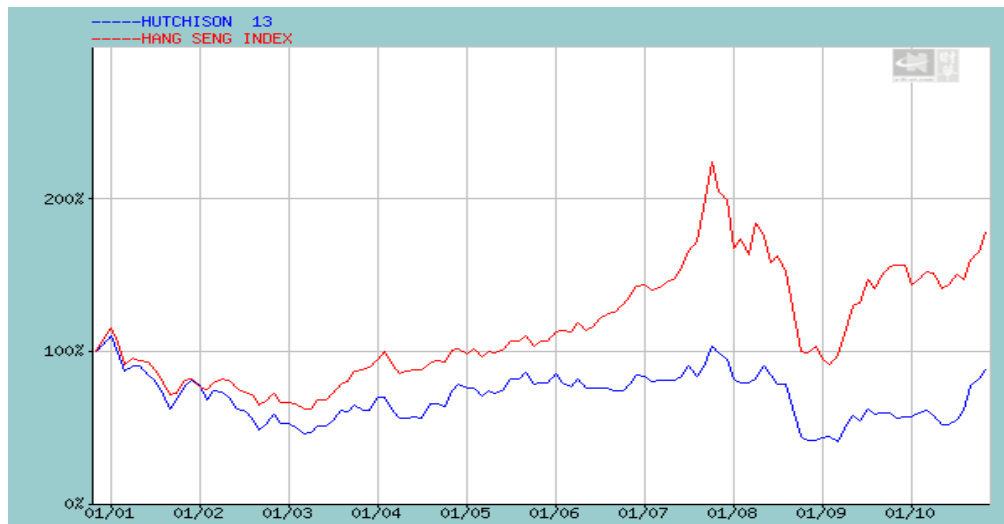


Chart 3 Compare Hutchison with Hang Seng Index

From the Chart 2, we can easily find that in **Stage1** after heading to the highest price 110 (HKD), its stock price suddenly continued dropping to the lowest price around 40 (HKD), which exceeds more than 60% of the original price within two years. This tragedy triggered after the HWL acquiring the 3G telecommunication licenses in 2001, issued by the Hong Kong government, though the HWL had already obtained its first 3G license in the year 2000 issued by UK. According to its rule, the government will charge the 5% of its annual 3G business revenue for 15 years, and HWL must pay the minimum 50 million (HKD) in the first five years, which will be raised annually after. To estimate its net present value (NPV) by discounting 10% to 15% (Discounted Rate=12.5%) with the period 15 years, the NPV of each license is 470 million. Soon after, the HWL officially made the declaration of stepping into the 3G in the early year 2002 and all the licensed fee cost will amortize annually. However, the market had very negative

response to this decision of the HWL, although the 3G was an advanced technology at that time, but still immature with no any success cases for reference before and the market acceptance and appliance were still unclear. More importantly, as a pioneer of the new business, it requires a large of the initial investment on establishing the 3G networks and infrastructures. The market widely believed that all this expensive expenditure would not only drag down the cash flow of the HWL, but also directly caused the long-term loss. All this ideas reflected on its stock price until the year 2003, which was the first year that the HWL providing the 3 G service in the market. After that with the diminishing and narrowing down of the loss in 3G business, the stock price gradually and steadily rebounded, and got rid of this low tide in the year 2006 , the HWL claimed that there was a huge improvement in 3G business and the free cash flow would turn to positive again. At mean time , HWL stepped into the **stage 2** by facing the pressure of cash flow, which forced the HWL taking a series of financial operation, including the assets selling(or purchasing),Privatization and IPO within the group. Finally, **in stage 3**, HWL finally turned its FCF into positive, also accompanied with the stock price rebounded. However, the bad luck struck the HWL in the year 2008; the unexpected global financial crisis hit lowered the overall market demand and lead the HWL stock price hardly drop to the record low 31 to 32 (HKD). The situation remained to the year 2009; afterwards its stock price gradually rebounded along with the Economy. Among that, **in stage 4**, its quick recovery could contribute the new rising star, Retails, in order to deal with the need of cash flow,

the HWL expanding its investments on Watsons ,and benefited by its strong cash flow supporting that allowed the HWL could endure the 2008 economic crisis.

Overall speaking, its stock performance was falling behind the market, shown in the Chart 3 among the last ten years. Even focusing on the interval between the 2003 with the year 2008, the total growth rate of the Hang- Seng index was 130%, but only almost 30% for HWL. In fact, apart form the 3G business, other core business performed very well, especially the Retails. However, the loss of the telecommunication offsets all these good performance, which let its stock price underestimated by the market. After years investing on the 3G telecommunication, the cost is gradually dropping along with the time that no more expenditure will need to install in the future. Hence, the market has turned its original negative attitude to positive side and started remarking buy-in recommendation to the HWL. The HWL has finally regained its glory after all these years' efforts.

2.2.2 Major financial index

In order to figure out the stories behinds the stock price, we must go through some major financial index, which can help us realize its management capability on Risk and Operational and ability of generating profits.

Risk Ratio(HK, Millions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Debit/Equity	0.28	0.42	0.50	1.01	1.02	0.97	1.00	0.74	0.81
RISK Inv H		0.08	-3.91	0.01	-1.30	0.20	0.33	0.47	0.02
RISK FinH		28%	14%	7%	4%	15%	18%	15%	14%

Chart 4 The Risk Ratio Index

Inherited from the style of **Li Ka-shing**, HWL tends to plan how to avoid the risk before thinking of the great expansion, and it has become part of its corporate culture. Before the year 2002, its Debts/Equity ratio is in a perfect range between 0.27 with 0.28 that even under 0.4, which is the ideal parameter widely believes. This situation made a turn in year 2002, it suddenly rise 50% to 0.42, which is closed to the average standard, but still shocked the market by having that drastic deterioration. After that, the number kept rising to the record highest level 1.02 and got better in 2006, which was the first drop and stopped the four consecutive years hiking up. Nevertheless, in 2007, the ratio went back to 1.0, gladly it did not last long and improved in the next two years.

We can easily attribute the poor performance between the years 2002 to 2007 to its expansion on the 3G telecommunication. The need of capitals not only sucked up resources of the HWL, also pushed up its debt ratio. It also reflected on its Financial Risk index (Risk Fin= EBIT/DEBTS), after heading to the highest point in 2002, the ratio had sudden drop and remain a low level in three consecutive years. Either of the Debts or Financial index ratio had honestly reflected the impact caused by its expansion activity happened at that time, or demonstrated the big crisis that HWL were facing. Tracing back to that history, we would like to know how the HWL dealt with this issue that may lead us to learn its expansion strategy.

Hence, we should look at the Risk InV index (**Formula= the disparity of EBIT in two consecutive years / the disparity of resource EBIT in two consecutive years**), which means how much

profits earned from its annual investment. In other words, we need to realize if the company could create more value through its expansion. It was surprised that the 3G -telecommunication loss, only made a bad look in years 2003 to 2005 by having negative EBIT growth ratio and then got better after consecutive years. Even in year 2004, the ratio was positive by having the strong contribution from other core business. Thereby, we can have a short conclusion that although the HWL `s expansion became a huge burden of the corporation, but the crisis would be hard to knock it down, especially it had the continuing support with other core business which made its business fluctuation lower than a single business company.

Cash Flow Ratio (HK, Millions)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Working Capital	-12,336	-8,860	-11,073	-11,294	6,489	474	83	22,744	27,309	27,265
Q	275,638	232,493	272,877	254,846	488,489	463,394	509,454	514,427	550,628	488,863
FCF		56,935	-24,230	28,158	-227,508	38,649	-23,434	27,892	-16,720	83,502
FinACT		-56,936	19,708	40,923	189,373	-62,730	37,868	13,885	-31,922	-48,267
CF		-1	-4,522	69,081	-38,135	-24,081	14,434	41,777	-48,642	35,235
EBIT/GP		56.85%	54.06%	27.84%	23.45%	9.62%	36.17%	38.92%	23.77%	26.64%

Chart 5 The Cash Flow Index

The cash flow turns to be the most important issue to the company's management. Even if a company has a profits in account but lacks of cash, it may get bogged down in the liquidity risk, like, without money to pay the bill, supplier, loan and so on so forth and all those may directly cause the bankruptcy to the company. Besides, except the concern from liquidity, we care much more on its capability to creating the positive value for the company and it will reflect on the FCF index. If a company can bring more free cash flow (FCF) into the company, which means it has more stakes to do the further investments and has

the potential to create more value, more importantly, it also represents that company has the optimistic return on its investments and no need to worry about the cash flow risk as well.

The HWL is widely known for its conservation on cash flow management by always having the abundant cash reserved in case of any possible coming risks. Just like the chart 5 shows, before the year 2002, its **working capital (Account Receivable + Inventory-Account payable)** remained in a very low standard, which means the good control on account receivable and its inventory and ensure all the profits in profits can successfully turned into the real cash. However, the situation had the change in year 2003 but still acceptable until another sudden hiking in year 2007, which was the beginning of the global economic crisis and the number remains high until now. That may explain why for all these years, the market researchers widely downgrade the performance of the HWL and its stock price fall far behind the market.

The same condition happened on its financial operation (**FinAct**), before the year 2002, the HWL continually refund its debts annually. However, with the need of its expansion on 3G telecommunication, its financial action hiked up from the year 2002 to 2004 and had sudden drop in 2005, which implied the new phase of the company that the need of cash had finally has reduction. With two consecutive year's growth from year 2006 to 2007, the HWL also refunded a great deal of debts in year 2008 and 2009 that was a great achievement, especially at the most difficult moment. Hence, we can still have a positive attitude on that performance. After all, it represented a very good sign

that company started making sufficient money, which was able to refund the loan.

Speaking with its capability of making money, out of questions, the FCF (Free cash flow) index is the key reference. Before the year 2001, the HWL has reserved the abundant FCF, which convinced the HWL stepping into the 3G business development. However, after the year 2001, the HWL went the turning point in year 2002, and it lost almost 24 billion at free cash flow in that year, though it got better in 2003, but another big loss occurred in 2004, which lost around amazing 227 billion. That is no wonder that the market was very pessimistic during that time and its stock price remained in a very low level. However, as we have mentioned, it seems that situation had change since year 2005 by having its FCF turning to be positive and only slightly drop in year 2006, apart from the systematic risk happening in 2008, its free cash flow had growth gradually, which shows its capability of making more real money now and after. Meanwhile, this good performance recall the confidence of the market investors, also revived its spiritless stock price for a very long time.

Management Ratio (HK, Millions)

	2001	2002	2003	2004	2005	2006	2007	2008	2009
RoRES	8.10%	8.06%	5.15%	3.18%	1.88%	5.50%	6.95%	4.89%	5.36%
Cash/SGA	533.79%	364.36%	664.05%	246.81%	131.93%	99.75%	150.56%	104.43%	206.28%
EV/SH	96	105	89	98	74	154	193	157	147

Chart 6 The Management Index

After only concentrating on the single index, now we move further to overlook its overall performance, which is also the transcript of its

management. Here we list the four major indexes, which can elaborate its capability on utilization of its resource (**RORES**), the efficiency of the management (**EBIT/GP**) (See **Chart 5**), the sustainability of the risk (**Cash/SGA**) and creation of the company's value (**EV/SH**)(See **Chart 6**).

In fact, as the other index we have talked about, its average return of the resource was around perfect 8%, but it had consecutive drops between the years 2003 with 2006 and gradually turned around. Except the recession year 2008, it had gone back to the level of 5% to 6%. Like wise, its EBIT/GP ratio(See **Chart 5**) shows the same tendency, the had time appeared from the year 2003 and lasted three consecutive years to 2005 and back to good in 2006. Among that, the Cash/SGA also stayed in a very high level even in the period. It explained a very crucial factor that the HWL always prepares the sufficient bullets for any possible coming challenges and it well never let any expansion push it to the danger condition.

By over viewing all these data, it also inspires us that the business allocation must play a very important role while its expansion, and provided the support in time. That is how the HWL can still kept high EBIT/GP ration around average 18 % at the hard time and never went to be negative. From the aspect of the value it created, although the EV/SH dropped from year 2003 to 2005, but there was still 74 at the worst time and hiked back to 154 in 2005 and growth gradually. Although its stock did not reflect this outstanding performance right away, but this achievement impressed the market recently and made its stock price rebound in the near trading days.

Besides, from the chart 7, we can verify the prior ideology once again, even in the expansion stage, its overall EPS still remain on the range between 2.74(HKD)to 3.36(HKD).Especially, it started a new phase since year 2006 and had a great performance in 2007 with the EPS 7.18(HKD). Although the sudden impact in 2008, which lowered its EPS to 2.97 (HKD), but it recovered very soon and went back to 3.32 in the year 2009, in which its growth rate only dropped in 2008, other than that, the company kept growth even its expansion was carrying on at the same time.

More importantly, for investors, the HWL turns to be a safe long-term target by issuing the stable dividends each year. Form the side of the investment, the good thing is that its future cash flow is rather stable and easy to predict, however, it also hard for making any speculations.

Year	NET PROFITS	Annual Change (%)	EPS	Annual Change (%)	Dividens (HKD)	Divudends/EPS
	(HKD: Milliom)		(HKD)			
Dec-09	14,168.00	11.73	3.32	11.78	1.73	52.00%
Dec-08	12,681.00	-58.56	2.97	-58.64	1.73	58.00%
Dec-07	30,600.00	52.77	7.18	52.77	1.73	24.00%
Dec-06	20,030.00	39.65	4.7	39.88	1.73	37.00%
Dec-05	14,343.00	10.52	3.36	10.53	1.73	51.00%
Dec-04	16,128.00	38.00%	3.78	37.96	1.73	45.77%
Dec-03	11,677.00		2.74		1.73	63.14%

Chart 7 The Profits and Dividends

Chapter 3 The Expansion Strategies of the HWL

3.1 Investing On Multiple Business with Different Pay-Off

Period

3.1.1 Core business distribution

Form the Chart8; we could overview the business allocation of the HWL, which mapped by its founder Li Ka-shing. Overall speaking, he roughly arrays in 7 core business with the revenue contribution including around 11% in Ports and Related Service, around 5% in Property and Hotels, around 39% in Retails, 5% in Infrastructure, around 12% in Husky Energy, around 1-2% in Finance and investments, 7% in Telecommunication and roughly 19% from 3 Group. Among this allocation also implies its wisdom by combing business with different paid-off period to remain the overall stable of the group, the type 1 business typically require huge investment initially, but has spectacular feedback, once the group started regain its profits, and usually its income is much more consecutive and less sensitive to the outside economic environment. By using these two different characters, the HWL started its business from simple Property business, which has amazing profits, but is extremely fluctuate with the market. Hence, HWL then expanded its core business to Harbor and Infrastructure by using the profits earning from Property. The similar pattern happened when it decided to step into the 3G business, the Retails jumped up to become the new pillar of its cash flow supporting, which allow HWL keeping its development and expansion activities on 3G business until its effects revealed. Meanwhile, the matured business as Harbor and Infrastructure remain plays the quiet profits maker, and effectively smooth the coming fluctuation accompanies with its

expansion.

Major Business Revenues(including share of associates and JCE)																		
	2009 Contribution		2008 Contribution		2007 Contribution		2006 Contribution		2005 Contribution		2004 Contribution		2003 Contribution		2002 Contribution		2001	
Ports and Related Service	33,427	11%	39,594	11%	37,891	12%	33,041	12%	29,917	12%	26,980	15%	23,129	16%	20,572	19%	15,505	17%
Property & Hotels	13,912	5%	10,467	3%	9,551	3%	10,717	4%	10,265	4%	9,117	5%	11,224	8%	11,709	11%	5,516	6%
Retail	116,098	39%	118,504	34%	110,007	36%	99,149	37%	88,780	37%	68,299	38%	63,945	44%	39,471	36%	29,543	33%
Cheung Kong Infrusture	14,980	5%	19,868	6%	17,251	6%	14,822	6%	16,590	7%	14,792	8%	11,567	8%	10,626	10%	10,079	11%
HuskyEnergy	35,808	12%	63,350	18%	39,781	13%	29,981	11%	22,879	9%	17,524	10%	14,886	10%	11,198	10%	11,801	13%
Finance & Investments	2,515	1%	4,303	1%	5,511	2%	12,614	5%	10,530	4%	10,937	6%	4,265	3%	4,186	4%	5,126	6%
Hutchison Telecommunications Hong Kong	8,449	7%	7,999	7%		7%		6%		11%		10%			13,367		11,466	
Hutchison Telecommunications International	11,745		16,678		20,779		16,672		25,399		18,406		13,434					
Others	6,025		7,247		8,095													
SubTotal(Established Business)	242,959		288,010		248,866		216,996		204,360		166,055		142,450		111,129		89,038	
TELECOMMUNICATIONS -3 Group	57,590	19%	60,372	17%	59,909	19%	50,668	19%	37,502	16%	15,742	9%	3,159	2%				
Total	300,549		348,382		308,775		267,664		241,862		181,797		145,609		111,129		89,038	

Chart 8 The core business distribution

Revenue (Growth Rate)	2009	2008	2007	2006	2005	2004	2003	2002
Ports and Related Service(Type 1)	-15.58%	4.49%	14.68%	10.44%	10.89%	16.65%	12.43%	32.68%
Property & Hotels(Type 2)	32.91%	9.59%	-10.88%	4.40%	12.59%	-18.77%	-4.14%	112.27%
Retail (Type 2)	-2.03%	7.72%	10.95%	11.68%	29.99%	6.81%	62.01%	33.61%
Cheung Kong Infrusture(Type 1)	-24.60%	15.17%	16.39%	-10.66%	12.16%	27.88%	8.86%	5.43%
Husky Energy(Type 1)	-43.48%	59.25%	32.69%	31.04%	30.56%	17.72%	32.93%	-5.11%
Finance & Investments	-41.55%	-21.92%	-56.31%	19.79%	-3.72%	156.44%	1.89%	-18.34%
Hutchison Telecommunications Hong Kong(Type 1)	-18.17%	18.76%	24.63%	-34.36%	37.99%			16.56%
Hutchison Telecommunications International								

Chart 9 The Revenue (Growth Rate)

EBIT (Growth Rate)	2009	2008	2007	2006	2005	2004	2003	2002
Ports and Related Service(Type 1)	-21.38%	3.01%	12.76%	11.51%	14.10%	17.89%	14.65%	14.42%
Property & Hotels(Type 2)	-20.49%	99.19%	-28.36%	43.87%	31.17%	-3.78%	21.44%	49.68%
Retail (Type 2)	29.84%	18.14%	36.43%	-16.59%	1.84%	37.37%	126.09%	91.99%
Cheung Kong Infrusture(Type 1)	-6.74%	-12.57%	19.83%	-8.07%	12.73%	11.28%	6.63%	8.74%
HuskyEnergy(Type 1)	-69.89%	26.54%	26.71%	35.26%	119.84%	-19.32%	66.12%	9.74%
Finance & Investments	-36.93%	-53.62%	101.50%	25.52%	-38.67%	44.08%	0.63%	-3.98%
Hutchison Telecommunications Hong Kong(Type 1)	-84.88%	1.34%	21.53%	-5.06%	1621.60%	84.20%	34.77%	
Hutchison Telecommunications International								



TYPE1 Long Payoff Period (Low Fluctuation)



TYPE2 Short Payoff Period (High Fluctuation)

The GROUP	2,009	Growth	2,008	Growth	2,007	Growth	2,006	Growth
EBIT	43,083	-8%	46,976	-27%	64,260	26%	50,887	56%
REVENUE	300,549	-14%	348,382	13%	308,775	15%	267,664	11%

The GROUP	2,005	Growth	2,004	Growth	2,003	Growth	2,002	Growth
EBIT	32,598	71%	19,060	15%	16,599	-36%	25,795	19%
REVENUE	241,862	33%	181,797	38%	132,175	35%	97,762	10%

Chart 11 The EBIT&REVENUE (Growth Rate)

EBIT	2009 Gross Profits		2008 Gross Profits		2007 Gross Profits		2006 Gross Profits		2005 Gross Profits		2004 Gross Profits		2003 Gross Profits		2002 Gross Profits		2001 Gross Profits	
Ports and Related Service	10,406	31.13%	13,236	33.43%	12,849	33.91%	11,395	34.49%	10,219	34.16%	8,956	33.19%	7,597	32.85%	6,626	32.21%	5,791	37.35%
Property & Hotels	6,430	46.22%	8,087	77.26%	4,060	42.51%	5,667	52.88%	3,939	38.37%	3,003	32.94%	3,121	27.81%	2,570	21.95%	1,717	31.13%
Retail	5,692	4.90%	4,384	3.70%	3,711	3.37%	2,720	2.74%	3,261	3.67%	3,202	4.69%	2,331	3.65%	1,031	2.61%	537	1.82%
Cheung Kong Infrastructure	6,905	46.09%	7,404	37.27%	7,353	42.62%	6,136	41.40%	6,675	40.24%	5,921	40.03%	5,321	46.00%	4,990	46.96%	4,589	45.53%
HuskyEnergy	4,010	11.20%	13,316	21.02%	10,523	26.45%	8,305	27.70%	6,140	26.84%	2,793	15.94%	3,462	23.26%	2,084	18.61%	1,899	16.09%
Finance & Investments	4,079	162%	6,467	150%	13,944	253%	6,920	55%	5,513	52%	8,989	82%	6,239	146%	6,200	148%	6,457	126%
Hutchison Telecommunications Hong Kong	692	2.44%	527	13.21%											969	7.25%	719	6.27%
Hutchison Telecommunications International	-199		2734		3,218	15.49%	2,648	15.88%	2,789	10.98%	162	0.88%	1,025	8%				
Others	-145		-791															

Chart 12 The Goss Profits of Each Core business

3.1.2 The fluctuation

In general, any of the industry has its good time or the bad time with the change of the Economy or the overall environment. For some business are less sensitive to the outside environment variation like the infrastructure ,electronics and Ports (**Type1**), but some of them are usually fluctuating all the time once the environment changed such as Retail, Property and Hotels(**Type 2**). Hence, as a company with only single business, usually its operational capital only comes from the banking loan and the original investors. If its EBIT growth rate is fluctuating or unstable, the need of the capitals will be dissatisfied and insufficient during the downturn, which may cause the hard time of the

corporation.

Take the HWL as an example, if you look at growth rate of the revenue and combining with the growth of its EBIT, you shall be surprised by the difference of each core business. For the business like the Retail or the Property and Hotels, both of them are the typical business without need too much initial capital expenditure in the early stage, meanwhile can bring in the cash flow within a very short pay-off (payback) period. However, this kind of character also makes this kind of business easier to be affected by the outside environment. As you can see in the Chart 9, the Property and Hotels has the highest revenue growth, 112.27% in 2002 but the lowest, -18.77% in 2004, the disparity could reach to 131%. Furthermore, if we carefully analysis the change of its EBIT, you will see the highest growth rate, 99.19% in 2008 and the lowest -28.36% in 2007, the disparity is 127.55%. The similar scenery which can be found in Retail category, in 2003, its revenue growth rate is 62.01%, but only -2.03% in 2009, the disparity is almost 64%. Likewise, it has the highest 126.09% EBIT growth rate in 2003 but only -16.59% in 2006, the disparity is 142.68%. Comparatively, the Ports and Related Service (**Type1**) has relatively lower fluctuation with the range of the revenue between -15.58% to 32.68%, and the range of its EBIT growth from -21.38% to 17.89%. If you ignore the bad number in 2009 caused by the worldwide economic crisis, its overall performance is very stable. Besides, it's another core business Husky Energy is a unique business, its performance is depending upon the price of the oil, therefore, in the past ten years, it was benefited by the price soaring of the oil, only the sudden drop in 2009 with the

same reason of the Global economic crisis. In view of the fast change of the oil price, we can foresee the rapid fluctuating of the Husky Energy.

To sum up, we must move further to see the overall performance of the HWL, you can find in the Chart 11 that no matter the growth rate of the EBIT or Revenue of the whole Group is much smoother comparing with the any single business. By the offset of each core business with different return period, which has the highest 71% EBIT growth rate in 2004 and the lowest -36% in 2003. Although, the disparity is still 107%, but the sudden drop in 2003 was deriving from the loss of the new 3G Telecommunication, the 3 Group. Apart from that and the global recession in 2008, you will find that the diversification of the core business has helped the HWL to spread the drastic risk and avoid losing that any single business might encounter.

3.1.3 The Cash Flow Generating and the business Complementary

In the last section, we have explained how the diversification of the business could lower the risks of the HWL group. Here, we are moving further to figure out the philosophy of its allocation. The idea of the HWL could be simplified in a word, `` keep generating the free cash flow ``. This ideology reflects directly on its business allocation. Despite the average gross profit of the Retail will never exceed 5%(see the chart 12) but it contributes almost 39% of its revenue (see the chart 8). In the opposite, although the gross profits of the Ports and Related Service, and the Cheung Kong Infrastructure are separately almost 46.22% and 46.09%, but their total contribution will not exceed

20 % (see the chart 8). This shows the individual characteristic of each of the core business, for the business like Ports and Related Service, and Infrastructure, which require huge initial capital expenditure but long return period. It can't account too large portion of the group, however, it plays the role as creating the spectacular profits in the future ,especially the Cheung Kong Infrastructure which holds 38.87% stakes of the Hong Kong Electric Holdings, which has the minimum 13.5% profits guarantee by the profits control agreement with the Hong Kong government. It not only stabilizes the growth of the business, also ensure the spectacular profits.

On the contrary, the Retail business represents the cash flow provider and the platform of the group's expansion in the recent years. With the continuing cash flow in everyday from its well-known pharmaceutical store, Watsons with the worldwide branches, meanwhile, by the overwhelming power of its channel, it always can delay the payment to all its suppliers. This kind of the business model has generating the abundant cash flow and makes the Retail business become the new pillar of HWL. By the complementary of the diversified business, the HWL could raise the sustainability and profitability without being affected by the sudden change of the environment by keeping the low debt ratio and strong FCF.

3.1.4 Reference: The rising star – Retailed business

What supports the expansion of the HWL is the strong cash flow from the Retail Business. Although its margin only 4.9% in 2009, which was hard to compare with those high margin core businesses like the

around 31% of the Ports and Related Service, and around 46% of the Property and Hotel. However, since the year 2001 to the 2009, its contribution to the group revenue had accounted almost 40%, which was around 116 billion. In the past, this business was ignored for a very long time but emerged in the 2008 global crisis, that helped the HWL would could sustain during the most difficult time. Now its continuing cash flow has become the most important pillar of the group.

Among that, all these credits should attribute the contribution of its famous pharmaceutical retail store, "Watsons". So far, it has 600 branches in mainland China, and it has a plan to expand to the 1000 branches before 2011. According to the estimation, since the fourth quarter in 2009, the Watson almost open a new branch in each working day. So far, the Watsons owns 8,900 retail stores worldwide and the total register membership in China have exceeded 6.5 million, which almost dominate the entire personal medical care retail market.

Usually, such low margin business is hard to build up the capital scale; therefore, traditionally the major profits of the HWL came from the Port and related Service, Infrastructure, Property and Hotel and Energy with rapid growth. Except that the telecommunication still loss money.

However, recently, in order to ensure the sufficient cash flow supplement, the HWL started a series of expansion on Retail business. Take the Watsons as a platform; it expanded its business to the Europe by merging the Savers Chain Stores in British and enlarged

its business and service area by merging the Kruidvat group, Holland in 2002. In 2003, it expand its business to the south-east Asia by merging the well-known pharmaceutical store in Philippine, and it also merged , DROGAS company which is the big retailed chain stores in Rota group located in the Baltic Sea at the same time. In 2005, the Watsons continued its expansion steps by merging the Merchant Perfume Retail in British, the ApexPharmacySdnBhd pharmaceutical store in Malaysia and Spektr Group, which located at Saint-Peter City in Russia. The spotlight, which attracted the more attention, was the merging of the biggest perfume retailer, Marionnaud and brought that into the Hong Kong market. All this expansion not only enhance its competitive power in Europe, but also transformed the Watsons from simple distribution channel to a famous brand owner.

This year, the Watsons also signed the agreement with two commercial property giants, Dalian Wanda Group and Cofco Group, later on the Watsons retailed expansion will flow by these two groups simultaneously.

3.1.5 Successful Business diversification

TELECOMMUNICATIONS - 3 Group EBIT	2009	LOSS Growth	2008	LOSS Growth	2007	LOSS Growth	2006	LOSS Growth	2005	LOSS Growth	2004	LOSS Growth	2003	LOSS Growth	2002
EBIT before depreciation, amortisation and telecommunications CACs	17,482		19,337		18406		13223		1825		-7906		-11571		-1839
Telecommunications CACs	-17,306		-20,382		-5732		-5494		-11444		-8423		-917		
EBIT (LBIT) before depreciation and amortisation and after telecommunications CACs	176		-1,055		12674		7729		-9619		-16329		-12488		-1839
Depreciation	-7,759		-9,237		-11199		-9501		-9086		-8399		-4015		-231
Amortisation of licence fees and other rights	-1,339		-5,500		-6143		-6503		-6060		-6055		-2185		
Amortisation of telecommunications postpaid CACs					-13,270		-11721		-11515		-7,666		-997		
LBIT - Telecommunications - 3 Group	-8,922	-44%	-15,792	-12%	-17,938	-10%	-19,996	-45%	-36280	-6%	-38,449	95%	-19,685	851%	-2,070

The successful business diversification begun showing its benefits when the HWL decided to jump into the 3G business which need a huge initial expenditure, including the 3G license fee , the procurement of the equipment and the setting up of the station, in 2002. According to the estimation of the HWL, only the licensed fee had cost it 10.2 billion, not

Chart 13 The Simplified Financial Statement of 3G group ive

capital expenditure dragged down the group performance and became the huge burden of the HWL group as the chart 6 shows, until the year 2005; the 3 G group still lost 36,280 million(see the Chart13). If HWL is a single business corporation, this loss might directly cause the bankruptcy with no doubt. However, surprisingly, by looking at the chart, you will notice that except the 2003 which is the first year after year 2002, the EBIT growth rate of the group still has significant increasing , even reaches to the record high 71% in year 2005. This outstanding performance could attribute to the successful business diversification; the growth of the other core successfully business offset the negative impacts form the capital expenditure.

Other than the arrangement on its business allocation, its expansion and reorganization on Retailed business are much more interesting and practically turns the simple cash flow to the real profits of the group. As we have mention in the chapter 2, the Watsons started up its merge and acquisition activities very early since year 2002, originally it only pursued the increase the networking of its retail business worldwide.

However, after merging the branding company in 2005, the Watsons made a new plan to transform itself from a simple retail channel to a Self-Own Branding company. After the economic strike in 2008, the HWL came out the new project plan by raising its Self-Own branding sales from 25% to 30% and its target market is the customer in second or third level cities, which the international still not involves and left more space for Watsons. For those cities, the customers are less sensitive to the other international brands and have a high loyalty with the influence of the brand name, Watsons. Right now, the Watsons has more than 2000 single products for its self owned brand and its average price is 20% to 30% lower comparing with the other similar products. In china, its self-owned products have accounts 20% of its total revenue, but it can reach to 40% in the north China area.

There are three benefits of the self-own products, first of all is the saving of the transportation and market support, once the product is fit the need the local market and formula could be approved by the local government, then the whole manufacture process can be handled by the local factories and the overall invention cost can be deducted drastically.

More importantly, the self-owned brand not only changes the Watsons role in the whole retail business but enhance its power in the entire supply chain. Doing business with the P&G, LOREAL and other international Brands, the average payment term is around 30 days. However, to those manufactories of the Watsons` self-own brand, Watsons can delay their payment to 90 days or even 180 days. It is

almost the half of its total financial cycle, and could be meaningful to raise up the cash flow ratio.

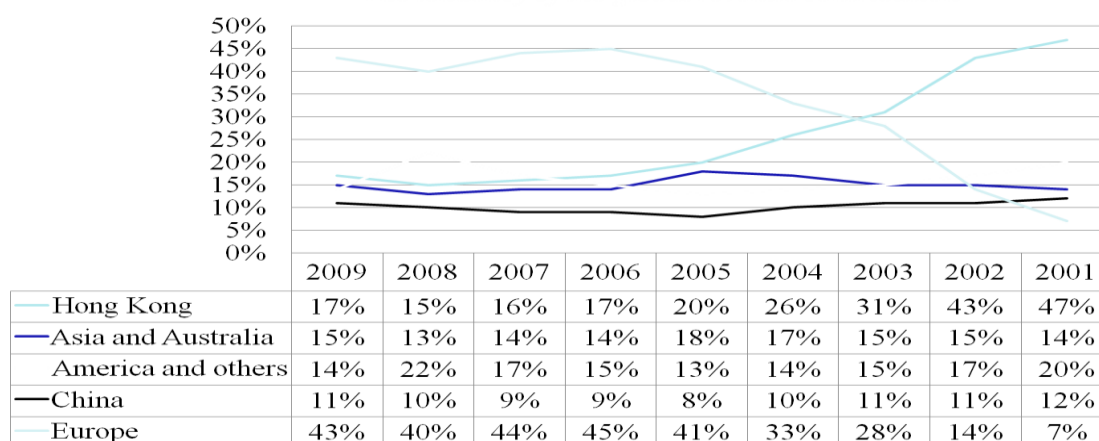
Among its new retail stores in secondary and third urban cities, the best revenue of single store could reach to 70K to 80K(RMB)per day, even in the urban city like Beijing, its revenue of single store can only be 50K(RMB)per day. Nerveless, the investments on opening a store in secondary or third urban city were less than 100K, but closed to 200K in the urban city like Beijing. Therefore, Watsons may spend a hundred million on opening new stores but have ten billions cash flow returns.

3.2 Globalization

3.2.1 The global diversification

Revenue Contributions	2009	2008	2007	2006	2005	2004	2003	2002	2001
Hong Kong	17%	15%	16%	17%	20%	26%	31%	43%	47%
Asia and Australia	15%	13%	14%	14%	18%	17%	15%	15%	14%
America and others	14%	22%	17%	15%	13%	14%	15%	17%	20%
China	11%	10%	9%	9%	8%	10%	11%	11%	12%
Europe	43%	40%	44%	45%	41%	33%	28%	14%	7%
EPS Contributions	2009	2008	2007	2006	2005	2004	2003	2002	2001
Hong Kong	24%	21%	33%	24%	21%	28%	31%	36%	45%
Asia and Australia	16%	10%	10%	16%	20%	13%	12%	6%	7%
America and others	16%	33%	31%	29%	25%	22%	13%	33%	34%
China	27%	24%	15%	18%	16%	16%	16%	14%	9%
Europe	17%	12%	11%	13%	18%	21%	28%	11%	5%

Chart 14 The Global Revenue and EPS Contributions



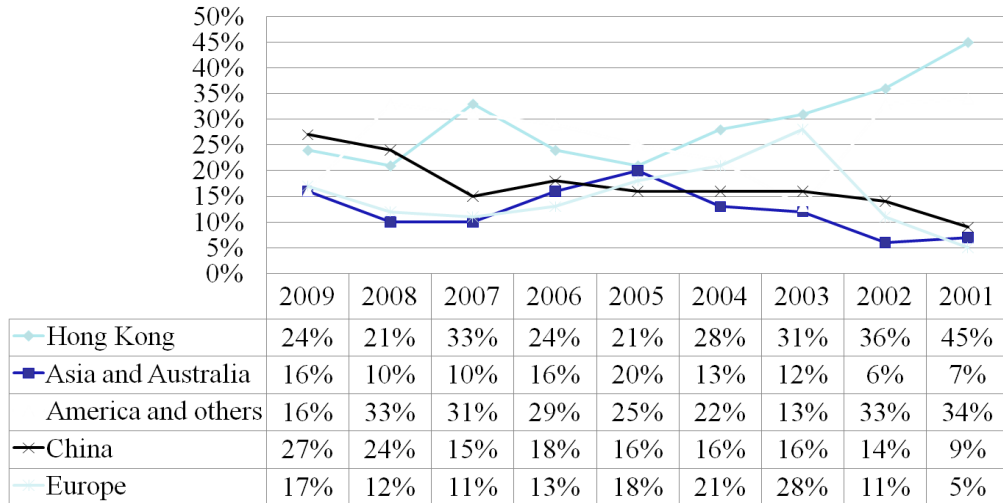


Chart 16 The tendency of the global EPS Contribution

3G LBIT	2005	2004	2003
ASIA	9%	9%	18%
Europe	91%	91%	78%
HongKong			4%

Chart 17 The LBIT of Global 3G Business

From the late year 1980, the HWL had begun its oversea business, including energy, telecommunication, retail and harbor. Take the Hong Kong as its basement and spanned its investing area to China, North America, Europe and other Asia Pacific areas. This Globalization is not only for the expansion, but also for the risk diversification. Different geographic markets have different cycles to the overall economic impacts and different competitiveness among the business, and the disparity of the market development level. The HWL is using the geographic difference to

increase its flexibility on investment, lower the risks, and ensure the overall return could remain among the satisfied range.

As we can find in the chart14, before the year 2004, the most revenue contributions came from the Hong Kong area in which the highest ratio was 47% in 2001 and gradually dropped to below 20% after year 2005. On the contrary, the contribution from Europe jumped from the 7% to more than 40% since 2001 to 2005. Here we can observe the change through its expansion process. The Europe market has replaced Hong Kong to be the major resource of its cash flow supplement. It also clearly reflects its core business map in Europe, including the Retails, Harbor and Telecommunication. Apart from the loss from Telecommunication, the revenue contributions from Retails and Harbor are still strong that made the entire performance could remain the up-slope trendy. As you can find out in the chart 17, the 78% to 91 % loss of 3G occurred in Europe between years 2003 to 2005, but at the same time, the overall revenue contribution jumped from 28% to 41%. Even in the worst time in year 2008, the ratio still kept the 40%. However, comparing with the revenue, it brought in, if we look at physical profits it brought in, which is relatively minor, the overall EPS will not exceed 28%. In the near five years, the average EPS contribution is even less than 20%.

Hence, we can learn that there must be other geographic playing the role of generating the free cash flow (FCF) to support the steady growth, which are America and China. As you can see in the chart14, although the revenue contribution of the America area is not major of the HWL, but has pretty sharp EPS contributions which can exceed more than 30% in certain years. In fact, the major business here is the Husky Energy, which

benefited from the rising oil price in recent years and made many profits except the sudden drop between year 2008 and 2009, which caused by the decrease demand with Economic crisis in 2008.

Among the whole allocation, China is definitely a rising star, although the overall revenue contribution is still minor, but the EPS contribution has great jump in recent years, especially in the worst period between years 2007 to 2009, its show the up-floating tendency. It proves the ideas that the investments in china have become the real profits of the group.

3.2.2 The reference of its effectiveness

Below, we take its Harbor and Telecommunication for reference to prove the effectiveness of its Globalization on the risk diversification.

The Harbor

In 1991, HWL acquired the United Kingdom's busiest port, the Port of Felixstowe. Reflecting HWL's global expansion and internationalization, Hutchison Port Holdings (HPH) was formally set up in 1994 to hold and manage HWL's ports and related services worldwide. Since 1994, HPH has expanded globally to strategic locations in 25 countries throughout Asia-Pacific, the Middle East, Africa, Europe and the Americas. Today, HPH is the world's leading port investor, developer and operator with interests in 308 berths in 51 ports. In 2009, HPH handled a combined throughput of 65.3 million TEUs worldwide.

We can find in the chart 8 and chart 12 that the overall income from the Harbor and related service can remain a very stable growth, major reason is that its harbors are spreading world widely and no matter in what economic environment, each harbor has different level of the effects. In

different period, the harbor in a area with good time and performance, could support those areas where have poor performance and negative revenue growth.

In that way, it can ensure the steady growth of the overall profits.

Telecommunication

The HWL's Telecommunication is also world wide as well, nowadays, it has running the Telecommunication business and owns the basic network infrastructures in Hong Kong, South East Asia , Middle East , Australia , Europe and America, which plays the leading role on 2G and 3G business in international market . Its service includes the mobile, cable, internet, wide-band service and so on so forth. For its arrangement, the listed company Hutchison Telecommunications is in charge of the 2G mobile business and the 3G group takes care of the 3G and fixed-network. Among that, the Hutchison Telecommunications has spread its 2G business to the countries , including India ,Sri Lanka, Ghana, Paraguay and the CDMA2000—1X in Thailand. Besides, it also holds 3G business of Hong Kong and Israel.

For 3Group, it devotes to be the leading company of 3G telecommunication, which owns 3G licenses of 7 countries in Europe and Australia. It had developed the 3G infrastructure in British, Italy Australis and since the year 2003 and provided the service in year 2004 except Norway.

This business of HWL benefits a lot from its globalization; there are three major phases.

First, the update of the telecommunication is very fast, sometimes, the certain generation of the technology, which has put many investments

eliminated by the market in a very short time. If the company focuses their business in single market, the life cycle of this technology will be short. In other words, its benefits may not cover the initial spending and expenditure. On the contrary, a company with wide global diversification could develop and unveil the products according to the condition and disparity of the market, which means that certain technology has abandoned in advanced market, but still has potential in the less development area. In this way, the technology could have more lifetimes to make company get its profits back.

Take the second-generation GSM technology of HWL as an example, it has saturated in Hong Kong and Australia Market, but in India and Israel were are still less popular, the HWL still has a strong promotion in those new rising markets to fulfill the need of the customers.

Secondly, the globalization could lower the overall risk when HWL unveil the new products, new technology or investing on new items. The HWL could select one or two markets as a test basement for preparation and experience accumulation before entering into other markets. Despite it fails, the damage could narrowed down to certain market without affecting to overall mapping. That's why HWL picked the British to start its first 3G service when the prospect were still unclear, it decided to map out the future schedule based on the market reaction in British and lower the risk to the minimum.

Third, because of the initial investment on 3G is huge and hard to gain any profits in the first few years, therefore, it must affect the overall performance and its growth rate. However, its globalization allows it using the profits from the matured 2G technology to support the huge loss of the

3G.

To sum up, the tactical thinking of HWL was continue making the profits by 2G technology in the under-development like India, Argentina. In the development market like Hong Kong and Israel, it gradually moved from 2G to 3G. Other Advanced country like British and Sweden, it spent with all its strength on 3G business. Thereby we can say that this tactic was making the different areas supporting each other.

At present, HWL has started its 3G business in more than 10 countries and areas, which include Australia, Austria, British, Israel, China and Hong Kong and total users exceeded 12 million. Among that, Italy has the best financial condition and brightness business growth. On October, 2000 year, HWL acquired the 3G license in Italy and started running on March 2003. Up to January 2005, the Italy 3G users has exceeded 5.8million which accounts 8% of the market share. What means a lot is that its EBITDA turned to positive in August 2005 and became a turning point of the HWL 3G business. According to HWL's estimation,

In British, its 3G business has a very good performance; HWL acquired the license on May 2005 and started its 3G business right away. Up to the August 2005, total users had exceeded 3.21million and EBITDA met that Revenue and expenditure are balanced.

In 2005, the growth rate of the 3G users reached 65.5% and the high-end users in Italy and British increased 56 and 19% separately in Italy and British. In practice, the 3G group had gained profits since year 2006 even counting the operational cost to maintain the customers.

Overall speaking, by taking the globalization strategy, the HWL could coordinate the relationship between the present business items and the new

investing target, ensuring its development pace under the control without too much decrease.

3.3 Capital management and Financial Operation

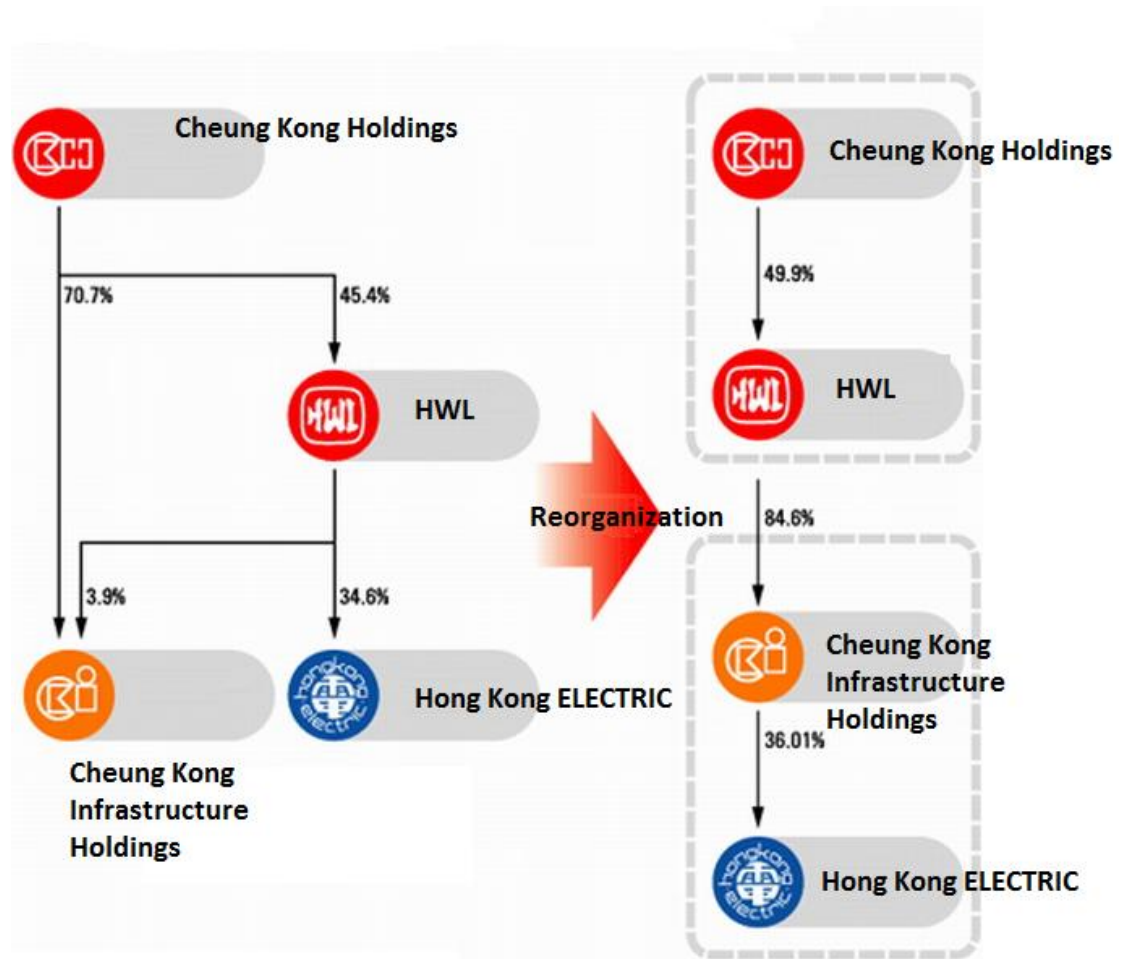


Chart 18 Map of the HWL's Reorganization

3.3.1 Holding Company

Li Ka-shing control 40.2% of Cheung Kong Holding company (Hereinafter called CKH) through the mutual funds registered under his name and CKH hold 49.9 of the HWL's stakes , also HWL hold ten other public-listed corporations. Thus, Li Ka-shing could mobilize hundred billion assets by only control the stakes of the holding company on the top of the pyramid. In addition, he makes sure his conservative

accounting method could implement through the group under this centralization. Like the early stage of merging the Husky Company, he required that every expense on mine extraction must cross account not matter it has started or not. This kind of approach will make the financial statement presents profits loss or decrease in a short period of time, but it makes the management put more attention on the fragile parts. The logic behind is that without threats of the cash flow, the company has free will and independence on its business and could decide if the loaning is required or not.

3.3.2 The capital mobilization and financial operation

- Sell the Assets and IPO

As we mentioned in the last section, the HWL integrates the group's capitals and cash flow management. Thus, if the regular profit is lower and appears the tension of the cash flow, usually the HWL will solve problems by selling parts of its assets and investment projects. For example, when the Asia Economic crisis affected its retail business, the HWL sold 10% of its owned P&G shares back to P&G to gain the 1.43 billion and 3.32 billion HKD in the year 1997 and 1998. At the same period, it sold out all its 54% shares of the Asia Satellite Communication, the gross profits was almost 2.4billion HKD which increase the special profits 1.5 billion HKD and 600 million HKD in 1997 and 1998. Besides, it also sold 10% of the West Port shares and gained 400 million HKD profits.

According to the financial statement, the prior deals did smooth its business performance, the growth rate of the gross profit between the year 1996 and 1997 was 2.05% and the gross profits of year 1998 decreased 29.02% comparing with the year 1997. Nevertheless, if there were no

those three transactions, the gross profits in year 1997 would decrease 22.45% and would drop 65.02% between the year 1998 and 1997. More importantly, the HWL sold out its Orange's (Orange plc) mobile telecommunication business in Europe and gain the gross profits 118 billion HKD and turned around the falling back situation.

Chart 19 The History of the Merger and Acquisition

	<i>Assets selling or purchasing</i>	<i>Privatization</i>	<i>IPO</i>	<i>Profits (HKD)</i>
<i>1998</i>			<i>Hutchison Telecommunication Australia (HTA)</i>	<i>1.392 billion</i>
<i>1999</i>	<i>Sold 49%Orange shares (step out 2G Market in Europe)</i>			<i>118billion</i>
<i>2000</i>	<i>1. Exchange 10.2% Mannesmann shares to 5%Vodafone shares 2. Sold 1.5% of Vodafone shares</i>			<i>1. 50 billion 2. 1.6 billion</i>
<i>2001</i>	<i>Voice Stream Wireless shares</i>			<i>30 billion</i>
<i>2002</i>	<i>Hutchison Telecommunication(HK)19%shares To NTTDOoCoMo</i>			<i>2.2billiom</i>
<i>2004</i>			<i>Hutchison Global Communication (00757.HK -)fixed cable business</i>	<i>Market price 1.52 per share with 1.8 billion shares (with the purchase</i>

				cost 0.9 per share)
2004			Hutchison Telecommunication(International)-2G business with 70.16 shares	4.1billion
2005		Hutchison Global Communication (00757.HK -)		Market price0.46 0.65 /Per share buy back or 21shares to 2 share HTI (disparity0.9-0.65=0.25)sell high and buy low
2005	1.20%Hutchison Telecommunication(British)buy back form NTT DoCoMo 2.Purchase Hutchison Telecommunication(British)form KPN			9.4billion Hutchison Telecommunication(British) became 100%owned subsidiary waiting for IPO
	19.31% shares of Hutchison Telecommunication(International)to <u>Orascom Telecom</u>			7.4billion and mobile business in Middle East and Shares drop to 49.8 less than 50%
2008	3Italia10% shares (Private Equity)			420milliom Euro

The reason why HWL sold the orange, not just for smoothing the profits,

also because encounters many difficulties in 2G development. As a late market entrant, it's hard to become the market leader and with the rising of 3G technology, it created an opportunity to HWL to be a pioneer and possible to dominate the market. After selling the Orange, its cash comprising cash and current assets, which amounts to 203billion could be used to support the expansion in 3G technology.

However, it takes a while to have profits return when investing in a completely new area. When selling the assets could not satisfy the need of the capitals, the HWL turned to divide its business and initiated the IPO that made each project exercise independently and afforded its own cash flow. Thus, it can short the profits return period of its investment and avoided the underestimation of the inter value of each different items.

Its agile and flexible capital mobilization allocates the HWL capitals effectively and remains the sufficiency of cash flow, which ensures that the investment scale will not overpass the net operational cash flow. Hence, the ousting loaning not just simply for making up the shortage of the capitals, it's mainly for the capital mobilization and value increased. Meanwhile, it lowers the overall financial risk and become the major pillar of supporting its loss on 3G until the profits return.

Chapter 4 Conclusions

4.1 Reserved the Cash before Crisis coming

Before the Sub-Prime crisis 2007 happened in 2007, the HWL had stopped its entire expansion plan and waited for the next development. Its overall investment had decreased obviously since year 2007 and early half year of 2008. Unlike a series of acquisitions prevailing from year 2000 to 2005, such as, acquiring Savers of British in 2001, Krudivat of Europe in 2002, Drogas of Latvia and Lithuania in 2004, Dirk Rossmann of German in 2004, Cosmo Shop of Turkey and Marionnaud which is the prestigious perfume and cosmetic retailers of French. There were no any acquisition activities after 2007, no matter its Retails or Ports business. Same as the HWL assets business, comparing with the year between 2004 with 2007, its activities on purchasing lands had decreased clearly; the others were mostly focusing on certain important areas like Pudong Shanghai, Wuhan and Chong Qing. Instead of blind expansion, HWL choose to raise the profits-making capability of its current assets, meanwhile, its cash reserve was increased with its slow down operation, but also incur the market doubts by its conservative capital mobilization. However, with the economic crisis that happened in year 2008, the HWL has become one of few successful corporate that could survive and recover in a very short time. All these can be attributed to its abundant cash reserved.

4.2 Expansion on new business model through financial-operation

Since 2007, the Husky Energy, acquired by HWL and **Li Ka-shing** for **3.2** billion HKD in 1986 has become the biggest profits income and source of cash flow within the HWL group. In addition to the joint development of the oil mine extraction, and Indonesia project with China National Offshore Corp, the HWL also took two items of oil fields extraction in ice land. More importantly, on March 2008, it signed the agreement with British Petroleum (BP) to set up a joint venture entity aiming at the oil fields extraction and the downstream oil refinement. Only the second quarter of 2008, it had issued the dividends 0.5 Canada dollars. According to the estimation, the HWL that hold 34.6% shares had 1.136 billion HKD cash flow incomes and 1.182 billion incomes for Li Ka-shing who owned 36% shares. The Energy business played a key role when the 3 G business was still losing money, the HWL could compensate the loss with the aid of its grand profits.

Although the falling oil pieces lead to the poor performance of the Husky in 2009 and cannot meet the expectation of the market, however, the loss of the 3G business has improved. More importantly, it has started generating the positive cash flow, which the EBIT was 176 million HKD and LBIT had substantially narrowed down to 8,922 million HKD. Without counting the Deprecation and Amortization of the License, the 3G business finally made profits for the group. Again, it proves the success of the business allocation strategy of the HWL, which was using the profits of one business to make up the loss of the other immature business. To wrap it up, as if our topic, that is the typical case of incorporating the cash flow in the Corporate Strategy that HWL tends to

create more cash flow through the financial operation , like acquiring the matured corporation but could bring in stable and consecutive cash flow in. Likewise, it gradually turns its expanding target on new business model, such as distribution, channel operation or self-own branding and so on so forth. The present HWL has not only put emphasis on business complementary, but gradually step into a new business model, which could collect the cash more directly.

4.3 Reference for Taiwan Industries

According to the financial statement, its free cash flow in 2009 has reached 83,502 million HKD. Bases on the experience, the HWL would not tolerate that there is too much cash on the account but without any expansion or said lacking of activates to achieve another growth in the future. Hence, in future, it could be expected that there might be a new movement of the HWL, especially after attach by the Economic Crisis, many of its assets are underestimated, that makes them so attractive and HWL was the one which survived by having abundant cash reserved.

The business diversification strategy of the HWL directly reflect the philosophy that, `` Crisis is the opportunity of another Expansion'' made by **Li Ka-shing**. In brief, its business model is ensuring the stable cash flow through a series of business and reinvests on those new rising quasi-monopolized business with longer return periods and capital-intensive.

Besides, it casually uses irregular profits to smooth the fluctuations of business by selling the assets like the Orange case after Asia Economic

crisis. On the other hand these profits again being used for supporting those quasi-monopolized business such as harbor and Mobile Telecommunication at the low tide after economic crisis. When these new investing items need more money, but selling of assets no longer satisfy the needs, the HWL spin off the business of each project and go to IPO. In that way, not only the each project should afford its own cash flow, the HWL could acquire more benefits and avoid the under-estimated of its stock price by market. This cycle shows its capability on controlling the risks before doing any investments or expansion, which could be a good reference not only for the single business but also for the whole Taiwan industry with the inspiration of its cash flow management and global expansion. Especially, the HWL successful change its old business model to new profile, which dominate the distribution, channel and self-owned brand business through a series of planned merger and acquisition, it not only allows HWL has more capitals supporting for developing another new business but also lowering its capital cost, and avoiding the cash flow risk. Recently, we can find the prestigious Fubon Corporation in Taiwan is duplicating the similar business by acquiring the business like TV-purchasing channel, telecommunication business and so on so forth. All them share a very same character that have frequent and abundant cash flow in, by having the cheap capital supporting, Fubon could remain its another expansion in a very short , and moving further to dominate the market. Therefore, we can predict that how to incorporate the cash flow management in expansion will be a critical issue to Taiwan companies in the near future, and the wisdom of HWL will be an excellent reference.

Reference

1. 屈臣氏凶猛扩网 和记黄埔现金流探秘【21世纪网】
<http://www.21cbh.com/HTML/2010-3-19/169317.html>
2. 南仁投資札記
<http://amafile.blogspot.com/2010/01/0013.html3>.
3. [雅仕网](#) 2010年08月10日 来源：华尔街日报
<http://www.my6699.com/GlobalFinance/TabId/17914/%E5%92%8C%E8%AE%B0%E9%BB%84%E5%9F%94%E8%8B%A6%E5%B0%BD%E7%94%98%E6%9D%A5.aspx>
4. [李嘉誠管理日誌](#) 一窺華人首富李嘉誠的商業視界
http://big5.ifeng.com/gate/big5/book.ifeng.com/lianzai/detail_2010_09/21/2601484_0.shtml
5. 如何才能有效掌控企业的现金流 希通
<http://fm.manaren.com/zjgl/show-4830-1/>
6. 自由現金流 MBA Lib
<http://wiki.mbalib.com/wiki/%E8%87%AA%E7%94%B1%E7%8E%B0%E9%87%91%E6%B5%81>
7. 和黃磨劍十年 今浪乘勢出
<http://finance.hkbloggers.net/%E6%88%91%E6%98%AF%E5%B7%A8%E9%9D%88%E7%A5%9E/2010/09/14/%E5%92%8C%E9%BB%83%E7%A3%A8%E>

[5%8A%8D%E5%8D%81%E5%B9%B4 %E4%BB%8A%E6%B5%AA%E4%B9%98%E5%8B%A2%E5%87%BA%E9%9E%98](#)

8. 李嘉誠和楊國強的謀略 PK ,國際日報

<http://www.chinesetoday.com/news/show/id/328908>

9. 中国总经理网 - CEO 人物

<http://www.chinaceo.com:17280/webcontent/cnceo/person/fangtan/20070105/751220070105115425.shtml>

10. 和記香港與電信盈科合組公司推 4G 業務

http://big5.xinhuanet.com/gate/big5/www.cs.com.cn/gg/03/201003/t20100309_2360101.htm

11. 屈臣氏每日开一家新店 和记黄埔零售现金流充裕

<http://business.sohu.com/20100319/n270938723.shtml>

12. 中國產業金融研究 劉小兵

<http://big5.ce.cn/gate/big5/industryfinance.blog.ce.cn/>

13. 李嘉誠的過冬策略 百度文庫

<http://wenku.baidu.com/view/bfc461d5360cba1aa811dab0.html>

14. 和記黃埔 有限公司官方網站

<http://www.hutchison-whampoa.com/chi/>

15. WiKi 維基百科

[http://zh.wikipedia.org/zh/%E5%92%8C%E8%A8%98%E9%BB%83%E5%9F%](http://zh.wikipedia.org/zh/%E5%92%8C%E8%A8%98%E9%BB%83%E5%9F%98)