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Introduction to *SUN HUNG KAI SECURITIES*

by Melvyn A. Hopper

The success story of Mr. Fung King Hey, the charismatic Chairman and Managing Director of Sun Hung Kai Securities, is unusual even for a city which has produced more than its fair share of success stories from manual labourer to small entrepreneur to real estate investor to internationally renowned financier — these are the mutations of Mr. Fung's career. He has been the principal driving force behind the development of Sun Hung Kai Securities and the man who was mainly responsible for bringing about the metamorphosis of the company from a narrowly based stockbroking concern into an international financial conglomerate. Today, SHK Securities not only handles about 20% of the total volume of trade on Hongkong's 4 stock exchanges; but a client can walk into SHK's offices and buy practically any share quoted on the world's stock exchanges.

Mr. Fung first came to Hongkong from Canton at the age of 16 and worked at the Bailey Dockyard in Hunghom for 18 cents

a day. (Most of the former Bailey Dockyard site is now owned by Sun Hung Kai Properties.) Then after a stint in Canton where he was engaged in various enterprises, he returned to Hongkong for the second time in 1948, and with a small stake of \$2,000 in cash and the help of friends, he started his own business.

The real breakthrough for Mr. Fung came in the field of real estate. In the 50's and 60's, he built up substantial interests in real estate and in 1963, in partnership with two of his present fellow directors at SHK Securities, Mr. Kwok Tak Seng and Mr. Lee Shau Kee, he founded SHK Properties. During the troubled years of 1965-67, when a series of bank runs and riots had forced real estate prices to incredibly low levels, the company bought up properties in Hongkong. The hallmark that Mr. Fung has since established for the SHK Group is commitment to Hongkong and confidence in its future.

The next step that Mr. Fung

took was to diversify the Group's interests into finance and investment in the late 60's. He founded SHK Securities in 1969 when he was invited to join the newly opened Far East Stock Exchange. Since then, the company has twice outgrown its office premises. The original staff of 6 has grown to over 500, and profits too have increased in proportion. More significant however than the growth in profit margins has been the way Mr. Fung has succeeded in putting the company on the international financial map. SHK Securities now has an international network of affiliations covering the United States, Europe and South East Asia.

Last year, SHK Securities underwent a major corporate restructuring designed to increase the efficiency and performance of the Group. Today SHK Securities looks after the broking, trading and property interests of the Group, while SHK Finance — once a section of SHK Securities, now an independent company — is responsible for finance and related activities.



Interview with Mr. Fung King Hey

Kaleidoscope: Mr. Fung, certain changes were made in the corporate structure of the Sun Hung Kai Group last year. What is the rationale behind this reorganisation?

Mr. Fung King Hey: What we did last year, with the approval of our shareholders, was reorganising what existed as one group of companies — SHK Securities — into two major groups of companies — SHK Securities and SHK Finance. SHK Securities retained its listing on the stock exchanges while SHK Finance became a separate publicly quoted company. This new corporate structure, we feel, is a more

efficient way of organising the two principal areas of activity of the Group: broking, trading and property interests on the one hand and finance, merchant banking and insurance activities on the other. The reorganisation reflects the opinion of the board that while these two group of activities are complementary, they are also essentially distinct in nature, requiring different management and financial skills if they are to be pursued for optimum efficiency. It was felt therefore that the further development of the SHK Group as whole could best be achieved by forming two independent companies and allowing

each to pursue its respective interests while working in close cooperation with the other. This new structure gives us greater potential for growth.

Kaleidoscope: How large is SHK Finance as compared to SHK Securities?

Mr. Fung King Hey: In terms of Shareholders' funds, the two are about the same. The total assets for SHK Finance stands at about HK\$1.80 billion while that for SHK Securities is about HK\$ one billion. Our after tax net profit figures for the year ending December 31, 1979 are HK\$48,021,000.00 for SHK Securities, and HK\$40,099,000.00 for SHK Finance.

Kaleidoscope: A very healthy state of affairs! In recent years, you have diversified your activities overseas — to South East Asia, Europe and the United States — while in the past your base had always been in Hongkong. Does this trend towards diversification represent a basic change in policy?

Mr. Fung King Hey: I believe that our base will always be Hongkong. This is our home ground and also where our comparative advantage lies. By the same token, being Asian, I feel more at home in South East Asia, where we have considerable penetration. However, as Sun Hung Kai is a major financial and investment group, international connections, particularly with the U.S. and Europe, are essential and these connections are likely to become even more important in the years ahead. At the moment, we have overseas branches in London and the Philippines. In the U.S., we have a formal marketing agreement with a major merchant bank in New York, Bear Stearns and Company, and a

joint-venture with ACLI International commodity houses, trading in both physical and futures markets. In Europe, we have important connections too: Paribas, which is one of the world's 50 largest banking groups, and whose investments cover a wide range of banking and industrial areas has a minority participation in both SHK Securities and SHK Finance. This association has increased SHK's access to international capital markets: Assurances Generales de France, the second largest insurance group in France, holds 15% of SHK Insurance, now a subsidiary of Finance. Another highly significant development was the establishment of our office in Beijing last year. This international network not only increases our opportunities for doing business overseas; it also provides an excellent source of financial and economic information. Our policy of diversification and development has always been guided by a single aim: adapting our range of financial services to meet the changing business needs of Hongkong. Our goal is to enable Hongkong to participate in the entire spectrum of financial activities available locally or overseas.

Kaleidoscope: SHK went through a difficult period in Nov. 78 — which was well publicised — as a result of wide fluctuations in the price of gold. Hongkong is of course a very volatile and sensitive market, notorious for its strong reactions to the slightest rumours. Is your intention to diversify in any way connected to the situation that arose in Nov. 78?

Mr. Fung King Hey: The incident arose out of an absolutely groundless rumour. The

soundness of SHK was never in doubt. The group has always, as a matter of policy, avoided speculative investment and adopted an effective system of management control. The situation was soon clarified; and our company has grown much stronger since. Our diversification programme has been implemented for quite a few years, in response to the increasingly sophisticated requirements of Hongkong's financial services sector, and at SHK, diversification has been achieved through a combination of acquisition, association and, above all, strong organic growth. Our decision to diversify is part of a planned development strategy rather than a reaction to any particular incident.

Kaleidoscope: Chairman Hua's statement to the effect, that Hongkong need not worry about its future was obviously something that everybody had been waiting for and as a consequence, the Hongkong economy has been experiencing tremendous growth. Do you perceive a sustained period of growth for Hongkong — for a period of say five or ten years — similar to what we had experienced during the years leading up to 1973, as China begins its modernisation programme?

Mr. Fung King Hey: What Chairman Hua said last year and what China is doing now will provide Hongkong with a very favourable political climate, certainly for the next five or ten years; but whether Hongkong will have a sustained economic boom would depend on other external factors, like the world politico-economic situation which will directly affect the level of Hongkong's industrial output and exports. Trade and industry are

still the economic mainstays of Hongkong.

Kaleidoscope: What about internal factors like housing and population?

Mr. Fung King Hey: Hongkong has had a great deal of experience in solving its internal problems and adapting itself to changing situations. However, one particularly difficult problem that has come up recently is the problem of the refugees. The influx of refugees will set back the solution to many of our own problems such as social welfare, housing, transport, education and medical care by a number of years. We had aimed at solving our housing problem by 1985; now it may take a few years more.

Kaleidoscope: Do you have any business relations with the China International Trust and Investment Corporation (CITIC), a newly formed organisation that is trying to attract foreign capital to China?

Mr. Fung King Hey: All I can say at the moment is that we work closely with CITIC in many areas including finance.

Kaleidoscope: You mentioned a few moments ago certain external factors affecting Hongkong's future growth. One of these factors must surely be the growing world-wide trend towards protectionism?

Mr. Fung King Hey: Hongkong's manufacturers and industrialists will do their best quietly and effectively as they have done in the past, to beat protectionism by upgrading technology, diversifying, putting more money into research, investing in new machinery and so on. But perhaps the surest way of beating protectionism is for the countries that advocate such an economic policy to come to their senses.

I think that in the long run protectionism is going to have a deleterious effect not only on Hongkong but also on the world economy.

Kaleidoscope: But upgrading technology and so on costs money. Do you think that the present high cost of capital may prove to be a serious deterrent to local entrepreneurs? Is SHK in any way assisting the Hongkong manufacturer to acquire capital at a rate that he can live with?

Mr. Fung King Hey: Special interest rates to industry is not feasible in a normal commercial operation. However our interest rates are always as low as can be, as the market is a very competitive one. At the same time, we are constantly working out new ideas on how to provide easier terms of finance for our customers including industrialists, manufacturers and real estate developers.

Kaleidoscope: One of the interesting things happening now on the Hongkong financial scene is the way in which the shares of many companies, particularly those with sizeable property investment interests, are being sold at very much below their true value and as a consequence, a large number of acquisitions, takeovers and mergers are either being contemplated or actually acted upon, very much like the situation in the U.S.A. What are your views on this trend, Mr. Fung?

Mr. Fung King Hey: I predicted four years ago — in fact it was the last time I spoke to Kaleidoscope — that such a trend would develop. We are now witnessing only the first stage. The trend towards takeovers and mergers will continue for some

time to come because of several factors. One of these, as you've said, is the fact that prices of many shares at present are below their asset value. Moreover, bank credit is still comparatively easy to get; some of the bigger companies have announced record-breaking profits; and the general view of the market as a whole is that it will be a bullish one in the long term. All these factors taken together would mean that we will be seeing many more mergers and takeovers.

Kaleidoscope: You have also been advocating for a long time the unification of the 4 stock exchanges in Hongkong into one unit. What in your opinion are the advantages and disadvantages of such a move and when will the unification take place?

Mr. Fung King Hey: I believe there will be some definite action in 1980. The advantages of such a unification are many. For one thing, we will have one unified system for applications for public listing and management control, and transactions could follow a standardised procedure. This should give our local and overseas investors more confidence in the stock exchange. Moreover, brokers who will only be answerable to one authority and one set of rules will be able to streamline their operation and save some expense, and these benefits will hopefully be passed on to their clients. However, one has to be careful that power is not in the hands of a minority group who dictates the terms and conditions of the operation.

Kaleidoscope: Can we expect a general tightening up of the rules after unification, and Government perhaps taking a more active policing role?

Mr. Fung King Hey: The present rules, properly enforced are quite adequate for the purpose. The Securities Commission is overseeing the stock exchange operations, and I expect they will continue with the excellent job that they are doing.

Kaleidoscope: One of the strongest measures that will be taken after the unification is that new members will have to put up \$1 million as security. This will have the effect of squeezing out a number of the smaller men. What are your feelings on this development?

Mr. Fung King Hey: It appears that the \$1 million qualification and many other details have not yet been finalised. The asset qualification should not be the only criterion; the knowledge and experience of brokers must also be considered. What one hopes to see are higher professional standards for brokers. Some of our smaller brokerage firms could do better by merging into bigger and more qualified firms. In the brokerage business, money by itself is not enough; you need the professional skills to go with it.

Kaleidoscope: What are your feelings on the Government's policy of rent control?

Mr. Fung King Hey: As you know, this issue had generated much public debate. For myself, as a staunch believer in free enterprise, I would say the less Government interference in the economy, the better for Hongkong which has thrived on a free economy. Government intervention discourages investment, it may be illogical and unfair to interfere in some aspects of the economy and not in others. For instance, some members of the community would like Govern-

ment to extend rent control, others may want to see some measures taken to protect local industries, if all these should take place, what would happen to our free economy? Even before the recent announcement, some form of rent control already existed; it is a question of whether Government had done enough or should go further. I am not saying however that all forms of rent control are wrong; but government should be very careful about how it exerts control, and consider carefully how far it can profitably depart from the traditional policy of laissez faire.

Kaleidoscope: Some people have said that some foreign companies are moving out of Hongkong because they find that Hongkong is too expensive a place to live in. Do you think that the choice facing Hongkong now is between opting for rent control or losing foreign investors?

Mr. Fung King Hey: These things should be decided on the open market, according to the principles of supply and demand. If foreign companies think they can make a profit out of staying in Hongkong and paying high rents, they will come; otherwise they will go elsewhere. What shouldn't happen is that these big companies should be subsidised by local investors.

Kaleidoscope: Mr. Fung, as a shrewd and clever investor, would you again stake your entire fortune on Hongking's future?

Mr. Fung King Hey: Yes — I believe that Hongkong's future is very bright indeed!

Kaleidoscope: Thank you, Mr. Fung.